BOOKS

PROFESSOR FISHER ON THE MONEY QUESTION.

The Purchasing Power of Money. By Irving Fisher. Published by the Macmillans, New York. Price, $3.00.

Those students who have been discouraged by the pseudo-scientific character of the teachings of the old school of political economy will welcome this book as an earnest and able discussion of some of those principles of monetary science which have at times been the foot-balls of partizan necessity and of social prejudice. It places these principles upon the secure foundation of scientific demonstration.

Definitions new to the old school and mathematical reasoning are the basis of the work. The "equation of exchange" is defined to be simply the sum of the equations involved in all individual exchanges in a year. The author gives it algebraic expression in the following formula:—$MV=pQ$,—that is to say, the amount of M(oney) in use in a country, multiplied by the V(elocity) with which it circulates, equals the Q(uantity) of goods sold multiplied by the p(rices). His next equation is $MV+M'V'=pQ+PT$: and he keeps on building up his equations to such a bewildering extent that they are obliged to retire to the appendix in order to have full scope.

Prof. Fisher demonstrates the soundness of the "quantitative theory of money," that the level of prices varies directly with the quantity of money in circulation, but adds that this is true only when the velocity of circulation of that money and the volume of trade which it is obliged to carry are not changed. He shows that bi-metalism is scientifically feasible; that the gold standard is, from a scientific standpoint, unsound and unsafe; that the necessity exists of getting rid of metallic standards altogether; that an index number of wholesale prices of commodities is the true standard of value.

Altho he admits that, theoretically, "irredeemable" paper money may be the cheapest and most easily regulated form of currency he does not discuss the question whether a paper money could not be so regulated in amount as always to be at par with his index number and whether it could not then be properly called redeemable.

The soundness of his logic may be questioned in spots. "Deposit-currency" is the term he applies to that addition to our money supply effected by the banks through their system of "deposits," checks and clearing-houses, such deposit currency amounting to seven billions as against one and one-half billions of other forms of money; he says that the "deposits" are the real currency and then shows with perfect accuracy that nothing is deposited. The truth is that this "deposit-currency" is the veriest bubble of inflation, the banks making loans and charging interest for the same far beyond the amount of cash on hand, trusting to the clearing-house practice of offsetting one check against another, with a call for actual cash of less than five per cent of the total amount cleared.

It may well be doubted whether Prof Fisher has the courage of all his convictions.

It is more than likely that he has to be especially mindful of his p's and q's. For is he not professor of political economy in a university whose president, in a (so-called) scientific treatise on economics, sheds genuine tears of distress over the real wrongs of the creditor, the purchasing power of whose money has been lessened by an expanding currency, but tells the debtor, when contraction of the currency has ruined him, that he is the victim of an over-sanguine temperament in believing that prices would remain the same and that he should bear his troubles like a little man?

There is no vital discussion of any question not purely academic, or in respect to which "the interests" have not agreed that there is something wrong. The economic soundness of a system which permits private (banking) interests to furnish fourteen-seventeenths of the currency of the country at their own will and on their own terms, is not even remotely called into question; though the banks are in possession of a special privilege which bears vitally upon every industry and every interest—checks "doing the money-work" being the real currency, and the banks deciding not only who has credit but who may use his own credit, and how much he must pay the banks for the privilege of issuing his own money. Prof. Fisher's proposed system would keep money dear by connecting it with the market price of gold, and would not threaten the monopoly possessed by the banks which now have the power and the will to keep money dear and to charge for its use all that the traffic will bear.

He unobtrusively remarks that the real aim of his book is to point out the way to a scientific currency, and winds up with the "tentative suggestion" that it may be found both practicable and advisable to combine the tabular standard with the principles of the gold-exchange standard, an international central bureau to buy or sell gold according to variations in the index number, and thus preserve from year to year an even level of prices,—in other words (not his) inflating the currency when prices are falling and contracting the currency when they are rising.

