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STABILISED MONEY

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STABILISED MONEY

A HISTORY OF THE MOVEMENT

BY

IRVING FISHER, LL.D.

Professor of Economics, Yale University

ASSISTED BY

HANS R. L. COHRSEN

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TO

PRESIDENT FRANKLIN DELANO ROOSEVELT

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And, finally, I wish to thank President Roosevelt for permission to dedicate the book to him. His avowed Monetary Policy represents the goal at which the stable money movement has aimed.

IRVING FISHER

August, 1934

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INTRODUCTION

ABOUT ten years ago, when Owen D. Young was asked to take part in the stable money movement, he acceded to the request with alacrity, saying, "You need not try to 'sell' me on your proposition; for I think it is about the most important thing in the world—economically. What convinced me was my experience in Germany on the Dawes Commission. I found that the one great need was a stable mark. Even the workmen had come to see this. With the terrible inflation they complained that they had no way to lay by for a rainy day, even to provide the money needed for an expected addition to the family. The marks lost value faster than they could be saved."

Others who had, like Owen D. Young, observed inflation at first hand or who had read books on stabilization were equally easy to enlist in the stable money movement. But such people were few and far between. The great mass of people were "not interested," because they had never had their eyes opened either to the fact or the evils of unstable money.

There will, therefore, be two sorts of readers of this book: a few who had already studied stable money and know it to be "about the most important thing in the world—economically" and a large number who have not previously studied the subject and who will wonder what it is all about.

No one in the latter class can possibly appreciate the great importance of the subject of which this book treats until he has changed to the former class, that is has acquired a realizing sense of how, all his life, he has been the victim of the "money illusion." This illusion is the notion that the monetary unit is always

the same, so that it can serve as a measure of value of other things, but does not need to be measured itself.

We may cite two extreme examples of the money illusion—one in Germany, the other in the United States. In 1922 the present writer and another American economist, Professor Frederick W. Roman, visited Germany largely to find out if the ordinary German realized that the mark had fallen. Up to that time, the mark had, as a matter of fact, lost 98% of the purchasing power it possessed before the War. But we found that at least 19 out of 20 German men and women had no idea that anything had happened to their mark!

Of course, the Germans all knew that prices had risen, just as we all "know" that the sun "rises." But they thought this rise of prices had to do only with the supply and demand of commodities. Their reckonings were confused. A merchant who bought an article for 1 mark and later sold it for 3 marks thought he had made a profit, when actually he had made a loss because, between the buying and the selling, the mark had fallen so greatly. As to the real secret of the high prices—monetary inflation, causing a fall in the mark—they had no idea whatever.

A year later, in 1923, they woke up to the fact, almost overnight, that it was not so much that commodities had risen but that the mark had fallen, just as the school boy suddenly comes to realize that the sunrise or sunset which he thought he could "see" so plainly is an illusion and that really it is the earth which is turning. Thereafter they began to measure the mark not, however, in terms of commodities but in terms of the American dollar, that is, gold.

This experience gave the German public a vague notion of an unstable mark and a healthy fear of inflation, as well as of the "calamity boom" which goes with inflation. Unfortunately, however, this way of measuring the mark did not help the stable money movement but rather hurt it; for it fostered the myth

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that *gold* is stable, simply because, in 1922-1923, gold was less unstable than the paper mark. It was quite natural that the German people should thus measure the mark in terms of the nearest thing for measuring money of which they could think—namely some other sort of money. They could not be expected to know of index numbers by which to measure the mark far better. Even economists had only, a few years before, begun to make any serious use of index numbers.

In the United States, we have had an object lesson the obverse of Germany's. While in Germany, it required a *depreciation* of over 99% in value of the mark to make any considerable number of Germans realize that it was the mark, rather than commodities, which had changed, in America, it required an *appreciation* of the purchasing power of the dollar of over 75% before even a tiny minority of our citizens woke up. When, in July 1933, President Roosevelt cabled the London Economic Conference his insistence on controlling the purchasing power of the dollar, the "experts" there were mostly bewildered, despite the fact that Professor Cassel, Governor Rooth, and Mr. Per Wijkman (all of Sweden) were on hand ready and eager to show that their country had already stabilized her krona in terms of an index number representing cost of living. The only sort of stabilization which the average delegate at that conference could conceive of was stabilization relatively to gold, that is, stabilization in terms of the monetary units of other countries (stabilization of foreign exchange).

Yet no one could have spoken more plainly than President Roosevelt when he radioed to the London Conference in favor of "the kind of a dollar which a generation hence will have the same purchasing and debt-paying power as the dollar we hope to attain in the near future." Although the President has expressed the same thought many times, so that millions on millions of people must have heard it, and although his influence on

the average man's ideas is far greater than that of any one else in America and probably in the world, nevertheless the ordinary ear is still deaf even to the mere idea of stable money—all because, behind that ear is a brain in which, as a fixed part of its “mental furniture,” is the almost ineradicable “money illusion.”

Money and banking are so mysterious to the average person that the only popular concepts are those analogous to the ancient ideas of right and wrong—the “taboo.” The popular notions, including those of the ordinary banker, are as primitive as the superstitions of a Russian peasant before the War. Such notions are: “It is a matter of honor to keep on gold” (instead of on a stable standard); “Inflation is always wrong” (even to correct deflation); “We must not tinker with the Currency” (even when it needs mending); “Irredeemable paper is unsound” (even when it is stable); “Money should be ‘hard’ money”; and so on. But of the fundamental principles, if any, behind such precepts, or even of the historical experiences which led to these precepts, he is blissfully unaware. And so, in Germany, the calamitous inflation merely left behind a precept: “Don't ever leave gold again.” This was the “gold complex.”

But fortunately, besides such naïve and unreasoning popular psychology, there are always a saving few who learn the lessons of history. [Just as New York City got its health department seventy years ago from an epidemic, just as many cities get a good fire department after a bad fire, and just as safety at sea became a new object of solicitude after the Titanic disaster; so a stable dollar can come only after instability has worked enough havoc to cause some pivotal men to get emancipated from the money illusion.) No banker like Governor Strong or Governor Rooth, and no President like President Roosevelt, would or could have achieved stabilization without some such antecedent catastrophes.

Besides emancipation of our leaders from the money illusion

and besides replacing crude taboos by some understanding of money, there is needed a greater appreciation of the evils wrought by unstable money—evils commonly attributed to the wrong causes.

Every period of inflation has tragic consequences to the creditor class and creditor-like class, including savings bank depositors, while every period of deflation has equally tragic consequences to the debtor and debtor-like classes, including farmers, business men, and stockholders. The wage earner loses at both times—during inflation through the high cost of living outdistancing wages, and during deflation through unemployment. Both inflation and deflation, in the end, do harm to all classes by throwing out of adjustment the whole economic mechanism. The inflation calamity boom exhausted Germany and the recent deflation exhausted America.

The present book is intended to be not so much a history of these catastrophes, due to unstable money and endured by unsuspecting millions subject to the money illusion, but rather a history of the efforts of a few to remedy or prevent such catastrophes. It is hoped, however, that some day a professional historian will write a history of the rôle of unstable money in history itself. A few of us who have looked over this field in a preliminary way are convinced that a rich harvest is ripe for the economic historian. He will find that other historians, subject to the money illusion, or entirely innocent of monetary economics, have repeatedly missed the point of outstanding events in history. Only a few even now realize that the waning of Hoover and the waxing of Roosevelt were little more than the political reaction to an enlargement of the dollar. If we can be so blind to our own times, we ought not to be surprised to find that historians have run blindfold over the many successive hills and dales of inflation and deflation from ancient to modern times.

Only occasionally does this "money question" come to the sur-

face. Some historians do realize that deflation "made" Bryan politically and that subsequent inflation "unmade" him. A few economic historians have pointed out that war inflation causes a calamity boom after war, ending in a crisis,—for instance, after the Napoleonic Wars in 1818, after the Crimean War in 1857, after the Civil War in 1866, after the Franco-Prussian War in 1873, after the World War in 1920.

But history is also full of more hidden instances of the tremendous disturbances from unstable money. What at last broke the German morale but the fall of the mark, unrecognized as such but complained of under the cry of "profiteering"? What made "populism" but deflation, and unmade it but inflation? What finally led to bolshevism in Russia but a falling ruble? Lord D'Abernon, one of the keenest British students of money, went so far as to say that, in his opinion, 80% of the labor discontent in Europe after the War was due to this cause. What first brought the labor government to England? What caused the early agrarian discontent in Ireland, and what later precipitated that discontent into revolution? What has overturned governments and caused the many revolutions throughout Europe since the War?

It is not, of course, contended that unstable money is the sole economic determiner in history. It is only contended that its rôle is a big one and that it has been very generally overlooked—because of the money illusion; consequently the history of all important periods of rising and falling prices should be studied anew, with the historian's eyes open to the now known effects of inflation and deflation.

Nor is it contended that stable money is a panacea. But it will cure much and, to a large extent, clear our sight for whatever else is needed.

