How Heavy Is Our Cross of Gold?

You can not **make** *more money,*
When legislatures try it
They find that what they really make
Is just a grist of fiat.

Congress struggles this winter not only with means to get rid of the Philippines, but with that old contention between cheap-money and dear-money advocates: whom may the gods confuse, for to our dull mind all their talk is riddles. However, when men of scientific bent discuss money, we begin believing we might understand a little about it if preached to long enough. Here is something from *Collier's*, by John T. Flynn, discussing Irving Fisher's (Yale, economist) plan to stabilize the dollar.—*Ed.*

PLENTY OF GOLD

"Down in Washington we hear that the country ought to go off the gold standard because there is not enough gold in the country for our purposes. For the benefit of those who think this may be so, here are the facts:

"We were prosperous from 1927 to 1929. Yet we have more gold now than we had then. We had more gold in our reserves in August, 1921, than we have ever had in our history—almost five billion dollars' worth. We have lost some but we have plenty left.

"But, of course, we do not use gold as money. It is kept, save for some gold coin, locked in the vaults of our Assay Office and in the Federal Reserve banks. For currency we use paper money—gold certificates, Federal Reserve notes, National Bank notes, silver certificates, silver dollars and our own favorite small change. But we have more of all this now than we had at the height of our boom. Our circulating money reached its highest point in 1920-1921. That was in our last major depression. It has never been so high since, until now.

"Perhaps it's difficult for the average man to believe this. If you are the average man your share of our currency—if it were all divided up—would be $45. If it had been divided up back in 1929 your share would have been only $38.60. Even after you make a good allowance for hoarding, there are still enough funds in actual use to assure you as much as back in 1929.

"That doesn't seem like very much money for each of us. And since there is only that much, it is evident that we must do our business with something else. We must be using something else for money besides currency. And that is precisely the point. We do use something else. We use bank deposits—bank credit. Back in 1929, for every dollar of currency there was $11.60 in bank deposits. In New York City last year the average value of checks passing through the banks in a day was a little less than a billion dollars. But at the end of each day, when all the checks found their way to the clearing house, so that the balances of the banks could be struck, the average amount of cash required to settle those balances was about $125,000,000. In other words, about 87½ per cent of the business was done with bank money and about 12½ per cent with currency. All these figures are subject to some modifications. But they give roughly a picture of the manner in which we do business—not with metallic and paper money but with bank money.

WE NEED BANK MONEY

"And it is precisely at this point that the trouble is to be found. We are short of money, but the money we are short of is the very money which we use so much—bank money—and not currency or gold. What we must find some way of doing is to expand our bank money, our bank credit. The facts here are quite clear. At the height of our ill-fated boom in 1929 we had fifty-five billion dollars of deposits in our banks. Since that time we have lost twelve billion dollars of deposits. In other words, twelve billion dollars of bank money has simply vanished. This is an appalling sum. It is nearly three times as much as all the currency we used in 1929. What has become of it? Why did it vanish? And where has it gone? And how can we get it back?

> **PHILIPPINE CIRCULATION**
>
> *On December 3 money circulating in the Philippines totalled ₱116,408,-144. On December 10, a week later, it totalled ₱115,835,507: coins ₱17,935,-751; treasury certificates ₱81,418,608; banknotes ₱16,483,148. (In the treasury, available for circulation, there was ₱28,301,657 on December 3 and ₱27,-815,596 on December 10.)*
>
> *The figures are from the weekly financial summary of Insular Auditor Creed C. Hammond.*

"First of all, what became of our bank money —our bank deposits? Suppose you put $5,000 in your bank and leave it there. The bank is now in a position to make a loan with part of that money. Along comes Mr. X and borrows $3,000 from your bank. He borrows $3,000 out of the fund you deposited. But he does not take it out of the bank. It is credited to his account. He now has $3,000 deposited to his account. There is now $8,000 in deposits—your $5,000 and his $3,000—all based on your $5,000 deposit of acsh. By making the loan the bank actually created $3,000 of additional deposits—additional bank credit or bank money. Now by calling the loan the bank can wipe out that $3,000 of deposits. That is plain. And that is what has been happening. Banks have been calling loans by the thousands every month for these several years. By doing that they have been wiping out deposits. As a result of that our bank deposits are down twelve billions of dollars. Our currency, our gold, is not reduced. We have ample gold and currency for all our needs. What we have not got is enough bank money. What we need to do, therefore, is not to inflate the currency, but to inflate or, better, to expand our bank credits, our bank money.

