HURRAH FOR HARVARD,

She Allows Prof. Francis A. Walker to Pound the Gold Bugs in Her Quarterly.

A MASTERLY STATEMENT OF THE QUANTITY THEORY OF MONEY.

Men of Science Coming to the Help of the People.

The Quantity Theory of Money.

The quantity theory of money is an expression, with reference to a special case, of the general law that value is determined in relation between demand and supply. Prices being nothing more or less than values expressed in terms of money, those who hold the quantity theory merely point out a specific instance for the application of a principle which has been established by competent induction, and the applicability of which is not challenged in any other instance within the view of the political economist. It is not therefore for those who hold this theory to prove their case. It rests upon the critics of that theory to show some reason why a principle, admitted to be otherwise of universal application, should be suspected of failing at this point.

The cause of the incredulity which has attended the quantity theory is found in the difficulty of defining the terms, demand and supply, when used with reference to money.

The elements of the case are necessarily complex and elusive. The demand for money arises from the fact that there is a certain amount of money-work to be done; that is, exchanging has, to a certain extent, to be effected in that community through the use of this agent. In the situation existing—the quantity of goods to be exchanged being such as it is, prices ruling as they have done, producers and consumers living at such distance from each other as may be the case, the habits of the people as to carrying and using money, being what they are, the machinery of exchange being what it is—there is occasion for a certain exercise of the money-function in that community.

THE MONEY-FUNCTION

cannot be exercised in a lower degree than is thus requir.d without personal inconvenience and economic loss. Shall we say that the demand for money is determined merely by the amount of goods exchanged? No. Many of these goods may conveniently be exchanged directly against each other in barter, or indirectly through the intervention of money. Such goods do not constitute a factor in the demand for money. Even when we know the amount of goods which must be exchanged through the intervention of money, we have still to inquire how often each commodity may require to be thus exchanged. On the other hand, the supply of money is not determined solely in the number of money-pieces of a certain denomination or denominations available to do the money-work. We must also know the rapidity of circulation. "The nimble sixpence does the work of the slow shilling." In a community possessing in a high degree the agencies of transportation and transfer—railroads, parcel express, post and telegraph—a given volume of money-pieces might conceivably do two or three times as much of the money-work as in a community more backward in the respects indicated. To resume, the demand for money and the supply of money are both quantities of two dimensions.

IT MUST RAISE PRICES.

When the demand for and the supply of money are thus stated and explained it is difficult to see how any economist can take exception to the proposition that, other conditions remaining the same, an increase in the quantity of money MUST RAISE PRICES and a DECREASE IN THE QUANTITY OF MONEY MUST LOWER PRICES. Since money is usually exchanged for goods, since people do give for it that which they have earned by labor and abstinence and risk, it is clear that prices—that is, the value of money—must be fixed by a sufficient cause. It cannot be a matter of whim or a matter of accident. There must be some reason why the producer sells his goods for so much money, and not for more and not for less. There must be some competent force which compels him to give as much he does, which releases him from the necessity of giving more than he does. What is that force? In regard to all exchanges of goods for goods or goods for services under all conditions and in all places, the answer universally accepted is, "Demand and supply." Some powerful reason must be shown for asserting that any other principle governs in the exchange for goods or services for money.

A GOLD BUG ANSWERED.

In the March number of the Journal of Political Economy Miss Sarah McLean Hardy has an article entitled "The Quantity of Money and Prices, 1860-92; An Inductive Study," in which she takes up the quantity theory of money, reaching far disparaging results.

Dr. Hardy starts out with characterizing the quantity theory as abstract and hypothetical, and therefore requiring, prior to acceptance, to be submitted to inductive verification. She calls it "an A PRIORI law," a hypothetical deductive law needing to be compared with "observed facts" and speaks of it as an instance of "pure abstraction."

Starting with such a view of the theory in question, she finds it impossible to verify the theory inductively with any great degree of satisfaction. Now, I must take issue on this point at the outset. The principle that value is determined in the relation between supply and demand—that is, the quantity theory in general—has been abundantly established by competent induction.

The only hypothesis in the case of the quantity theory of money is that demand and supply have the same dominion and potency here which they have in all other cases of exchange. It is assumed that a principle admitted to be otherwise of universal application can safely be applied to this particular instance, no reason why it should not be so applied ever having been adduced. Since goods are sold for money, and money is exchanged for goods, the advocate of that theory has a right, in the absence of any reason to the contrary, to take it for granted that the universal law of exchange governs here. This is all the hypothesis there is in the quantity theory of money; and that assumption is no more violent than would be the assumption of a learned and skilled physicist, making observations in a region never before visited, that the law of gravity reigned there as elsewhere, and that the atmosphere of that place was composed of oxygen and nitrogen, with possibly a dash of argon.

A SOPHISM EXPOSED.