As the present writer stated in 1919 in *Stabilizing the Dollar*,

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"It is not pretended that to stabilize the purchasing power of the dollar would banish all complaint in the financial, business, and industrial world, much less serve as a substitute for progressive economies. A stable monetary unit would be no more a substitute for the fertility of the soil than a stable bushel basket. Yet a reliable bushel will indirectly help even the tilling of the soil; and a reliable dollar would remove a heavy handicap now put on our productive energy and so indirectly help all production. Dependable weights, measures, and standards eliminate those enormous wastes which come from uncertainty, and, of all the possible wastes from uncertain units used in commerce, those from an uncertain dollar are by far the greatest and the gravest."

APPENDIX I

SECTION I. AUTOBIOGRAPHICAL

My own interest in the problem of stabilizing the purchasing power of money began almost as soon as my economic studies began—about 1892. That was at the end of a quarter of a century of deflation which was about to culminate in the “sound money” campaign of 1896.

But my attitude at that time was very different from what it subsequently became; for I had not then come to realize how serious were the evils of unstable money, nor how impossible it was for business men to provide against them through foresight alone. I even thought I had discovered that these evils were largely overcome in business by compensatory adjustments in the rate of interest—the rate being low during periods of falling prices and high during periods of rising prices. One of my earliest economic monographs—*Appreciation and Interest*—was devoted to this idea.

My conclusion was naturally welcomed by the opponents of Bryan; and one of them, Byron W. Holt, who had charge of the Sound Money campaign of the New York Reform League, wrote me on January 15, 1898: “I consider your discussion of ‘*Appreciation and Interest*,’ if not the greatest, at least one of the greatest contributions ever made to monetary science.”

Subsequent statistical studies have shown, however, that I then greatly exaggerated the extent to which the rate of interest compensates for changes in the purchasing power of money, though

these studies have confirmed the original conclusion that *some* degree of compensation is effected in this way.¹

Having the substantial faith which the young and inexperienced often do have in things as they find them, I felt scandalized, when attending the meeting of the American Economic Association at Indianapolis in 1895, at what seemed to me to be the too light-hearted way in which Professor E. A. Ross and others were willing to "tamper with the currency."

I took part in the "Sound Money" campaign against Bryan in 1896. Had that campaign occurred at the present time, I would not have been so strenuous an opponent of Mr. Bryan; for I now know that the evil of which he complained was more real than I then thought. His proposed remedy—"national bimetallicism," at 16 to 1,—was, I still think, far from good; nor would "international bimetallicism," as proposed in a plank in the Republican platform of the same year, have been much better. That plank was practically ignored during the campaign and has been forgotten ever since.

As the years went by, I became increasingly aware of the imperative need of a stable yardstick of value. I had come into economics from mathematical physics, in which fixed units of measure constitute the essential starting point; but, at that time, the science of index numbers had received little attention, and we economists tried to get along without any clear quantitative idea of a dollar's *average* purchasing power—over goods in general.

Beginning about 1905, the subject of a better standard of value was considered in my class room for many years. The first solution offered by me was in 1911.² I then avoided any attempt to

¹ My present appraisal of this interest factor will be found in *The Theory of Interest*, Macmillan Co., New York, 1930, 566 pp.

² In *The Purchasing Power of Money* (Assisted by Harry G. Brown), Macmillan Co., New York, 1911, 492 pp.

This book was written, however, to establish the basic principles by which the purchasing power of money is determined (according to what I called "the

state my proposal in popular language because it is easy to laugh out of court anything as new about money as stabilization seemed to be at that time. The thought, therefore, was to try out the idea first in academic circles and, after a few years, to consider the possibility of popularizing it.

This program would doubtless have been followed out literally had it not been for an invitation, from Professor Taussig of Harvard, to present a paper on the proposal before the International Congress of Chambers of Commerce, meeting in Boston in 1912. This seemed too good an opportunity to lose for publicly launching the plan.

Within five minutes after the reading of my paper, which was entitled "An International Conference Regarding the Cost of Living,"³ a business leader of Chicago asked for the floor and made a fervent speech against the plan. He had taken alarm at the idea of even hinting that anything could be wrong with our dollar, and still more at the idea of allowing "labor" to think that the "high cost of living" could be cited as a proper cause for complaint or as a reason for adjusting money wages. On the contrary "we must not" he said, "disturb confidence in our money." The gentleman's alarm amused Professor Taussig, who replied that there was no thought at that meeting of endorsing the proposal but merely a desire to give it a hearing.

Meantime, Hamilton Holt, then editor of the "Independent," had offered to print the substance of my address in his magazine and to supply a "broadside" reprint of it for wide distribution among newspapers and individuals.

"The fat was now in the fire." The Boston address had "started something." Up to that time plans for stabilization had been disconnected or sporadic suggestions and were always thought of

equation of exchange") and only incidentally to suggest how such purchasing power could be made stable.

³ Publications of the Fifth Congress, Boston, 1912.

as "academic playthings" rather than practical proposals to be taken seriously. It was not long before the *Commercial and Financial Chronicle* (in 1912) had, a series of editorials ridiculing the idea and asseverating that our gold dollar is "the Rock of Gibraltar"—the one thing that never varies!

One result of this and other controversies was to stimulate me, from that time forth, to write and speak in defense of stabilization and in answer to criticism. My secretary counts up, since then, 99 addresses, besides 37 letters to the press, and 161 special articles, as well as 9 testimonies at hearings held by Government bodies and 12 privately printed circulars, together with 13 books bearing on the subject. These 331 items constitute my written and spoken statements on the stabilization problem. Of these, some of the most representative are those noted in the footnotes of this Appendix and the additional references listed at the end.

These writings are of two sorts—popular and technical; each of which fall under four heads: (1) fundamental principles;⁴ (2) the measurement of purchasing power;⁵ (3) studies of this purchasing power, in relation to current events, especially in relation to the "high cost of living"⁶ and "depression of trade;"⁷ (4) writings on methods of stabilization.⁸

⁴ As typified in *The Purchasing Power of Money*, already cited; "Our Unstable Dollar and the So-Called Business Cycle," *Journal of the American Statistical Association*, Vol. XX, New Series, No. 150, June, 1925; and *Booms and Depressions*, The Adelphi Company, New York, 1932, 258 pp., where evidence is given to show that the greater depressions are usually due, in large part, to a combination of "the debt disease" and "the dollar disease"—a volume of unpayable debt and a swollen dollar.

⁵ As typified in *The Making of Index Numbers*, Publication No. 1 of the Pollak Foundation for Economic Research, Cambridge, Houghton Mifflin Co., 1922, 526 pp.

⁶ As typified in *Why Is the Dollar Shrinking?* Macmillan Co., New York, 1915, 245 pp.

⁷ As typified in *The Stock Market Crash and After*, Macmillan Co., New York, 1930, 286 pp.

⁸ As typified in *Stabilizing the Dollar*, Macmillan Co., New York, 1920, 305 pp. and *The Money Illusion*, George Allen & Unwin Ltd. 1928, 245 pp.

The phrases "compensated dollar" and "stabilizing the dollar," suggested by me, have come into general use. I had also tried several other phrases, such as "standardizing the dollar" and "an unshrinkable dollar." Latterly, all these have been largely replaced by the phrase "commodity dollar," as more nearly self-explanatory. But the various phrases are not quite synonymous. Thus "compensated dollar" refers only to one particular method of stabilizing, namely the method of compensating for any rise or fall in the purchasing power of gold by putting less or more gold content into the gold dollar, *i.e.* by raising or lowering the price of gold.

At one time I had supposed that I was the first to think of this compensated dollar plan; but, on looking up the literature, I found anticipations in almost every particular, leaving unanticipated only a few details like the provision ("brassage fee") to guard against speculation in gold injurious to the Government Treasury. All the known anticipators, nine in all, are mentioned in the preface to *Stabilizing the Dollar*.

Besides writing and speaking, my work has included: organizing the movement; enlisting the interest and help of key men—economists, business men, bankers, statesmen; raising and contributing money.

A few words here regarding the first of these three—organizing the movement—will supplement what is said in the text. While preparing *The Purchasing Power of Money*, I had conceived the idea of an international commission to study the money problem, with special reference to the "High Cost of Living," and had secured the adherence of a hundred or more influential people.⁹

⁹ Including: President Taft; his Secretary of War, Henry L. Stimson; his Secretary of the Treasury, Franklin MacVeagh; Woodrow Wilson, then Governor of New Jersey; Gifford Pinchot; seven Senators; about a hundred other American leaders—economists, bankers, and industrialists; about twenty-five similar leaders in England, including Lords Brassey and Courtney; Professors Marshall, Edgeworth, Keynes, and thirteen other leading economists; about a score in France,

President Taft sent a special message to Congress on February 2, 1912, favoring an appropriation for such an International Conference. The wording of this message was prepared by me in cooperation with his Assistant Secretary of State, Huntington Wilson, afterwards author of an excellent book on stable money. The bill for such a commission was introduced by Senator Crawford and passed the Senate under suspension of the rules. In the House it was introduced by Congressman Sulzer, but was never reached on the calendar, despite efforts to bring it up before midnight of March 3, 1913, when the Taft administration expired.