Prof. Fisher's book should be read by every one who is interested in monetary problems. It lays upon secure foundations certain essential principles, which can never hereafter be reasonably questioned. It is a very valuable contribution to

Digitized by Google

the new political science, whose teachings are not to be colored through social or political prejudice.

WILLIAM HOWE CRANE.

+ + +

WILLIAM HOWE CRANE ON MONEY

A Scientific Currency. By William Howe Crane, L. B. Published by Broadway Publishing Company, New York (835 Broadway), Baltimore, Atlanta, Norfolk, Chicago and Washington.

Mr. Crane regards Professor Fisher's book, which he reviews above, as more scientific in method than his own, but his own as more fearless than Professor Fisher's. That is proper enough, Professor Fisher's being academic and Mr. Crane's practically suggestive and controversial.

Mr. Crane searches for the principles of a scientific money system for purposes of financial reform. He finds them, so far as the present currency question is concerned, in the relations of creditor class to debtor class; and here the function of money, as the "measure of values," presents itself to him as of immense national importance in view of the tremendous volume of "the sum of our national, municipal and individual indebtedness."

His first consideration is the reasonable one that the measure of value should be absolutely just. Consequently there should be a test, "so that one may certainly know whether the measure is growing longer or shorter." Finding the per-capita test unscientific, he adopts the test of "a comparison from time to time of the level of all prices," and proposes a government commission "consisting of men of the highest character, patriotism and especial fitness" to adjust the volume of currency from time to time to rising and falling price levels.

Accepting the quantitative theory of money as sound (and this is Mr. Crane's basis), his conclusion follows that debtors are plundered by contraction as creditors are by expansion. We are inclined, however, to attribute this result rather to a rise in the commercial demand, relatively to supply of the material of which the money standard is composed, than to shrinkage in the currency volume as a whole—to commodity fluctuations distinctively rather than currency fluctuations as such. While it is true that inordinate expansion of legal-tender currency composed of cheap material would plunder creditors, it does not therefore follow that its inordinate contraction would plunder debtors. The difference lies in the fact that an excessive legal tender scales debts down by placing a check upon their collection by law, whereas contraction cannot scale debts up without the aid of another economic factor—a rise of the material of the money standard in its value for use in the arts.

Contraction may and does in fact so operate as to scale debts upward, and thereby to plunder debtors; but it does this by operating as a lever does, its fulcrum being an increase (relative to supply, of course) in the commercial demand for the material of the money standard. Expansion, on the other hand, operates not as an economic lever, which needs its economic fulcrum to be effective, but as a government decree which needs no other factor to check the processes of debt collection than judicial obedience to that decree. On the whole, debts are paid with commodities (in the last analysis with labor), and not with currency; but as they are paid in money terms, the commodity payment is larger or smaller according to the value of the material of the money standard as determined by the demand for it for consumption, and not by the aggregate volume of all kinds of currency.

Mr. Crane seems to us to disclose an elementary misapprehension that runs through his whole thought, when he mentions in chapter xi the borrower's need of money as "the real essence" of the discounting of a note at the bank. The real essence here is the same as in any brokerage transaction in which no money passes. Somebody, or several somebodies, whom the borrower does not know, or who do not know him, or do not know him well enough to trust him, possess or control commodities which he needs and which the bank is able and willing to buy or borrow for him and to sell or lend to him. Except as money terms are used as part of a trading language for calculating purposes, money plays so small a part in such transactions as to be negligible in any economic analysis.

That is the way, at any rate, that the matter looks to us; and if we are right, Mr. Crane is on a wrong scent in his search. But whether his observation and reasoning be wrong or not, he is right in many of his contentions. For instance,

This is a Requisition

I require 10,000 new subscribers to The Public, and I know of none so capable of getting them as those who know its merit by experience, none so interested in doing it as those who appreciate the work The Public is doing.

Will you not see a friend in The Public's behalf?

Cincinnati, July 8. DANIEL KIEFER.

Digitized by Google