Dhananjayarao Gadgil Library

GIPE-PUNE-007120

POLLAK PUBLICATIONS

NUMBER ONE

THE MAKING OF INDEX NUMBERS

By IRVING FISHER, Professor of Economics, Yale University. xxxiii + 526 pages, 120 illustrations. Third edition, Revised, 1927.

NUMBER TWO

MONEY

By WILLIAM TRUFANT FOSTER, Director of the Pollak Foundation, and WADDILL CATCHINGS, of Goldman, Sachs and Company. xi + 409 pages. Third edition, Revised, 1927.

NUMBER THREE

COSTS AND PROFITS

By HUDSON BRIDGE HASTINGS, Professor of Administrative Engineering, Yale University. xi + 168 pages.

NUMBER FOUR

CYCLES OF UNEMPLOYMENT

By WILLIAM A. BERRIDGE, Assistant Professor of Economics, Brown University. xv + 88 pages.

NUMBER FIVE

POPULATION PROBLEMS

By L. I. DUBLIN, of the Metropolitan Life Insurance Company, and others. xiii + 318 pages.

NUMBER SIX

THE PROBLEM OF BUSINESS FORECASTING

By WARREN M. PERSONS, Professor of Economics, Harvard University, and others. xiii + 317 pages, 55 illustrations.

NUMBER SEVEN.

SOCIAL CONSEQUENCES OF BUSINESS CYCLES

By MAURICE B. HEXTER, Director of Federated Jewish Charities, Boston. xxiii + 206 pages, 34 illustrations.

NUMBER EIGHT

PROFITS

By WILLIAM TRUFANT FOSTER and WADDILL CATCHINGS. xxii + 465 pages, 61 illustrations.

NUMBER NINE

REAL WAGES IN THE UNITED STATES

By PAUL H. DOUGLAS, Associate Professor of Industrial Relations, University of Chicago.

NUMBER TEN

BUSINESS WITHOUT A BUYER

By WILLIAM TRUFANT FOSTER and WADDILL CATCHINGS.

POLLAK FOUNDATION FOR ECONOMIC RESEARCH

NEWTON 58, MASSACHUSETTS

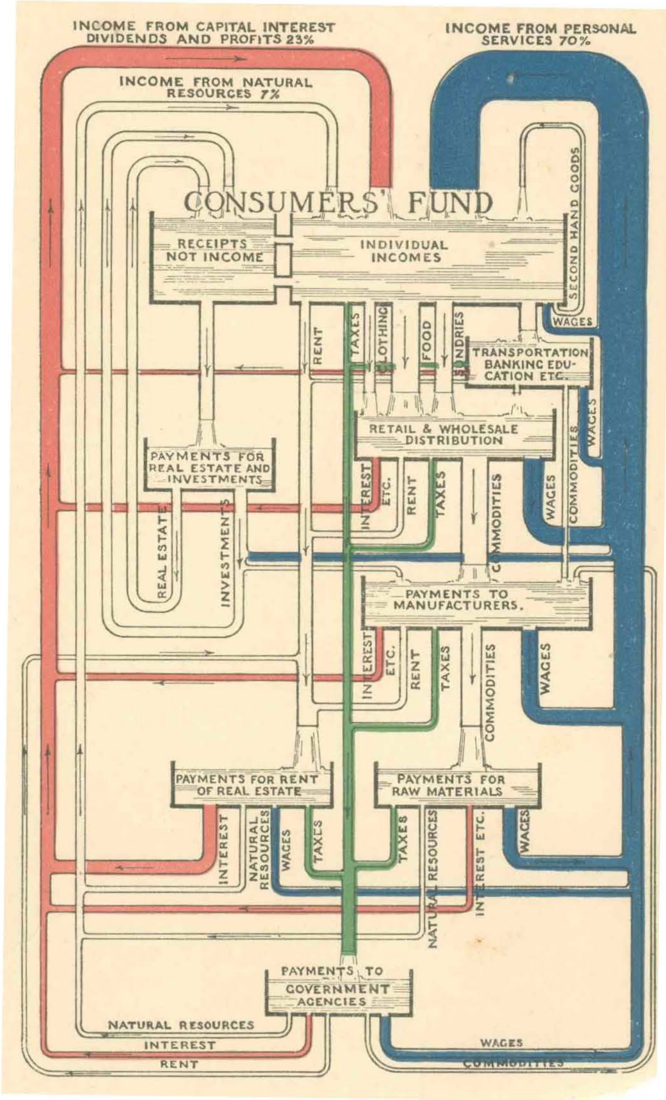
PUBLICATIONS

OF THE POLLAK FOUNDATION FOR ECONOMIC RESEARCH

NUMBER TWO

MONEY

THE CIRCUIT FLOW OF MONEY



MONEY

BY

WILLIAM TRUFANT FOSTER

AND

WADDILL CATCHINGS

Authors of "Profits" and "Business Without a Buyer"