Soon after Mr. Wilson's nomination for the Presidency, in 1912, I had visited him in Trenton. He said: "I think we might curb rising prices by increasing the weight of the gold dollar." He was much surprised to find that I had advocated something similar—the "Compensated Dollar Plan"—and took with him on his vacation trip to Bermuda, before inauguration, a typed copy of my first draft of what eventually became *Stabilizing the Dollar*. It is interesting to note that President Roosevelt has now actually applied the same principle as President Wilson's but in reverse, *reducing* the dollar's weight to compensate for a fall of prices.

But, after Wilson's inauguration, consideration of the money problem was elbowed aside in the rush of more pressing questions. Nevertheless these efforts were not wholly wasted; for they got numerous friends for what was now a growing movement.

On October 2, 1919, I addressed the American Bankers Association at its annual convention at St. Louis on "A Monetary Remedy for the High Cost of Living." This address was heard attentively and with apparent approval. In fact, many afterward

including President Poincaré; about a dozen each in Germany and Austria; and a few others scattered among seven other countries.

went out of their way to express their approval. But the sequel was not so satisfactory. Hoping to induce the younger and more progressive bankers to make a special study of the subject, I asked to have a committee appointed for that purpose. The President of the Association happened to have a special aversion to appointing new committees. He therefore insisted that the matter be referred to a standing committee, which, as it happened, consisted of old and very conservative men, most of whom had been appointed many years before to stop Bryan. At the head of this Committee was A. Barton Hepburn, then Chairman of the Board of the Chase National Bank. Mr. Hepburn was a personal friend of mine, but our ideas on monetary questions were diametrically opposed.

Of this standing committee, only two actually signed the report: Mr. Hepburn, Chairman, and James B. Forgan, Vice Chairman. Mr. Forgan (who was Chairman of the Board of the First National Bank of Chicago) was careful to add a qualifying statement in which he admitted that "it is possible that Dr. Fisher's plan might work out if established under normal conditions and if a guaranty could be had that normal conditions would permanently prevail."

Although scores of business bodies had appointed committees on the subject, this was the first committee to return an adverse report. The report was not so much an analysis of the proposal as it was a pronouncement. The key sentence seems to be: "We believe it is unwise to agitate changes in the gold standard at the present time." But, if my view is correct, the only gold standard which could have survived during the last few years would have been the very compensated gold dollar against which the bankers' report was written. Then was the time for them to recognize that fact and save the gold standard! Since that time, by the irony of fate, thousands of bankers have been ruined be-

cause (if my analysis is correct) they were adamant against any "change in the gold standard."

After the adverse report on the compensated dollar plan, many bankers who had previously favored the plan were, for a long time, unwilling to say so publicly. A dozen bank presidents had previously written me favoring the idea. Some now asked not to be quoted further.

This adverse report was published in the *Journal of the American Bankers Association* in November, 1920. To it I replied in the same *Journal*, June, 1921.

On March 8, 1920 Mr. Frank A. Vanderlip gave me a dinner to which he invited the leading presidents of banks of New York City in order that I should have the opportunity to address them on the subject of my book *Stabilizing the Dollar*, copies of which he had sent them in advance. The criticisms were mostly adverse, although President Hadley of Yale, who had from the first approved my proposal, spoke in its favor. Afterward he commented caustically to the effect that the bankers present "seemed merely to be thinking in terms of three to six months ahead."

In view of the growing prevalence of banker opposition, to what had then come to be called the "Fisher plan"—though never with my consent—it became evident that, in order to win support from bankers and make the movement succeed, the lead must now be taken by others and that other plans than mine (or what had come to be thought of as mine) for stabilizing money should be given prominence.

For some time it seemed clear that there should be an organization devoted to stabilization, and, on publishing *Stabilizing the Dollar* in January, 1920, I had asked the publishers to insert a post card in each copy, with a request that the reader mail it to me in case he was interested in the formation of such a society. On December 31, 1920, at the New Willard Hotel in

Washington, a dinner was held for discussing the advisability of forming a "Stable Money League." There were 25 present,¹⁰ and I was able to announce that I had names of about 1,000 other persons interested in the project. The meeting ended with a midnight visit by many of us to the Washington Monument where we ushered in the New Year by dedicating ourselves to the new movement. The official organization meeting of the proposed Stable Money League was called for May 28, 1921, at Washington.

Up to that time I had been almost the only active proponent. Now, in the belief that the real hope of the movement lay in a great deal of team work, the lead was passed on to others. Although urged frequently by several loyal friends to accept the presidency of the League and to try to commit it to the "compensated dollar plan," I declined both suggestions. I had never believed that the compensated dollar plan was the only possible plan, nor even ideally the best. In *Stabilizing the Dollar* I had been careful to call it "a" solution, not "the" solution. I had offered it as requiring the least radical change from the existing gold standard, and therefore perhaps politically the most feasible.

If the gold standard is to be retained, the compensated dollar plan is almost necessary, as has been so well shown by Professors Warren and Pearson. I am therefore still in favor of it for America, as part of a general plan, although, for simplicity, the method recently adopted by Sweden (a managed currency independent of gold) seems better. But when *Stabilizing the Dollar* was written, any proposal to "go off gold" completely, as Sweden has done, would have been lampooned and hooted down; and even more preposterous at that time would it have

¹⁰ Including Secretary of War, Newton D. Baker; Robert D. Kent, President of the Merchants National Bank of Passaic, N. J., from the first an unflinching friend of stable money; Professor James Harvey Rogers, then at Cornell University; various other economists and business men; and Dr. Harvey W. Wiley, of pure food fame, who made an excellent speech in favor of stabilization.

seemed to advocate a purely discretionary "managed money." Previous to the formation of the Stable Money League, the practicability of any plan was generally denied.

Norman Lombard, a California business man, was one of the earliest to share my enthusiasm for stable money. I first met him in person in 1919, when I was giving the Hitchcock Lectures on Stable Money at the University of California. He struck me as a most promising leader and I told him that, if certain business ventures of mine succeeded as I hoped, I would expect to support financially—until others could be found to take up the load—a stabilization movement, provided he would come East and devote himself to it. We both kept this in mind for several years and eventually, in 1926, when the conditions specified had been fulfilled, he gave up his business in California and came East with his family. Preliminary to taking office as executive director of the Stable Money Association, he spent a year with me, studying and collecting historical material, showing that the Stable Money Movement, far from being a one man affair had always had supporters and now had a number of them. This research work was the beginning of the present book. In his work with the Stable Money Association, Mr. Lombard accomplished all that could be expected, and more.

After turning over to others the work of organizing and conducting the Stable Money Movement, I continued my special studies in the subject.

One of the greatest obstacles then standing in the way of stabilization was a prevalent idea that index numbers were unreliable. Until this difficulty could be met, stabilization could scarcely be expected to become a reality.

In order to do my bit toward solving this problem, I wrote *The Making of Index Numbers*, a work requiring several years of costly calculations, partly financed by the Pollak Foundation for Economic Research. It was published in 1922. One of its con-

clusions was that, while what I called the "ideal" formula was the best, all formulæ for index numbers agreed with each other, for all practical purposes, provided they were so constructed as to work both ways—that is, to give consistent results when comparing two years, whether the first or the second year was taken as the base. It was shown that the simple arithmetical average of price relatives, then a common form of index number, was inaccurate because, in particular, it would not work both ways. This form of index has, since that time, been very largely abandoned and replaced by the geometric average or by what I called the "aggregative." While this test was purely concerned with the question of formula, and did not solve all the problems of index numbers, it did remove the chief complaints; and the faith in index numbers, at least partly as a result of this book, was definitely strengthened.

This is not the place to discuss the question as to the best index number for stabilization purposes further than to state the following opinions: First, that almost any reasonable index, wholesale, retail, or general (Snyder's) would be better than none at all, and that, under any sort of stabilization, all indexes would differ from each other less than is commonly imagined, as well as far less than they differ now when none of them is stabilized; secondly, the Swedish choice—namely a retail index of the cost of living—is, on the whole, the best of those practically available, one reason being that it means almost the same thing to everybody, since all people consume similar goods (while they produce dissimilar goods).

In January, 1923, I began the publication in the newspapers of a weekly Index Number of Wholesale Prices, starting with the *New York Times*. This was the first *weekly* index ever published, being made possible by certain short-cuts in calculation. This index series, with revisions, has been continued to the present time, and now appears in several countries and in various

official publications of the United States and other Governments.

The chief purpose, however, of this newspaper publication was to invert the ordinary index number representing the price level, thereby obtaining an index representing the purchasing power of the dollar, the idea being to accustom the public to the thought that the dollar is not a constant but a variable. For I had come to realize that people could not get interested in stabilizing the dollar until they saw that it was unstable; and this could scarcely happen until they could read a statistical record of its instability.

