

MODERN MONEY

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GEORGE G. HARRAP & CO. LTD.
LONDON TORONTO BOMBAY SYDNEY

First published November 1937
by GEORGE G. HARRAP & CO. LTD.
182 High Holborn, London, W.C.1

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PREFACE

THE production of yet another book on money calls for an explanation. Much technical work on monetary theory has been done within the last few years, and a great deal of material, both theoretical and statistical, for arriving at an understanding of how up-to-date twentieth-century monetary systems work is available to the advanced student of economics. But the subject is also of increasing interest to the general reader, who realizes that it affects his bread-and-butter and wants to know just how. For it is not at all obvious how the working of the money market and the policies of Central Banks, for example, bear on people's ordinary buying and selling—and earning—transactions. Moreover, even the whole-time student of economics is apt to find difficulty at the outset in relating what he reads about money to the contents of his general text-books. We believe, therefore, that there may be scope for a book designed to describe, simply and in outline, the working of a modern monetary system; and in attempting to write such a book we have addressed ourselves both to the general reader interested in the subject and to the elementary student of economics who may be looking for a monetary background against which he can place the actual facts recorded in his daily newspaper, before going on to more advanced and more specialized works.

In presentation we have aimed at clarity rather than at a meticulous precision of statement. It will be for the reader to judge whether we have sacrificed precision unduly or in vain. The excessive use, in the supposed

interest of precision, of technical terms—and still more so of ordinary words defined in special senses—is apt to defeat its own object. It may very well result in conveying to the reader a vaguer impression of what is meant than he would have derived from an exposition in plain, if not ideally precise, English. There is in this book no algebra or geometry and as few technical or specialized terms as possible.

In the chapter on money income we have collated some recent material on a rather confusing subject. Much perplexity arises from failing to distinguish clearly between cash and money values—between amounts of actual money, spent, lent, or held as the case may be, and the money values of goods or other assets acquired or held. And it is difficult to make much of the very valuable statistics of the National Income which are now available both in the United States and in Great Britain—material of great interest, for example, to practical men engaged in business forecasting—without a clear grasp of the distinctions between pre-final, final, and 'post-final' spending. (The reader will see that here we have not altogether succeeded in avoiding the use of technical and special terms.)

In classifying money transactions we have found it convenient to confine the term 'spending' to the purchase of goods and services. This is in accordance with ordinary usage, and has the additional advantage of bringing out the essential distinction between the effect of this type of money transaction in directly stimulating the production by labour of more goods and services and the effects of other types of money transactions—namely, financial—which stimulate activity only, if at all, at second remove. The sense in which we speak of 'hoarding' money is that of refraining from conducting transactions of any kind with it.

It will be obvious to any economist who may read this book that its authors belong to the school of thought associated with the name of Mr J. M. Keynes, whose work we frequently cite. The outstanding characteristics of this school are its insistence on spending as the sole source of business activity and its treatment of interest on money as a purely monetary phenomenon. It should, however, be mentioned here that we have been unable to adopt the treatment in Mr Keynes' latest book of the relation between savings and investment.

In the matter of spending it is now rather the emphasis than the principle that is controversial. Unfortunately the same cannot be said of interest. In the chapters which deal with interest we have tried merely to expound in outline the monetary view. It would have been very useful to the reader if we had been able to refer him to a clear elementary account of the phenomena of interest written from an alternative standpoint; but we know of none. In technical economic literature controversy about interest still rages, with great complexity and at a high level of abstraction.

The chapter on prices necessarily touches on general economics. On the one hand, there is no clear-cut border-line between the study of money and that of the economic system as a whole; on the other hand, the study of prices really covers the whole field of economics. We hope that our necessarily brief and partial treatment of prices will not mislead anyone into underrating the importance or overlooking the complexity of the subject. We have excluded, for example, not merely such matters as the degree of competition in markets (other than those in titles to money), but also such more nearly monetary matters as index-numbers, which we think are not susceptible usefully of elementary treatment.

The statistical material in the appendices to the various

chapters is intended rather for the general reader than for the student of economics, who has access to the far fuller information which he requires. The figures we give are designed merely to convey, with the minimum of trouble to the reader, an idea of the order of importance of the various quantities referred to in the text. Except where references are given, our figures are drawn from official or semi-official publications (in England the *Board of Trade Statistical Abstract*, the *Bank of England Statistical Summary*, and reports of official committees; in the United States the *Federal Reserve Bulletin* and publications of the United States Department of Commerce).

We are indebted to Mrs M. E. Robinson, Director of Studies in Economics at Newnham College, Cambridge, who read through the manuscript and made a number of useful suggestions.

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October 1937

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