THIRD EDITION, REVISED

BOSTON AND NEW YORK

HOUGHTON MIFFLIN COMPANY

The Riverside Press Cambridge

1927

X61
F6
7120

COPYRIGHT, 1923, BY THE POLLAK FOUNDATION FOR ECONOMIC RESEARCH

ALL RIGHTS RESERVED

FOURTH IMPRESSION, NOVEMBER, 1926

The Riverside Press
CAMBRIDGE · MASSACHUSETTS
PRINTED IN THE U.S.A.

PREFACE TO THE THIRD EDITION

The second edition of *Money*, which was called for about six months after the appearance of the first edition, was soon exhausted; and now the second printing of the second edition is also exhausted, largely, it seems, because of the widespread use of the book by universities. Such a demand was quite unexpected, because *Money* was intended for the general reader, rather than for use as a textbook. Since, however, the book is used by many college classes, we have tried, in this new edition, to direct students to the best of the recent books and articles in this field. We have also made several corrections and brought some of the charts and statistics up to date. In other respects, the third edition does not differ from the second.

Money is offered as a groundwork for the study of our major economic problems, above all as a help toward the solution of the persistent problem with which we open the book; namely, the failure of industry to furnish mankind with material comforts of life, at all comparable with the productive powers of the available men, machines, materials, and money.

In a second book, called *Profits*, based upon *Money*, we discuss that persistent problem at length, and arrive at this conclusion:

"Progress toward greater total production is retarded because consumer buying does not keep pace with production. Consumer buying lags behind for two reasons: first, because industry does not disburse to consumers enough money to buy the goods produced; second, because consumers, under the necessity of saving, cannot spend even as much money as they receive.

"Furthermore, savings are not used to purchase the goods already in the markets, but to bring about the production of more goods. Under the established system, therefore, we make progress only while we are filling the shelves with goods which must either remain on the shelves or be sold at a loss, and while we are building more equipment than we can use. Inadequacy of consumer income is, therefore, the main reason why we do not long continue to produce the wealth which resources, capital, improvements in the arts, and the self-interest of employers and employees would otherwise enable us to produce.

That theory evidently has an important bearing on many of our current internal problems, such as stable money, unemployment, instalment selling, high wages, and reduced hours of labor. No less significant is that theory in relation to many external problems, such as foreign trade, tariffs, loans, and debt payments. Most of these problems, national and international, we could not consider at length in *Money* or in *Profits*. We have discussed them, however, somewhat informally, in a book called *Business Without a Buyer*. These later books, by means of many practical applications, further disclose the significance of those parts of *Money* upon which we have placed most emphasis — those parts which chiefly distinguish it from other books on that subject.

The theory of underconsumption which we have expounded in these three books has brought forth one insistent question, "What can be done about it?" That is the subject of our next book.

William Trufant Foster
Waddill Catchings

Newton, Massachusetts
January 1, 1927

PREFACE

THE Pollak Foundation for Economic Research welcomed the opportunity to publish, as its first volume, Professor Irving Fisher's *The Making of Index Numbers*, because the first need of the science of economics appears to be accurate and generally accepted instruments of measurement. In this second volume, we venture upon a preliminary discussion of money, because money, which is our best measure of the strength of economic motives, should be made the core of economic theory, and because more of the world's difficulties are due to monetary policies than to any other economic cause. In any event, this is a good time to study the subject. It seems likely that the era of monetary chaos through which we are passing will become the classic example of unsound public finance.

An understanding of the part that money plays in the world is prerequisite to a solution of the most critical problems of our day, national and international. Such an understanding requires a knowledge of those attributes of a money economy that make it essentially different from a barter economy. Failure to take this difference fully into account appears to be at the root of various popular fallacies. Even our textbooks insist, as a rule, that "all trade is, of course, barter," and that "the young economist must do exactly as Solomon and Hiram did — think in goods." With attention fixed on goods rather than on money, however, the economist, young or old, is in danger of overlooking those aspects of modern production and distribution, particularly the unbalancing of supply and demand, that have most to do with the periodic ups and downs of business.