The index of the dollar's purchasing power gave to several million people every Monday morning the opportunity to read of the weekly change in the dollar. It was apparently as a result of this that the phrases "the purchasing power of the dollar," "the pre-war dollar," "the dollar of 1913," "the dollar of 1926," and other expressions, implying a consciousness that the dollar changes, came into general use; whereas previously all indexes were thought of as representing price movements of commodities—money being forgotten. Other issuers of index numbers followed suit and gave figures to measure "the farmer's dollar," the "business man's dollar," and so forth.

It had taken a long time for me to realize the need for this sort of public education and to perceive that, in the popular psychology of money, there was what I came to describe as "The Money Illusion." In 1922, I visited Germany expressly to find out whether the instability of the mark could possibly escape attention of its victims. As noted in the Introduction, I found it had most decidedly escaped attention. That is, to Germans, the dollar had risen, and commodities had risen; but the mark had not fallen!

With such object lessons before me, I lectured in the School of International Studies at Geneva in 1927 and, on the basis of these lectures, I wrote the *Money Illusion*.

Besides helping the public to understand that their monetary yardstick is not a fixed and dependable one, the publication of its changes can serve a very practical purpose for business men by showing them how their business is likely to be affected by "general conditions." In "Our Unstable Dollar and the So-called Business Cycle" it was shown that every enlargement of the dollar tends to hurt business shortly afterward and that every shrinkage of the dollar tends temporarily to boost business. Either effect begins at once but is spread over a number of months, tapering off gradually, according to what I called a "distributed lag." Thus the dollar's changes forecast, so far as any one factor can do so, the volume of trade and unemployment. The moral of this is that, as long as the dollar is allowed to fluctuate, business men should watch its fluctuations and learn how to take them into account.

And not only can the dollar's recorded fluctuations be used as one of the bases for forecasting, but those fluctuations can, to some extent, be themselves forecast from, for instance, the volume of money and credit, in the light of "the equation of exchange."

Both sorts of forecasting—the forecasting of business from the dollar and the forecasting of the dollar from credit—often go wrong, like the forecasts of the weather bureau, because of numerous disturbing influences not known to the observer. The chief of these, since 1913, have been unannounced changes in Federal Reserve Policies. As has been seen, the system's easy money policy immediately after the war caused a rising price level, or falling dollar; its restrictive policy decided on in May 1920 caused a collapse in the price level; its policy, through Governor Strong's open market committee, kept the dollar fairly stable until that policy lapsed with his death; the fluctuating policy since that time has made the dollar fluctuate correspondingly.

With advance information on these policies, supplemented by

other known data and interpreted in the light of the equation of exchange and distributed lag, any one could have foretold, almost without error, every important change in business and employment. At any rate, the record shows that the forecasts which were made on the above principles were substantially correct when the Federal Reserve policy was known in advance, and incorrect when those policies were unknown or the forecaster was misinformed about them.

Among those for whom correct forecasts of the dollar's changes are important are investors. Apparently the first book on this subject was a symposium to which I wrote the introduction.¹¹ After this came various articles by me, and several books by others, including Robert W. Pomeroy's *Stock Investments*; Edgar Lawrence Smith's *Common Stocks as Long Term Investments*; and Kenneth Van Strum's *Investing in Purchasing Power*. In reviewing these books I added some statistical studies.¹²

Forecasting is one of three ways of escaping or mitigating the baleful consequence of the unstable dollar, the other two being: (1) to stabilize the dollar, and (2) to frame contracts in terms of index numbers—that is, to use the tabular standard.

Regarding the last, I was apparently the first in this country to introduce the index wage for the purpose of offsetting the rising cost of living in the World War. This method was used in my personal office, in the office of the American Association for Labor Legislation, of which I was then President, and in a commercial business of mine—the Index Visible. When this business united with that of the Kardex Company of James H. Rand, Jr., of Buffalo, we two, with an able attorney—Charles P.

¹¹ *How to Invest When Prices Are Rising*, by Edwin W. Kemmerer, Harry G. Brown, Walter E. Clark, J. Pease Norton, Montgomery Rollins, G. Lynn Sumner. G. Lynn Sumner and Co., Scranton, Pennsylvania, 1912.

¹² Including "When Are Gilt Edge Bonds Safe?" *The Magazine of Wall Street*, New York, Vol. XXXV, No. 13, April 25, 1925 and "Stocks vs. Bonds," *Review of Reviews*, Vol. LXXII, No. 1, July, 1935.

Franchot,—prepared the “stabilized bond” issued by that company which is described in the text (Ch. 4, Sec. 1). This bond was an object of study, as a legal curiosity, by the dean and professors of the Yale Law School and other law schools.

When the Kardex Company again merged with others (ultimately becoming the Remington Rand Co.) the stabilized bond was retired in favor of gold clause bonds because the latter type, being familiar, had a wider market. Later, Mr. Rand and I, and Mr. Vanderlip tried to get the United States Treasury to issue stabilized bonds but without success. A few analogous types have been used by other commercial companies. After the war, at the request of “the Mitten Management” (a traction organization) and with the assistance of Benjamin P. Whitaker, I worked out “the market basket wage.” This was adopted by the Mitten Management. It was dependent on a special index number of the cost of living in Philadelphia.

As indicated in the text, during the war millions of laborers worked under such wage agreements. But they never constituted a major portion of contracts even in the field of wages and were almost invariably dropped when prices fell, because the wage earner objected to a cut in money wages. As long as the high cost of living was getting higher, the “Index Visible” employees welcomed the swelling contents of their “High Cost of Living” pay envelopes. They thought their wages were increasing, though it was carefully explained to them that their real wages were merely standing still. But as soon as the cost of living fell they resented the “reduction” in wages, and refused to believe that their real wages were not reduced thereby.

Such experiences afford fresh proof of the practical omnipresence of the “money illusion” and of the impracticability of index wages and index bonds as a general solution of the great problem of unstable money. The only general solution must

come, not from mending or patching the dollar from the outside, but from truing it up inside.

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SECTION 3. MY PERSONAL VIEWS

As the reader will have noted, there have been, and still are, many conflicting views on the question of stable money. Some readers may ask how it is possible to explain such conflicts of opinion. I can, of course, only answer that question from my own point of view. I shall now endeavor to do this very briefly, referring those who care for anything more elaborate to the writings listed above.

In the first place, every new idea has to fight its way. Andrew D. White wrote a fascinating book¹⁸ devoted almost entirely to this thesis. We all know how evolution and the germ theory had to fight their way.

In the second place, as has already been emphasized, especially in the Introduction, the idea of stable money has an exceptional handicap in the "money illusion." It may be recalled that the somewhat analogous illusion that the earth is flat and immovable held back the spread of the Copernican theory for centuries. This being so, the astonishing thing is not that so large a majority of people still imagine the dollar to be immovable but that so large a minority have already learned that it is not. When asked in 1912, at the meeting of the American Economic Association, how long it would take before stable money would come, I replied, laughingly, "nine hundred years"; and at that time, I had no realizing sense of the retarding influence of the money

¹⁸ *A History of the Warfare of Science with Theology in Christendom*, D. Appleton and Company, New York, 1896, Vols. I and II.

illusion. But nineteen years later stabilization actually came (in Sweden); although most Swedes, like most Americans, do not yet comprehend it—and this despite the fact that forty years ago their great economist, Knut Wicksell, did his epoch making work.

Besides these two broad reasons—namely that it takes time for a new idea to spread, and more time when the idea is hidden by a specific illusion—there is what may be called the price confusion, that is, the failure to distinguish the concepts of a particular price and a general price level.

The observing reader must have noticed many instances of such confusion in the course of this history. Congressman Strong tells me that a case in point was evident at a meeting with the Federal Reserve Board when, after he had tried to explain the project of stable money by identifying it with that of a stable price level, one of his auditors said: "Congressman Strong, do you mean you want the Government to fix the price of wheat?" Thereupon Congressman Strong looked despairingly at Governor Strong, who responded by a significant wink.

Fixing the price of wheat or any other price is far more difficult than fixing the general level of prices, just as it is far more difficult (impossible in fact) to fix a little wave on the surface of a mill pond, than to regulate the level of the whole pond.

This price confusion traces back to the money illusion. That is, when most people talk of the price of wheat being determined by the supply and demand of wheat, they forget that these—the price and the supply and demand—are partly in terms of money and so depend partly on the supply and demand of dollars. The dollar's value (price level inverted) is a factor in every individual price. No one can get far in understanding the stable money problem until he rids his mind of the notion that the supply and demand of commodities fix the price *level*.

Moreover, fixing the price level does not imply any control over production, nor the buying of surplus products to boost

their prices. Much less, in restoring the price level, should we try to raise it by destroying cotton, wheat, or other wealth. That amounts to "getting rid of poverty in the midst of plenty by destroying the plenty"; whereas true reflation is making the money plentiful to match the plentiful goods to be bought.

