

CORRESPONDENCE

Money and the Causes of the Rise in Prices

(To the Editor of LAND VALUES.)

The discussion in your columns of this question opened by the writer of the notes is every interesting and informing, and will help many of us to reach a better conception of the intricacy and depth of economic problems, and also, I hope, give us a better idea of the truth in these matters. Every now and again a new light or a new interpretation of an old light, or it may be of an old darkness forces us to take stock of our accepted ideas and go over them again from top to bottom. Sometimes we have to change, to discard old opinions and take up new ones. Sometimes the old ones stand the test of strictest analysis. Sometimes even truth comes to us in forms not of controversy, but up from the very depths of his well.

The present barbaric war has changed everything—our mode of life, the atmosphere of our life, aye, even the value of life itself.

In the light of the flashlight comes again the everlasting question of money for consideration. But before we can discuss, not to speak of settling questions such as this, we require to reconsider our terminology. We must first of all know what money is. If a general standard of money is good, a general standard of terms can do no harm. What do we mean by money? No one except that extra-economic being, the miser, wants money for itself. What we want money for is to buy things. The threepence the boy gets is conceived mentally as sweets, cigarettes, &c.—the things he desires—and exchanged for those things. Whether it is silver or copper, its relation to gold standard, mint, or bank is no concern of his and no concern of anybody's. The first consideration is that it will pass, will go round. Money so considered is a medium of exchange and nothing else. The second thing about money is that it is regarded as absolute payment for the things received. When I enter a shop and present money for an object, the shopkeeper has no need and no desire to know my name, my standing, or anything about me; the money settles the transaction. Money is secondly an absolute payment for indebtedness.

These are, I think, the only necessary functions of money. The material does not matter; it may be copper, silver, paper, gold; the one requisite to the buyer and the seller is that it will exchange for general goods without demur.

But, you say, what about cheques, drafts, bills, &c.? These, too, have the first requisite, but do not possess the second. They are media of exchange, but not money. In a metaphorical sense we call anything that will exchange for money, money; thus land, brains, whiskey, are spoken of as money, and the owners may be called men of means. No one wants to get rid of metaphor, it adds to the picturesqueness and gaiety of life; but the essence of all scientific thought should be one thing one name.

The reason why cheques, bills, &c., are not money is that their presentation does not suffice. Before I accept I must know the circumstances of the party presenting them. It does not matter much for names, if we keep them clear and sharp and separate.

If you desire to call all media of exchange money, then you must get other names to distinguish the forms. The boy and the shopkeeper, and the economist who thinks are in agreement in these matters.

But another question arises: Why do we accept certain pieces of paper or metal in exchange for goods? The answer is that these pieces of paper or metal have relation to a certain standard commodity we call gold, exchange for their face value in gold, and so of any other commodity. It is easier to arrange our prices in terms of a common commodity; and although many commodities have been tried, such as leather, hides, corn, &c., experience and habit

have gradually made gold the most frequent, most convenient, standard. It is less liable to fluctuation in value is the main reason.

There is no such thing as an absolute standard. There is nothing invariable in this ever-varying universe, but gold is the least variable. There is no universal currency, so therefore in international transactions which cannot be settled by contra or exchange, recourse is had to the commodity gold as bullion.

With these elementary preliminary remarks, let us come now to the discussion of the rise in prices itself.

I don't think anyone in these islands doubts for a minute that prices have risen—that is always something to be thankful for. I don't mean the rise in prices, but the common ground.

The writer of "Notes of the Month" in your October issue sums up graphically the facts. He says: "The higher prices are the natural accompaniment of war; great numbers of producers have been withdrawn from industry there is, instead of a diminution, an increase in all the commodities in the way of food, clothing, and equipment they require; with increased demand for goods, there is decreased means of supply; the shortage of shipping has sent up freights to unheard-of levels; and new taxes have been imposed on many articles of consumption."

This looks like a formidable array of causes, quite equal to the explanation one would think, but the writer is insatiable for causes, and he continues: "There are primary contributing causes, but it is debatable whether they are the main causes. Discussion should reveal to what extent the methods adopted by the Government to procure what it wants by borrowing and printing paper are responsible for the increase." This is the question then up for discussion. I think we may drop out the question of borrowing, because whether we borrow wealth or conscript it for war purposes the result would be more a matter of distribution than a question of prices, at least so far as the present war is concerned; it might, however, be a powerful factor in keeping us out of war in the future.

The writer goes on: "It is idle to suppose that a Government can create wealth and enrich the nation by the legerdemain of stamping the words 'one pound' on bits of paper and declaring that the people must in future accept such certificate of value."

The bias is evident here in the expressions "create wealth," "enrich the nation," "legerdemain," when the only thing in question is the utilising of a costly money for public purposes, the present purpose being the importation of food and materials from neutral countries, and the substitution of paper in its stead—a method carried out in Scotland quite to the satisfaction of its thrifty inhabitants.

I am no believer in authority, and I am going to discuss this question on its merits; but I was rather interested in reading the following from Ricardo's *POLITICAL ECONOMY* (Dent's edition, pp. 244—245): "A currency is in its most perfect state when it consists wholly of paper money, of an equal value with the gold which it professes to represent. The use of paper instead of gold substitutes the cheapest instead of the most expensive medium, and enables the country, without loss to any individual, to exchange all the gold which it before used for this purpose for raw materials, utensils, and food; by the use of which both its wealth and its enjoyments are increased." . . .

"Suppose that a million of money should be required to fit out an expedition. If the State issued a million of paper and displaced a million of coin, the expedition would be fitted out without any charge to the people."