But, while declining thus to concede that special inductive verification is necessary to establish the quantity theory of money in the absence of any ground for questioning the application here of the general principle governing exchange, one can have no reason for objecting to such an inquiry. What, then is the scope of Dr. Hardy's investigation?

In certain tables and diagrams she places in comparison: (1) The "volume of currency each year, from 1860 to 1892 inclusive: (2) prices for the same period, according to an index number; (3) the transactions of the New York clearing house; and (4), gold in United States currency.

It is from such a comparison that conclusions are derived unfavorable to the quantity theory of money.

A PER CAPITA CIRCULATION.

To begin with, it is to be regretted that Dr. Hardy has not made the currency table one of per capita, and not of aggregate currency in circulation. During the thirty-three years—the traditional life of a human generation—covered by this table, population in the United States considerably more than doubled. Had the table given the figures of the per capita circulation, the effect upon the eye and the mind of the reader would have been very different. For instance, instead of the currency of 1890 standing to that of 1860 in the ratio 328 to 100, the ratio would have been 164.8 to 100. In other words the currency would have shown a per capita increase of only 64.8 per cent instead of 228 per cent,—a notable change, indeed! It is true, as Dr. Hardy says, there is no absolutely necessary relation between an increase of population and in an increase in those trade transactions which require the use of money; but it stands to reason most conspicuously, that, except for a revolution in other conditions, to double the population of the country is to require some increase, and a considerable increase, in the demand for money, whether that increase shall be exactly 100 per cent or less or more. It is true that a comparative per capita table of monetary circulation would still contain its own elements of doubt and difficulty; but this seems no good reason for introducing an additional and altogether unnecessary element of confusion and error. If Dr. Hardy allowed for the growth of population, she would manifestly come much nearer the truth than by not allowing for it.

The assumption that a twofold population would require a twofold circulation, clearly may be, in its own degree, erroneous; but the assumption that a twofold population, spread over a vastly greater area, would not require any more currency is certain to contain a larger amount of error. In a quantitative investigation is the difference between a 64.8 per cent increase and a 228 per cent increase is not immaterial?

Yet even if we correct these tables by introducing the per capita element, it still remains true, as Dr. Hardy has stated, that, in general, while the "volume of currency" has increased, and increased largely since 1860, prices have declined, or at least have declined since 1868. It is this result which leads Dr. Hardy to the conclusions; (1) that dogma, in its general theoretical form, is inapplicable as an explanation of this given set of actual conditions; (2) that, so far as it may be at all valid, its influence in determining the level of prices is of far less importance than is commonly supposed; (3) that prices, from 1861 to 1891, were fixed in the main by other causes than the quantity of that kind of money which was in circulation during those years.

FALSE STATISTICAL ARGUMENT.

Now let us see just what it is which in Dr. Hardy's opinion, justifies conclusions so important, what statistical evidence is relied upon in thus cutting down the scope and validity of the quantity theory of money. She compares the "volume of currency" with the average annual prices for a considerable term of years, in spite of a steady increase in the volume of currency, there has been a decrease, more or less intermittent and spasmodic, in prices.

But is it sufficient to put together merely the volume of currency—that is, the supply of money—and the corresponding prices, without even attempting a quantitative statement of the demand for money? Dr. Hardy would appear to think that the quantity theory of money is in effect this: that, if the actual quantity of money is diminished, prices must fall. Now no economist of reputation ever held such a theory, how ever loosely some may have written upon the subject. The quantity theory of money, by its very statement, takes into account both the supply of money and the demand for money. Dr. Hardy's tables and diagrams do not refer to the latter element, even by so much as an interrogation point.

We have already seen that, in making the table of the "volume of currency" an aggregate and not a per capita table, Dr. Hardy threw out of consideration the influence of a population more than doubled during the period covered by the investigation. We now see that she does not even give so much as a blank column to the demand for money, although the demand for money is just as much a factor in determining prices as the supply of money. Such an investigation can scarcely be deemed conclusive. Dr. Hardy shows that the volume of currency—i. e., the supply of money—increased steadily and largely from 1860 to 1892. She has not shown that the demand for money did not, during the same period, even more rapidly, thus completely justifying the quantity—theory. According to that theory prices do not necessarily rise because the supply of money increaseses.

PRICES ONLY RISE.

When the supply of money increas relatively to the demand.

And right here let me bluntly take issue with the writers of the gold monometallist school generally, Mr. Wells, Mr. Horace White, Mr. Atkinson, Professor Lumner, and others, regarding their unverified assumption that it is in the nature of an advancing industrial civilization to require smaller and still smaller amounts of "the circulating medium."