Nor is it true reflation arbitrarily to mark up prices or even to mark up wages beyond the point which accords with supply and demand. Such arbitrary mark-ups result in lessened buying, and lessened employment, while, on the other hand, increased money and credit, during a depression, revive buying, trade, production, and employment.

Another common perversion of the stable money idea is the vague notion that there is something in it which is unnatural and so improper or impossible. It is true that every unit is arbitrary. There is no "natural" yard, no "natural" kilowatt. So there is no "natural" dollar. But surely there is nothing unnatural or improper in preventing the yard, the kilowatt, or the dollar from varying. We can ordinarily make the dollar what we will, just as we can make the yard what we will.

But some confused minds, half-way convinced, take a half-way position. They admit that *some* influence can be exerted on the price level by monetary or credit control but, since this influence is only one among many, fear that other and greater forces may upset control. How is it possible, they argue, that so little an influence as a slight change in the rate of interest or in the volume of Federal Reserve open market operations can steer the monetary ship? One might as well ask: How is it possible that so little an influence as a slight turn of the rudder can steer a ship, despite the mightier forces of winds and tides?

Finally, we find people who are so determined not to favor stabilizing money that they deny that its instability has any meaning. One writer gravely professes that he does not even know what inflation and deflation mean. "How measure them?"

This is like professing not to know the difference between a big ship and a little one without first settling on exactly how the size is to be measured—by length of the ship? by gross tonnage? by net tonnage? by cubic contents?

Another writer professes to find that no measurement at all is possible, since all index numbers are meaningless, being, so he fancies, made up by adding together unlike items, such as horses and apples. This is like saying that, while there is such a thing as the price of bread and such a thing as the price of cheese, there is no such thing as the price of a cheese sandwich, or of a club sandwich containing many ingredients, or of a "hash" of many commodities, or of a whole cargo of miscellaneous goods—including horses and apples.

An index number is simply the ratio of the price of such a representative cargo at one time to its price at another time. The dollar is stable, or fixed, if it will always buy a fixed fraction of that cargo. I shall never forget what a fellow economist told me after playing golf with one of the leading bank presidents of the country. The latter suddenly asked, "What *is* an index number?" This, of course, is practically asking, "What is a dollar?" In view of what has been said, there seems little reason to wonder why so many educated and intelligent people are not yet convinced about stable money. They simply are not yet really "educated" on this particular subject.

We have now seen six reasons to explain the disagreements over stable money—namely (1) its apparent novelty; (2) the money illusion; (3) the price confusion; (4) the apparent unnaturalness of stabilizing the dollar; (5) its supposed dependence on so many uncontrollable forces; (6) its meaninglessness.

Besides these reasons others could be suggested—especially if I were to venture on a psychoanalysis of particular individuals.

As, one by one, the students of the subject learn its fundamentals they usually change their attitude completely and per-

manently. As Major Bellerby says, "once a stabilizer, always a stabilizer." The President of one of the largest life insurance companies, at a meeting of the Stable Money Association, explained for an hour, with humble frankness, how his eyes had been opened only a few weeks before by a young Canadian banker.

It seems to me as inevitable as anything human can be that some day the money illusion will be conquered, at least as fully as the illusion of sunrise and sunset has been conquered; that, therefore, almost every educated man and woman will know that gold is no more stable than copper; that stabilizing or standardizing money will be as much a matter of course as standardizing the yard or the ounce; that recent recorded pronouncements of certain bankers will be regarded with the same amusement as the pronouncements of the Governor and Vice-Governor of the Bank of England at the "Bullion Report" hearing in 1810; that the world will wonder why so simple a project as stable money should ever have met any opposition.

It also seems to me that there are certain definite conclusions on stable money as undebatable as the rotundity of the earth—such conclusions as that, at the bottom of this depression, a corrective upward reflation of the price level was needed; that the dollar's instability can be corrected; that it should be corrected; that all the corrections should be made by monetary or credit means, not by making goods scarce (the two have been confused; the first is merely reducing to normal the unit for measuring incomes; the second is reducing the incomes themselves); that limiting profits will tend to retard re-employment.

But, of course, there will always remain some honest differences of opinion; for there is always a debatable fringe on the outskirts of every area of undebatable truth. This is true even in astronomy and the other "exact sciences."

Among the debatable questions are these: Exactly what is the

best criterion for measuring stability and instability? Exactly how far should reflation go? What are the best monetary or credit means to use?

On several questions I have changed my own opinion, from time to time, and especially as to whether stabilization should wait on international agreement. Under present circumstances, it seems to me that the quickest way to attain stable money throughout the world is for each country to choose its own price level, its own method of measuring that price level, and its own method of attaining and controlling it. After, say, Sweden, America, and the British Empire shall have achieved their respective stabilizations, the rest of the world will doubtless follow fast.

Incidentally, when stable money shall thus have displaced our gold standard and our silver standard (though not necessarily the monetary use of these metals), the minor problem of stable international exchanges will have almost solved itself.

As to the problem of stable money in the United States, while a rough stabilization could be obtained by sole reliance on adjusting the price of gold according to the compensated dollar plan, I do not think a really accurate stabilization is feasible without also a direct control of the total volume of checking deposits or what may be called checkbook money.

I would (after reflation is over) make the adjustments of the price of gold, which means adjustments of the gold content of the dollar, as few and slight as possible, in order to keep foreign exchange rates as steady as is compatible with the stabilization of our domestic price level. I would, however, remove the present restrictive limits on the gold content of the dollar—50 per cent and 60 per cent of the old legal gold content—so as to avoid some day finding no further adjustments permissible under the law. Also I would keep redemption in gold discretionary on the part of the Government and not return to compulsory re-

demption, lest we also return to gold raids, runs, and hoarding. I do not think there would be any objection to the re-establishment of a free gold market as proposed by Mr. Vanderlip. I would confine the use of silver to the minimum politically feasible.

I would depend for a stable dollar mainly on open market operations and occasional adjustments of rediscount rates under the supervision of a special Monetary Authority or Commission, as proposed in the new Goldsborough bill sponsored by Mr. Vanderlip.

As soon as politically feasible, I would go even further, along the lines of Senator Cutting's bill. I would have the Government practically take away from the banks the entire function of creating or destroying circulating medium but leaving to the banks the strictly banking functions such as lending money.

This project, now favored by many economists, particularly Simons and others at the University of Chicago and by some bankers, such as George LeBlanc, is the subject of a book I am writing called "The 100% System of Money and Banking." Under this system all checking accounts would have behind them a reserve in lawful money of 100%. An incidental but, at the present time, very great advantage of this system would be that it would reduce the Government debt, now reaching alarming proportions. It would do this by substituting non-interest-bearing obligations for interest-bearing obligations, up to the point needed to restore and maintain a stable price level.

I will close this personal statement of opinion by repeating the last paragraph of *Stabilizing the Dollar*, written in 1919:

"The more the evidence in the case is studied, the deeper will grow the public conviction that our shifting dollar is responsible for colossal social wrongs and is all the more at fault because these wrongs are usually attributed to other causes. When the intelligent public who can apply the remedy realizes that our

dollar is the great pickpocket, robbing first one set of people and then another—robbing them of billions of dollars a year, confounding business calculations, convulsing trade, stirring up discontent, fanning the flames of class hatred, perverting politics and, withal, keeping its sinister operations out of sight and unsuspected—when, I say, the public and legislators realize this, action will one day follow; and we shall have secured a boon for all future generations, a stable yardstick of contracts, a stabilized dollar.”

APPENDIX II

THE CONTROVERSY OVER SWEDISH STABILIZATION

As the importance of what Sweden has done comes to be fully recognized, it would seem that similar principles of monetary policy must in time be adopted everywhere. Of course, there are those who *fear this*—fear that Sweden may thus serve as an example for the future monetary policy of the United States. A number of articles have consequently been written by men who cling to the present system, and who are naturally alarmed by the good reports of the Swedish experiment, and would like to minimize its importance. The purport of such articles is that the significance of the Swedish experiment has been greatly exaggerated and that it has not been of much, if any, use to Sweden.

It is not necessary to impugn the motives of these writers. Doubtless many of them are quite sincere. But, like most people, some of them do not know the profound difference between a price level and a price, and so believe that the "supply and demand" of individual commodities not only determine individual prices relatively to the price level, but determine them absolutely and so determine the price level itself. One such man, an expert in foreign exchange, told the present writer with emphasis, "Sweden has not stabilized. The apparent stability was an accident due to the fact that one group of commodities happened to go up just enough to offset another group which happened to go down. Any other explanation is absurd, for no stabilization of all prices is possible. I don't see how it could be done. What we need is to stabilize foreign exchange."