Now how can we do that? It is perfectly clear that the only way is to induce men with good credit to borrow money and to induce banks to lend it to them. But how can we do that?"

"In a way the issue has gotten mixed up with another money proposal which has the approval of many of our leading economists throughout the world. It is the proposal for stabilizing money. The pioneer in this movement is Professor Irving Fisher of Yale University. Fisher, one of the leading economists of the world and certainly one of the most eminent authorities on money, has for years carried on an agitation against what he calls our "money illusion," the instability of the dollar. We are destined to hear a good deal about this, and readers may just as well know what it is about.

"Fisher has converted such men as Owen D. Young, Pierre S. Du Pont, Otto H. Kahn, Silas Strawn, Alfred P. Sloan, Jr., Nicholas Murray Butler, Elihu Root, Frank O. Lowden, Bernard Baruch, Paul Warburg, Frederick Delano, Charles G. Dawes and John W. Davis His theory is endorsed by such eminent economists, who are also authorities on money, as Professor Edwin W. Kemmerer, Sir Josiah Stamp, Professor John Maynard Keynes of England and Gustav Cassel of Sweden.

"Fisher's plan is to stabilize the dollar. The inflationists adopt this and add to it the proposal to stabilize the dollars at the higher prices of 1926, 1927 or 1929.

"Here is Fisher's theory: You get $60 at the end of the week as your salary. You get paper money for convenience, but this really represents gold dollars. You don't care about the sixty gold dollars. You do care about how much they will buy. What you have really worked for is sixty dollars' worth of meat and potatoes and coffee and sugar and movie tickets and housing and coats and pants and so on. You earn so many units of these things and if you spend your salary immediately, before prices change, you will get that many units for your money.

"However, there are several things that will affect you. First of all, you don't spend your whole salary. You put some away in the savings bank, you pay for insurance. Moreover, you frequently have occasion to borrow money. You buy an automobile and promise to pay for it in twelve months. Now if prices go down before you pay for your car, it means the dollar goes up in value. It means that when you pay for your car you will pay in dollars more valuable than those you borrowed. If prices go up, it means the dollar goes down; it will buy less. As a result, the money you put away in the savings bank will not be as valuable when you draw it out as when you put it in.

"It is more serious for the merchant. He orders goods—sugar, let us say, when it is selling for six cents a pound. Three weeks later when it is delivered and he tries to sell it, sugar has gone to four cents a pound. He has to sell it at the new price and he loses his profit. Sometimes he profits by a rise in price after he buys it, but in that case someone else loses. The whole thing makes for instability in business.

"Why should not the unit of value be fixed, like the unit of measure, of weight and of volume? The yard, the pound, the gallon are always the same. The dollar is supposed to be a unit of value, but it is fixed only as to its weight—25.8 grains of gold. The value of the gold in the dollar—that is, its purchasing power—is constantly changing. This change in the value of gold cannot express itself in the price of gold, because that is fixed by law. So it expresses itself in the prices of all other things. And, therefore, as the value of gold goes up and down, the prices of all other things go down and up.

"Fisher insists that one commodity is too unstable in value to form a basis of value. We make the mistake of measuring the value of all our commodities in terms of the value of one. If gold goes up, all commodities come down in price. If gold comes down, all commodities go up.

STABILIZING THE PRICE OF GOLD

"Fisher declares that the best dollar would be one the value of which was measured by the value of a large number of commodities. For instance, the Department of Labor has a list of over 700 commodities. It obtains the price at wholesale of these various commodities every week and strikes an average of them. It adopted the price of these commodities in 1926 as its base and called it 100. As the average price of all these commodities goes up or down the rise or fall is expressed in terms of that base figure of 100. Thus, if the prices go up 1 per cent, the price is called 101; if they go down 2 per cent, the price is called 98. Professor Fisher declares that this commodity index number, or one like it, should be used as the standard of value for our dollar. Then when you are paid your $60 you know that $60 will purchase so many units of those commodities, whether you spend them the day you earn them or five years later.