What are the facts in connection with the present issue of paper money? Shortly after the war broke out, the need for gold being evident in the present condition of international trade, the Government took over the gold

and replaced it with paper. So far as there was only replacement there can be no question of increasing prices in this way. The essential thing in a non-intrinsic currency, or not entirely intrinsic currency such as silver or paper, is that it should be strictly limited, so that it will be just as difficult to get the stamped piece of paper as the stamped piece of gold.

So far as this replacement is concerned the principle is all right, but has the Government not issued a great deal more paper than is represented by the gold withdrawn? That is quite true, but it must be remembered that currency requirements fluctuate. One principle accepted as the result of the experience of conditions consequent on war is that the resulting conditions of trade are sluggish. The amount of money required for exchanges depends on the circulation, a rapid circulation requires less currency than a slow circulation, consequently it was the duty of the Government to issue more paper.

In addition to that we have an admitted rise in prices due to shortage of labour, to the existence of protection against the products of Germany, Austria, Turkey, and against many of the products of neutral countries by reason of the shortage of shipping—protection such as no tariff reformer ever conceived in nightmare. This increase of price involves an addition to the currency—a considerable one, too, without in any way adding to prices by over-issue. So long as specie payment has not ceased, so long as the Bank of England is willing to pay gold on demand, and so long as we are prepared to ship bullion when necessary, it seems to me that there can be no great over-issue of paper money. Nevertheless it behoves the people to take every security against such a result. The over-issue of paper has been the commonest expedient of Governments in war. So far was this carried out by the French Government in past times that assignors with a face value of £1 sterling are said to have been exchanged for 3d. But before we can accept statements of over-issue to any extent, we must have proofs. The mere stating of the issue of paper money, or of the rise in prices itself, is not enough, it is begging the question.

"Beyond question," says the writer of the notes, "this increase of currency, which might go on to any extent with the small proportion of gold put aside," &c. Will he tell us what the setting aside of gold has got to do with the question except as a safeguard, or supposed safeguard, against over-issue? Will not the willingness to pay in gold satisfy every legitimate requirement?

I have no doubt that Government would be only too pleased to set aside 100 millions or two of gold; the problem here is like the cooking of the hare, first catch your hare. Find us the gold.

It would be foolish for an outsider from Government financial circles to dogmatise and say there is no part of the present rise in prices due to currency difficulties.

The hesitancy, the appeal to patriotism to avoid as far as possible the use of gold, have produced an effect in foreign exchanges such as similar hesitancy on the part of an individual trader would produce on his prices.

That there should be some small amount of the rise in prices traceable to currency causes is one thing; to consider it in the same breath as the factors mentioned in "the shutting down of supplies," "the transfer of labour from peace to war products," the taxation of Government, &c., is another.

Prices were rising before this war started, and in the main for the same reason—the hindering of production. In the call for supplies, labour is seldom short. Capital can generally be had. The owners of the world are the great hindrance to the lowering of prices, and the present tragedy of war is one of the vicious results of the struggle for the control of the earth and its raw materials.

One might take present products one by one and almost demonstrate the absurdity of this currency cause.

Before this issue of paper at all we had a sugar panic, and the price never fell to anything approaching the old level.

Is it suggested that the present rise in the price of potatoes is due to currency causes?

In neutral countries despite the fact of native supplies of food and raw materials, prices have gone up enormously. Even in the United States, free from all active belligerency, we are told that the price of paper has risen 100 per cent., and the prices of other things have risen enormously. If prices there are not as high as here, must we not attribute the fact to its almost limitless natural resources and its freedom from active war conditions? I agree with Miss Lindsay and congratulate her on her able presentation of the case, that the present rise in prices is amply accounted for by the conditions of supply and demand; that is the conditions of production.

WM. CASSELS.

A CALIFORNIAN EXPERIMENT Why the "Little Landers" Failed

By Dr. H. Heath Bawden

The following is abridged from an article in THE PLOUGH-SHARE, November, 1916. The author was for a number of years head of the Philosophy Department of the University of Cincinnati. But being asked to suppress the more radical of his views, he finally abandoned college teaching for the little colony at San Ysidro. He is the author of "THE PRINCIPLES OF PRAGMATISM," published in 1910.

The papers have been telling how great floods recently swept the coast valleys of Southern California, destroying life and wiping out the investments and labour of years. Notable among these disasters was the word that the Little Landers' Colony at San Ysidro in San Diego County had been in the path of the flood that raged down the valley of the Tia Juana, this final Act of God completing the destruction of an enterprise already falling to pieces from within.

John Graham Brooks, in his book on American Syndicalism, states that there have been upwards of a hundred colonisation enterprises in the brief history of the States of which only one or two have survived the ravages of time. Whether this statement is to be taken strictly as it stands or not, it is obvious enough that as a rule in the minds of most of us colonies are forlorn hopes fit only as a refuge for idealists or a port of missing men.

The writer has now severed his relations, in the immediate physical sense, with the colony just mentioned, with which he has been identified for the past seven years. He was, indeed, the first to pitch his tent on the arid spot which was to become the site of the future colony, and has for some time been the sole survivor of the original group which settled this area. For this reason, among others, he feels it almost an obligation, as it is certainly a privilege, to recount briefly the causes which, in his opinion, led to the disintegration of another courageous effort to conquer the social wastes in behalf of a co-operative ideal. . . .

It did fail. Oh yes, there is a town there! Two railroads now run through the district. A great racing course is being built just over the line which will enhance realty values. A new population is slowly buying out the disheartened colonists, so that, in spite of the disaster of the flood, what is called the future of the town is assured. But the idealism is dead. The hope that brought together this diverse group of people from all parts of the land has evaporated from their breasts. In place of the ideal village of garden homes clustered about the park, with its civic and social centre which was the dear dream of all our hearts, real-estate offices flare their signs. Two rival stores compete for the small trade of the vicinity which once centred about the co-operative store. The co-operative marketing system,