Some commentators insist that Sweden has, in fact, stabilized merely in the sense of pegging the krona to sterling, and for that reason Sweden is often included in the list of "Sterlingaria" countries. Mr. James P. Warburg says,

"Sweden has 'managed' by the simple method of pegging its krona to the pound, which in turn was raising and lowering itself by means of the gold standard."¹

It is true that, so far as was consistent with the internal stabilization of the krona, Sweden did try to keep foreign exchange from fluctuating widely. But this exchange control was not only secondary to, but was actually employed as a means toward, internal stabilization. The pound, at first, depreciated more rapidly than the krona, and in October, 1931, was quoted 7% below krona-parity. This was consistent with Sweden's determination to prevent inflation. In December 1931, the old krona-pound parity was almost restored, and beginning April, 1932, in accordance with Sweden's desire to reflate wholesale prices, the pound was quoted about 7½% above par, except for the period from November 1932 to March 1933, when the old parity with the pound was temporarily re-established.

This proves that the foreign exchange value of the krona was determined *independently of the pound*, that is, Sweden did *not* properly belong to the "Sterlingaria" group. Never did the Riksbank or the Riksdag Committee employ the English exchange rate as the real criterion for the Riksbank's monetary policy.

Professor H. Parker Willis's Foreword to Mr. Kjellstrom's exhaustive study on the Swedish experiment, "Managed Money, The Experience of Sweden"² gives a wrong impression of the book itself. In this introduction we find a reference to an alleged "superstition regarding Swedish 'management' of money

¹ James P. Warburg, *The Money Muddle*, New York, Alfred Knopf, 1934, p. 177.

² *Op. cit.*

and banking which has been widely advertised and exploited by academic and other adherents of the view that it was possible to move price levels about practically at will."³

Professor Willis recommends Mr. Kjellstrom's book as "a valuable sedative for the excited minds which are now evolving new and strange monetary theories which they (on hearsay) ascribe to Sweden as the originating source of experimentation."⁴

The statement by Professor Willis seems to imply, though he does not definitely say so, that he does not think stability of the price level is possible and that he does not believe that Sweden has accomplished such stability. If so, Dr. Willis is mistaken, as the facts clearly indicate, and, so far as could be ascertained, no other writer on the subject has denied the *fact* that Sweden has accomplished it. It is not denied but is affirmed in the book to which Dr. Willis writes the introduction.

The controversy over Sweden has been not as to this fact but as to whether this regulation which Sweden has accomplished has benefited her. These two questions—as to (1) the fact of Swedish stabilization and (2) the effects of that stabilization should be carefully separated.

But when we read Mr. Kjellstrom's book itself we find it clearly shown that the Swedish stabilization of the consumption index had been not only successful, but remarkably so. Despite his predilection for the gold standard, Mr. Kjellstrom admits almost everything which the most enthusiastic friends of stabilization could desire.

"The following results have" Mr. Kjellstrom says, "been obtained, (1) the process of deflation has been halted; (2) the

³ Kjellstrom, *Managed Money, op. cit.*, p. IX. The present writer is one of those who believe that it is "possible to move price levels about practically at will"—in other words that it is possible to select any desired value for our monetary unit just as it is possible to select any length for a yardstick.

⁴ *Ibid.*, p. IX.

danger of currency and credit inflation was averted; (3) the internal purchasing power of the krona has been maintained reasonably well; (4) a gradual rise of the wholesale price level has not taken place.”⁵

Only the last point (4) sounds unfavorable; but on the next page, we find this explained as follows:

“In view of the *results* of the program it should be realized that, although it has been impossible to achieve a slow rise of the domestic price level, the Swedish wholesale prices *have not fallen as low as have corresponding prices in some other countries not having a definite monetary program.*”⁶

The first three results are, as we have seen, precisely what Sweden set out to accomplish, namely, halting deflation, preventing inflation, and stabilizing the krona at home at the level of September, 1931. The last of these three—stabilization—is the part of the Riksbank’s policy in which we are especially interested here. We have seen that the chosen index number was maintained over a period of over 2½ years—up to the present writing—with a degree of precision never believed possible by either the friends or the foes of stabilization. The measure of this remarkable precision was the deviations from par of 1.7% above the chosen par and 1.6% below it—a total spread of 3.3% in 2½ years—half above and half below.

As to the fourth point (raising the wholesale price level) it is true that the Riksbank did not at first, nor until after two years later, succeed in the attempt to restore a fair degree of balance within the price structure. Immediately after the abandonment of the gold standard, wholesale prices recovered. However, in 1932, in spite of the revision of Swedish monetary policy, not only did wholesale prices fail to rise further, but after September, 1932, until March, 1933, they declined somewhat. For some

⁵ *Ibid.*, p. 92.

⁶ *Ibid.*, p. 93. Italics mine.

time Sweden was therefore disappointed. For a good part of this development, the collapse of the Kreuger concern was probably responsible, as it impaired the liquidity of some of the Swedish banks, and made the remaining banks extremely cautious in their credit policies and desirous of remaining liquid.⁷

The adverse situation created by the Kreuger collapse, which amounted to a catastrophe for Sweden, and the continued decline of world prices, apparently found the Riksbank insufficiently prepared. What expansive measures were taken seem to have been sufficient merely to offset these unfavorable developments and so prevent them from depressing the Swedish wholesale price level, as has been noted. The resulting, perhaps unwanted, wholesale-price stability during 1932 may explain the assertion which is sometimes made that the Riksbank maintained the wholesale price level in spite of its intentions. Professor Bertil Ohlin criticized the Riksbank's lack of more determined action as follows:

"There would nevertheless have been, in my opinion, a chance of bringing about a rise in the price level through the taking of energetic measures by the Riksbank (*i.e.* large bond purchases) supplemented by an increased demand for capital for public works. No such policy was, however, inaugurated."⁸

Another Swedish economist⁹ tried to explain the failure of wholesale prices to rise by the reluctance of the Riksbank to expand credit because it desired to return to the international gold standard as soon as possible. Writing in the beginning of 1932 he charged the Riksbank with maintaining high discount rates and restrictions on credit which prevented the increase of production, increasing unemployment and even causing numerous

⁷ See Karin Kock, *Paper Currency and Monetary Policy in Sweden in Economic Essays in Honor of Gustav Cassel*, London, Allen Unwin Co., Ltd., 1933, pp. 343-356.

⁸ Bertil Ohlin, *Sweden's Monetary Policy*, *op. cit.*

⁹ Emil Sommarin, *Knut Wicksell's Auffassung der Entwicklung des Preisniveaus*, *op. cit.*

farm foreclosures. "Everything points to the fact," he said, "that the directors of the Riksbank consider the return to a more or less revised gold standard the final aim of the present monetary policy."

The fact that the Riksbank failed at first in this point of her program, and this perhaps mainly for lack of enthusiasm, has been used by the enemies of stabilization to prove that the Swedish experiment was a "failure." Yet Mr. Kjellstrom shows that, through those two years, wholesale prices fell much less than in the gold standard countries, and fluctuated less than in England.

It may be here added that, since Mr. Kjellstrom's book was written, the recovery of Swedish wholesale prices has continued. The maximum fall of wholesale prices since the stabilization began, until December, 1933, was only 1.9% in Sweden, compared with about the same fall in England, but compared with 16% for the United States and 19% for France. The maximum swing of the wholesale price levels, that is the swing from the highest to the lowest point as compared with the chosen par, in that period was 5.6% for Sweden, 9% for England, and 19% and 16% for France and the United States respectively.

This relative stability of the Swedish wholesale price level is emphasized because of the unjustified criticisms of her policy. These have centered around this question of wholesale prices, and an impression has gone abroad that Sweden had suffered from deflation more than other countries, and this because of her stabilization policy. One writer says, ". . . there is strong reason to believe that Sweden is one of the three or four countries that have suffered most acutely in the past eighteen months, and equally strong reason to believe that the attempt to manage the currency has intensified her sufferings."¹⁰ The exact opposite is

¹⁰ From *Sweden's Managed Currency*, by Rufus S. Tucker, in "Barron's," June 19, 1933.

the truth. By April, 1934, wholesale prices were at 113.5, or 6.5 points higher than in September, 1931, when Sweden abandoned gold. The Swedish Board of Trade, in its review of the year 1933, said:

"Viewed against the background of the general trend in the rest of the world, the recovery in Sweden seems to have been more considerable than in most other countries."¹¹

According to the League of Nations, in 1933, the Swedish production index showed more improvement than that of any other European nation. Of the 15 nations mentioned by the League's report, recovery of Sweden's production in 1933 was second only of that of Canada.¹²

Thus, reflation of wholesale prices eventually seems to have been attained, and therefore all four points of the program, and not merely three, carried out with reasonable success.

The increase of Swedish unemployment since the abandonment of gold has also been cited as conclusive proof that the stabilization did not benefit Sweden. Mr. Tucker says: "But the conclusive proof that Sweden has not benefited herself by abandonment of the gold standard is furnished by the statistics of unemployment . . .". But of course, we could not expect a Swedish stabilization started in September, 1931, to solve immediately the unemployment problem. There is always a lag of several months between movements in the price level and their effects on employment. Furthermore, in normal times, Sweden exports about 25% of her total production, and for this reason, Swedish employment of labor depends, to a considerable extent, upon conditions in foreign countries. During 1932, her exports to Great Britain were about 40% less than during 1930 and her exports to Germany declined about 60% in that period. Her total exports in 1932 were about 40% smaller than in 1930.