"Fisher does not propose to abandon the gold standard. Gold would be kept in bullion form in the Treasury and the government would redeem the dollar certificates in gold, but only in so much gold as the dollar might be worth at the time of redemption.

This is Fisher's famous "commodity dollar". And this theory has been mixed up in the plans of the inflationists. However, it is one thing to believe in a stable dollar which will always have the same purchasing power and it is another thing to believe in boosting the prices of everything by inflating the currency.

DEBTOR OR CREDITOR?

"There are a lot of things which are selling too low now. But there are a lot of things that are not. There are lots of manufacturers who could make immense profits at present prices if they could sell more. The inflationists, in order to boost the price of those things which need boosting, are willing to boost the price of everything. They want the price of wheat and corn and cotton to go up. But how do they know that the prices of other things will not go up higher than the prices of wheat and corn and cotton?

"We can certainly put prices up by inflating the currency. If there is any doubt about that we have only to look at Germany and France during and after the war. They put prices up. They got them up so high that a loaf of bread cost $2,000. That is one of the troubles with inflation. You can never check it. The Germans didn't want to push bread up to $2,000 a loaf. They merely wanted to get it up a few pfennings. But when you set a thing like this in motion it is almost impossible to stop it. You may stop it at some point, and then you have deflation. If you don't stop it deliberately, it will come to a stop itself in a collapse.

"Much is heard about the immense burden on the debtor class. The farmer thinks of himself as the debtor because he owes the mortgage on his farm. But he seems to forget that while he is trying to keep down the value of the dollars in the mortgage he owes and does not pay, he is also keeping down the value of the dollars he earns and actually spends.

"You get $3,000 a year. But how much do you owe? You probably owe little or nothing outside of your current bills. You may owe a mortgage on your home, but you do not intend to pay that off at once. You probably renew it and pay the interest annually. On a $3,000 mortgage the interest is $180 a year at the most. Now if prices are forced up the dollar is forced down and you will get a little relief on the payment of that $180 interest charge every year. But every one of those three thousand dollars in your salary has been reduced in purchasing power.

"The employed classes, we must not forget, are a greater creditor class. They have about $11,500,000,000 in savings banks. Put up prices and lower the dollar and you cut just that much off these billions. They have 109 billions in life insurance. It makes a good deal of difference to them whether that insurance will be paid off in dollars with a high value or dollars with a low value.

"We have some very serious ills to be cured. But inflating the currency will not cure them. It will aggravate them. And when it does, the same forces which compelled inflation in the first place will demand some more. It is a serious and dangerous experiment that is proposed."

"CANADIAN PACIFIC" HOPEFUL

President E. W. Beatty of the Canadian Pacific Railway Company faces 1933 with this sentiment, circularized to the company's personnel throughout the world:

"The improvement in Canadian conditions anticipated at the end of 1931 has not taken place, though on more than one occasion during the present year the hopes of Canadians were raised by favourable indications that turned out to be only temporary in character. We have therefore been forced to additional curtailments in our operations and to added personal sacrifices. While not minimizing the seriousness of the general situation we may still retain our courage and our confidence in ourselves and in Canada.

"Problems which are particularly our own, because they relate to Canadian conditions, are receiving serious attention by our public men and leaders in finance, industry and agriculture and the world's best minds are grappling with the complicated economic and international problems which presently exist. The result of these efforts must even if slowly indicate itself during the coming months. I am satisfied that our Officers and Employees will not only meet these unusual conditions with their accustomed courage and ability but will make their own not inconsiderable contribution to the solution of our problems.

"We have the certain assurance that even a moderate improvement in the general situation will reflect itself immediately throughout the Company's varied activities. I wish you all the best of health with which to meet the personal and official problems of 1933."