These writers are never tired of dilating upon the function of the bank and the clearing house in saving the use of money. They discount upon the statistics, partial, fragmentary, and unreliable as they are, which show the comparatively small proportion of cash payments; and they meet every statement or assumption as to the importance of the money supply with assertions that the money supply has really ceased to be of any practical consequence, as a result of the extension of credit—agencies and instruments.

THE CHECK AND DRAFT FALSITY

Now, it is perfectly true that credit agencies and instruments, in any high state of industrial civilization, effect an enormous saving in the use of money. But it is at the same time true that, in spite of all which credit agencies and instruments can do, after the efficiency of banks and clearing houses is exausted, the whole tendency of modern civilization has been to increase the demand for actual money. At the beginning of the present century, the people of the United States enjoyed a minimum of credit agencies and instruments; and the volume of currency was, so far as we can make out from the incomplete statistics of circulation, less than one half per capita, what it was sixty years later, in spite of the fact that, during the interval, banks by the hundreds and clearing houses in a half score of cities had come into existence, transportation had been enormously quickened, the telegraph had been introduced, and in a hundred ways the efficiency of a given body of money had been increased and today, thirty-five years later still, while credit agencies and instruments have been enormously improved and entirely new means of communication, like the telephone, have been introduced, the people of the United States are using far more money than they did in 1850; and yet the sole sign of inflation—namely, rising prices—does not appear. The simple expanation is that the multiplication of commodities due to the increased facilities of production, the marvellous increase of travel, and changes in the habits of our people with respect to carrying and spending money, are continually creating a demand for a larger and still larger volume of actual money, in spite of improved agencies of exchange and rapidly multiplying instruments of credit.

FRANCIS A. WALKER.

In the quarterly Journal of Economics, July 1895.

He Knows A Good Thing

ORD, NEB., Nov. 20, 1895.

INDEPENDENT, Lincoln, Neb.

Enclosed find $1.00 to pay my subscription one year. I sent one dollar for copies to use during the campaign, which were received.

I like your paper. I am sick unto nausea with that socialistic sheet that is not so much as a good shadow. I used to read T. H. Tibbles and Bright Eyes in Nonconformist—that paper is not so good since they left it. We must circulate the INDEPENDENT.

Truly, D. MCCALL,
Sup't and re-elected by 162 majority.

Gone Wholly Mad.

The Pioneer Press of Nov. 18, shows unmistakable syptoms of accute insanity. It says:

"The fact stated by the Pioneer Press yesterday that the city has full power to issue all the bonds necessary to erect an electric plant of its own, was a great surprise. It will prove in the end a much cheaper mode of lighting than can or will be furnished under any contract that can be made. The city can get all the profit there is in it for the city and the public."

Oh! you crank! You wild-eyed, long haired, lop eared populist! You—you—but we forget all the pet names you called the populists when they were the first to propose municipal ownership of electric and gas lighting franchises at the Omaha convention.

DIED.

At Lincoln, Nebraska, Nov. 7, 1895, Mrs. Sarah wife of C. M. Gordon, in the 57th year of her age.

Mrs. Gordon came to Lincoln from her home in Seward county about the 1st of last September to superintend the education of her two youngest sons who were attending the Cotner medical institute and State University.

About the 10th of November she was was taken down with pneumonia. The best medical aid in the city was secured and after all could be done for her, passed quietly away on the 17th.

Her remains were taken to her home at Bee, Seward county, and her funeral preached by Rev. S. J. Berton after which she was laid to rest in the cemetery at Seward.

Mrs. Gordan came with her husband from Indiana to Nebraska in 1875 and settled near where he lived. She was a devoted mother and wife and a christian whose every day walk in life proved sincerity of her profession. She was a lady of large sympathy and always felt called upon to sacrafice her own pleasures for the benefit of her family and friends.

She was an active worker it the ranks of the christian people of the community. The establishing of the Christain church at Bee was largely due to her personal efforts.

That true christain spirit which characterized her walk in life drew near her a large concourse of friends whose sorrows and tears mingle with those of a devoted husband and children who are called upon to mourn her untimely end.

R.

IMPORTANT.

DEAR SIR: We are making an effort to build up a strong state populist paper in Lincoln. To do this we need your aid. If you are already a subscriber and in arrears on your paper, can you not make it convenient to pay a year's subscription? Our list is gradually growing but we are carrying a heavier load of delinquents than we are able to do.

In addition to your own subscription can you not secure for us a few of your populist neighbors for three, six or twelve months. We know times are hard in the country, but equally so in the city. A little from each will help us on to better times. A great campaign will soon be on and you will need this paper. Make a note of this and give us a lift.

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THE INDEPENDENT is endorsed by chairman and secretary state committe, Gov. Holcomb, Senator Allen, Hon. W. A. McKeighan, Warden Leidigh, Supt Abbott and many leading populists.

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HENRY HUCKINS,
Publisher Lincoln Independent.

Lincoln, Neb., Nov. 15.

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