¹¹ *Kommerskollegium Economic Review*, No. 1, March, 1934.

¹² League of Nations, "Monthly Bulletin of Statistics," Vol. XV, No. 4, Apr., 1934.

Unemployment (of the members of trades unions) increased from 11.8% (average) in 1930, to 22.2% (average) in 1932¹³ or, an addition of about 10% of the total trades union membership. A simple calculation shows that the greatest part of this additional unemployment evidently was due to the decline in exports. Unfortunately, the unemployment was greatly increased by strikes in the building and wood-pulp industries. To compare unemployment in Sweden and elsewhere is difficult, but it seems evident that Sweden's unemployment would have been worse had she continued on the gold standard; in fact, so far as available figures indicate, Swedish unemployment has shown no worse a trend but rather a better trend than unemployment in gold standard countries.

Professor Bertil Ohlin summarizes the general effect of the Swedish stabilization policy as follows:

"As to the effect of the Swedish policy on economic conditions in general, it is important to remember that Sweden suffered considerably last year from the Kreuger crisis and, this year, has had to bear with a serious conflict in the building trade.

"Despite these unfavorable circumstances, the economic situation has not undergone a considerable change for the worst, and it is generally believed that this is due to the wholesome effect of a stable price level."¹⁴

Whether her index number was the best one that could have been chosen; whether she ought to have reflatated before stabilizing, or devaluated her currency and adjusted her debt structure as Australia has done;—these are questions which need not be further discussed here. They are important questions and should be studied on their merits; but they are not the most important ones for this study. The main point here is that Sweden did con-

¹³ Source: *Kommerskollegium Economic Review*.

¹⁴ Quoted from *New York Times*, October 31, 1933.

trol her consumption price level as she set out to do, a feat formerly declared impossible.

Professor Erik Lindahl who was in constant touch with the monetary experiment in Sweden gave the following opinion as to the efficiency of the Riksbank's management and the lessons which can be derived from it:

"Most of us are of the opinion" he said, "that the management could have been better in several respects; that we could have achieved more with this national paper money experiment. Nevertheless, the policy carried on in Sweden has, upon the whole, proved beneficial; and consequently the Swedish experiment may be of some interest to other countries."¹⁵

Professor Lindahl emphasizes a number of practical advantages which have resulted from Sweden's stabilization and which should be of interest to other countries—advantages arose from the mere announcement of a definite monetary policy by a central bank. First the public is relieved of uncertainty about what the central bank will do. Secondly, the central bank is able to refer to its announced policy and thus enforce whatever measures may be needed to carry it out, without political interference. In the opinion of Professor Lindahl, the Riksbank would never have carried out so strong a policy with regard to the exchange rate, had it not thus been pledged to a definite policy. In fact, the Riksbank even acted despite the risk of loss of its income and capital; and this, Professor Lindahl feels, "is the most significant proof that we have had an effective monetary policy in Sweden during these years."

Advantages also arose from the establishment of a consumption index as criterion of the Riksbank's monetary policy and the weekly publication of this index. Such publication enables

¹⁵ Erik Lindahl, *Sweden's Monetary Program*, in "Economic Forum," June-July, 1934, pp. 169-181.

the public as well as the directors of the bank to draw their conclusions as to the future development of the price level. "It seems very suitable," Professor Lindahl says, "to link a monetary program to an index of this type, because more definite conclusions can be drawn regarding the future development of prices. But" he continues, "this does not imply that the index should be kept unaltered." The monetary policy of Sweden has been laid down merely in a provisional way, he explains, and perhaps a later formulation may provide for a price level of consumption goods which shall vary "in some sort of inverse order to the general state of productivity."

Finally (according to Professor Lindahl), Sweden has shown that the regulation of the foreign exchange rates prevents foreign price movements from having their full effect upon the internal price level. But it has also been demonstrated that in practice a complete stabilization of the level of import and export prices cannot be attained in this manner. It seems best, he concludes, to maintain a stable exchange rate with the principal foreign countries and occasionally to alter this rate in order to regulate the domestic price level.

Professor Lindahl concludes that the Swedish experiment had a favorable effect, although its effectiveness was hampered by two facts: First, the Riksbank was unable to influence labor disputes, and similar interferences; and second, the country had been suffering from the effects of two years of previous depression. He says:

"The fact that, in spite of this, the policy has had a comparatively favorable effect, offers ample evidence that the possibilities for a rational management of the money system are greater today than man ever hoped for. This is perhaps the main lesson of the Swedish experiment."

Whatever the future holds in store, this achievement of Sweden will always be the most important landmark up to its time in

the history of stabilization; and the various efforts which have been made to discredit the importance of Sweden's example can never erase the simple fact that Sweden *did* stabilize the internal purchasing power of her krona according to the official measure set up for that purpose.

Since none, except possibly one, of the opponents of stabilization disputed the fact that Sweden has stabilized her consumption index as she intended to, some of them have sought to argue that, while little Sweden could do so, big America could not. But so far as size is concerned, the argument is obviously the other way. Sweden is so small as to be largely at the mercy of conditions in other countries. The United States is a world in itself. Sweden's slowness in restoring wholesale prices was largely due to the difficulty of stemming the downsweeping tide of wholesale prices in other countries. Swedish foreign trade and the dependence of her exporters on foreign prices are far more serious than in the case of America. If little Sweden can become an oasis in the world-wide desert of depression surrounding her, and despite the Kreuger disaster at home, can maintain her chosen index number almost unchanged, the same result is *economically feasible* almost anywhere.

On the other hand, as mentioned before, Sweden was particularly favored in her stabilization experiment because of her inherent economic stability, the comparative homogeneous and unified nature of her banking system, and her ability to use the foreign exchange for influencing her domestic situation.

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- Henri de Man, *L'expérience Suédoise* (Banque Nationale de Belgique Bulletin d'Information et de Documentation VIIIe année, Vol. II, No. 1, 10 Juillet, 1933).
- Midland Bank Monthly Review, *A Notable Experiment; Monetary Management in Sweden*, Issue of October-November, 1932.

APPENDIX III

PARTIAL LIST OF HONORARY VICE-PRESIDENTS OF THE STABLE MONEY ASSOCIATION

(In addition to those already mentioned in the text in connection with the Stable Money, League and the National Monetary Association): Charles Rist (France); Sir Henry Strakosch (England); Sir Charles Addis (Great Britain); Sir Arthur Balfour (Great Britain); Eduard Benes (Czechoslovakia); Roland W. Boyden (U.S.A.); Nicholas Murray Butler (U.S.A.); John W. Davis (U.S.A.); Charles G. Dawes (U.S.A.); Robert W. De Forest (U.S.A.); William Green (U.S.A.); Sir Herbert Holt (Canada); Charles Evans Hughes (U.S.A.); Otto H. Kahn (U.S.A.); Baron Frederic De Koranyi (Hungary); Baron Maurice Kornfeld (Hungary); Max Lazard (France); Louis Loucheur (France); Frank O. Lowden (U.S.A.); Samuel Mather (U.S.A.); Lord Melchett (Great Britain); Carl Melchior (Germany); Emile Moreau (France); Alberto Pirelli (Italy); James H. Rand, Jr. (U.S.A.); Richard Reisch (Austria); George M. Reynolds (U.S.A.); Elihu Root (U.S.A.); Louis Rothschild (Austria); Sir Josiah Stamp (Great Britain); C. E. Ter Meulen (Netherlands); Albert Thomas (France); Norman Thomas (U.S.A.); Emile Vandervelde (Belgium); Eleutherios K. Venizelos (Greece); Gerard Vissering (Netherlands); Count J. H. Von Bernstorff (Germany); K. A. Wallenberg (Sweden); Paul M. Warburg (U.S.A.); Owen D. Young (U.S.A.).

Among the members of the Administrative Committee were: Francis H. Sisson; Fred I. Kent; Lawrence Chamberlain.

The following were Honorary Vice-Presidents, Ex-Officio: the Presidents of the following organizations, American Association for Labor Legislation; American Bar Association; American Farm Bureau Federation; American Farm Economic Association; American Statistical Association; Brotherhood of Railroad

Trainmen; Farmers' Educational and Co-operative Union of America; International City Managers' Association; International Photo Engravers' Union; National Association of Credit Men; National Association of Owners of Railroad and Public Utility Securities; National Association of Purchasing Agents; National Consumers' League; National Education Association of the United States; National Institute of Social Sciences; National Retail Dry Goods Association; United Mine Workers of America; United States Building and Loan League. The Chairmen of American Cotton Growers Exchange; and American Council on Education. The National Master of the National Grange.

The Presidents of the following Bankers' Associations: Alabama; Arkansas; California; Colorado; Connecticut; Delaware; District of Columbia; Florida; Georgia; Idaho; Illinois; Indiana; Iowa; Kansas; Louisiana; Maine; Maryland; Massachusetts; Michigan; Minnesota; Mississippi; Missouri; Montana; New Jersey; New Hampshire; New Mexico; New York State; North Carolina; North Dakota; Ohio; Oklahoma; Oregon; Pennsylvania; South Carolina; South Dakota; Tennessee; Texas; Utah; Vermont; Virginia; Washington; West Virginia; Wisconsin; Wyoming.

The Presidents of the following organizations: Chicago Association of Commerce; The Merchants' Association of New York; The Savings Bank Association of the State of New York.

APPENDIX IV

PUBLICATIONS OF THE COMMITTEE FOR THE NATION SINCE ITS ORGANIZATION IN JANUARY, 1933.¹

1. "Five Next Steps"—(The Committee's program for recovery).
2. "Interim Report"—(A survey of conditions in February, 1933).
3. "H.R. 5073"—(Bill to create Monetary Board) with the Committee's comment.
4. "Stabilization of the Measure of Value," by Professor G. F. Warren.
5. "The Business Situation"—by Professor G. F. Warren.
6. "The London Free Gold Market"—by Professor T. E. Gregory.
7. "An Analysis of the Proposal for an American Free Gold Market"—by National Industrial Conference Board, Inc.
8. "The Dollar of the Future—What Happened at London"—radio address by Earl Harding.
9. "The All-American Dollar"—radio address by James H. Rand, Jr., President of Remington Rand, Inc.
10. "Frozen Bank Deposits—A Drag on Recovery"—report by Committee for the Nation.
11. "Prices and Gold"—radio address by Frederic H. Frazier, Chairman, General Baking Company.
12. "Frozen Bank Deposits"—radio address by Lessing J. Rosenthal, Chairman, Sears, Roebuck and Co.
13. "Monetary Policy and Agriculture"—radio address by Fred H. Sexauer, President Dairymen's League Cooperative Assn. Inc.
14. "Why Deflation must be Stopped," a survey of the Effects

¹ Copies of some of these publications may be secured by writing to the Committee for the Nation, 205 East 42nd Street, New York City.

- of the Drop in Price Level in a Typical American Community.
15. "President Roosevelt's Monetary Policy"—radio address by Frank A. Vanderlip.
 16. "U.S. Gold Program—What Does It Mean?"—radio address by Earl Harding.
 17. "The Price of Gold,"—by Professor Frank A. Pearson.
 18. "Memorandum on the Stabilization of the Dollar," by Frank A. Vanderlip.
 19. "Some Statistics on the Gold Situation,"—by Professor G. F. Warren and F. A. Pearson.
 20. "Why A Federal Monetary Authority,"—by James H. Rand Jr., and Frank A. Vanderlip, with text of bill.
 21. "Australia's Recovery Contrasted with AAA Regimentation."
 22. "Wall Chart of Gold Price and Recovery Indices."
 23. "The Money Muddle"—Domestic price level more important than exchange stabilization.
 24. "Unemployment Chart."
 25. "Gold Policy Has Worked"—How price of gold controls price of basic commodities.
 26. "Who Says It Doesn't Work . . ." by Frank E. Gannett, American Agriculturist.
 27. "The President's Gold Policy Has Worked," by Congressman Samuel B. Pettengill.
 28. "Strikes"—Social Upheaval Feeds on Deflation.
 29. "Can Industry Still Save Itself?"—Committee's current program.
 30. "Money and Profits," address by U. S. Senator Elmer Thomas.
 31. "The Rise and Fall of the Gold Standard," by Sir Charles Morgan-Webb. George Allen & Unwin Ltd.

APPENDIX V

LIST OF STABILIZATION BILLS

INTRODUCED IN THE 72ND CONGRESS—2ND SESSION,
AND IN THE 73RD CONGRESS—FIRST AND 2ND SESSIONS

(In addition to foot note references in the Text)

On December 5, 1932, *Mr. John E. Rankin* of Mississippi, introduced his

"H.R. 13012, A Bill, to regulate the value of money, to stabilize its purchasing power by the controlled expansion and contraction of the currency, and for other purposes."

On December 23, 1932, *Senator Elmer Thomas* of Oklahoma, introduced the same bill as S. 5292. This bill was re-introduced by *Mr. Rankin* as H.R. 1703 in the 73rd Congress—1st Session.

On February 22, 1933, *Senator John H. Bankhead* of Alabama, and *Congressman Samuel B. Pettengill* of Indiana, introduced identical bills, H.R. 14757 and S. 5674 (72nd Congress—2nd Session), calling for the issuance of "stamp money." These bills were re-introduced in the 73rd Congress—1st Session, by *Senator Bankhead* on March 11, 1933 (S. 242) and by *Mr. Pettengill* on March 9, 1933 (H.R. 148).

On March 9, 1933, *Mr. Harold McGugin* of Kansas introduced the following bills in the 73rd Congress—1st Session:

"H.R. 20, A Bill to stabilize the buying power of money."

"H.R. 21, A Bill to raise the commodity price level to the debt-incurring stage and stabilize it thereafter."

On March 10, 1933, *Mr. Kent E. Keller* of Illinois re-introduced his bill (mentioned in the text) in the 73rd Congress—1st Session:

"H.R. 1619, A Bill to amend the act approved December 13, 1913, known as the 'Federal Reserve Act,' to stabilize the average

wholesale price of commodities at the average level of the year 1926, thereby to correct the price decline suffered since September 1928, to promote economic justice, to steady industry, agriculture, commerce and employment, and for other purposes."

He also introduced (at the same Session):

"H.R. 1624, A Bill to regulate the value of money and for other purposes."

On April 18, 1933, *Mr. O. H. Cross* of Texas introduced (73rd Congress—1st Session):

"H.R. 5066, A Bill, establishing a stabilized currency and adopting the wholesale commodity index of 1926 as a standard of value."

On April 20, 1933, *Mr. T. Alan Goldsborough* of Maryland introduced his "H.R. 5073" and on April 21, 1933, his "H.R. 5160" (73rd Congress—1st Session), both bills containing the following:

"A Bill, to regulate the value of money in accordance with article I, section 8, of the Constitution of the United States, to re-establish the gold standard, to provide for its maintenance and stabilization, and for other purposes."

On April 21, 1933, *Mr. John E. Rankin* of Mississippi introduced (73rd Congress—1st Session):

"H.R. 5158, A Bill, providing for the exercise of power conferred by section 8 of article I, of the Constitution: To coin money and regulate the value thereof."

On April 22, 1933, *Mr. Jeff Busby* of Mississippi introduced (73rd Congress—1st Session):

"H.R. 5172, A Bill, to declare a monetary policy and regulate the value of money in accordance with paragraph 5, Section 8, article I, of the Constitution of the United States, to provide for the maintenance and stabilization of the gold standard, and for other purposes."

On January 20, 1934, *Mr. Edward C. Moran, Jr.* of Maine introduced his "H.R. 7156" (73rd Congress—2nd Session) and on January 22, 1934, *Mr. Henry B. Steagall* of Alabama introduced his "H.R. 7216" (73rd Congress—2nd Session), both bills calling for the "Federal Monetary Authority," as described in *Mr. Goldsborough's* bill which is mentioned in the text.

On June 6, 1934 *Senator Bronson Cutting* of New Mexico introduced (73rd Congress—2nd Session):

- "S. 3744 A Bill, to regulate the value of money in pursuance of article I, section 8, paragraph 5, of the Constitution of the United States; to create a Federal Monetary Authority; to provide an adequate and stable monetary system; to prevent bank failures; to prevent uncontrolled inflation; to prevent depressions; to provide a system to control the price of commodities and the purchasing power of money; to restore normal prosperity and to assure its continuance; and for other purposes."

On the same day, *Mr. Wright Patman* of Texas introduced the same bill in the House of Representatives as H.R. 9855.

On June 14, 1934, *Mr. George G. Sadowski* of Michigan introduced (73rd Congress—2nd Session):

- "H.R. 9931, A Bill, to stabilize and standardize money and labor prices by the establishment of a labor-hour monetary system, to guarantee work at all times, to give normal prosperity, prevent depressions, and for other purposes."

On June 15, 1934, *Senator Elmer Thomas* of Oklahoma introduced (73rd Congress—2nd Session):

- "S. 3798, A Bill, to provide for the taking over by the Government of the outstanding capital stock of all Federal Reserve banks, to substitute United States Treasury notes for outstanding gold certificates, silver certificates, Treasury notes of 1890, Federal Reserve notes, Federal Reserve bank notes, national currency and national bank notes; and to regulate the value of money in pursuance of article I, section 8, paragraph 5, of the Constitution of the United States; and for other purposes."

On June 18, 1934, *Mr. Andrew L. Somers* of New York introduced (73rd Congress—2nd Session):

- "H.R. 9968, A Bill, to create a National Bank of the United States and to provide an adequate and stable monetary system in order to regulate the price level and the purchasing power of money within the United States, and to regulate the activities of all banks."

APPENDIX VI

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