Indeed, it is obvious facts and indisputable conclusions that are most frequently overlooked. For that reason, we have not hesitated to deal at length with various propositions that we are well aware will be regarded by some readers as tiresome platitudes. That the world can consume, in the long run, no more than it produces; that standards of living depend on sustained production; that production cannot be sustained at a high level without a medium of exchange; that gold is the most satisfactory basis for a medium of exchange; that central banks should be free from political pressure; that monetary reforms are impossible as long as governments meet their deficits by printing money; that sharp fluctuations in price-levels lead to disastrous results; that competition among consumers rather than governments should control prices and production: these are among the commonplaces of sound thinking that the war-wracked world of to-day disregards to its sorrow.

"The money fallacy," said Simon Newcomb, many years ago, "is periodic, overwhelming us, not at regular intervals, but from time to time, owing to the influence of changing events. The Americans, more than any other people, have been its victims." And now, as a natural aftermath of a world war, we are beset on every hand with proposals for reforming the entire economic order. Most of them blithely ignore what money does, and just as blithely assume that money does, or can be made to do, what it cannot possibly do. To offer another panacea for social ills is no part of our purpose. This is fair warning. The reader who is bold enough to venture beyond this preface into the discussion of a subject that has long been regarded as one of the dullest parts of "the dismal science" will do well to heed this warning. Otherwise, after reading all that the volume offers, he may cry impatiently:

"Well, if all this is true of a money economy, have you nothing more to offer by way of constructive proposals?" In subsequent studies, based in part upon this volume, the Pollak Foundation expects to have something to say in answer to that question. It hopes thereby to be of some help, at least, to the various economic agencies, happily increasing in number, that are now endeavoring, on the safe basis of fact and reason rather than on the hopeless basis of prejudice and passion, to hasten the day when money — with its purchasing power protected against excessive fluctuations — will do more to promote and less to hinder the work of the world.

The following pages, however, are only introductory — an indispensable groundwork, we believe, but nothing more. It goes without saying that a discussion of all aspects of the topics we have touched upon — the rate of interest, the function of price, the circuit velocity of money, to go no further — would take us far beyond the confines of this volume. Here we have dealt only with some of the larger aspects of monetary phenomena, the significance of which appears to be overlooked at times in discussions of business problems and reform programs. Later on, we may discuss certain refinements and qualifications.

For the present, we shall be content if the reader agrees with us that all proposals for changes in the established order, no matter from what source they arise, must be discussed in the light of the characteristics here outlined of an industrial society based upon the exchange of goods and services for money. This much is fundamental. In so far as our exposition is erroneous, it must be corrected; but in so far as it is sound, it must be accepted as the admitted matter upon which constructive programs will have to be based. If all reformers proceeded from such safe ground — if they were wise enough to distinguish what they know from what they do not know, and to insist on knowing how things really are, and why they are as they are, before launching a campaign for changing them — the world would be spared much strife and false accusation and bitterness and wasted effort.

The authors are grateful to all those who have read parts of the manuscript. Especially helpful have been the frequent criticisms by Hudson B. Hastings of the Pollak Foundation, and the suggestions offered, from time to time, by Irving Fisher, Wesley C. Mitchell, Gilbert H. Montague, Malcolm C. Rorty, John E. Rovensky, Martin J. Shugrue, Carl Snyder, O. M. W. Sprague, and Paul M. Warburg. Particular acknowledgment should be made of the indispensable services of Edith McDonald of the Pollak Foundation. Some of the chapters are in part reprinted, with the kind permission of the publishers, from papers that appeared during 1922 in the *Atlantic Monthly*, the *American Economic Review*, the *Annalist*, and *The Saturday Evening Post.*

As footnotes, "like little dogs barking at the text," annoy many readers, we have corralled all the little dogs in the Appendix, where they can be found easily enough by any one who wants them.

William Trufant Foster
Waddill Catchings

Newton, Massachusetts
January 1, 1923

CONTENTS

LIST OF FIGURES

INDEX

CHECKED
20C 3-04

X61 FG 7120
Foster & Catchings
MONEY

SERVANTS OF INDIA SOCIETY'S LIBRARY
POONA 4.

1. Books taken from the Library may not be retained for more than a fortnight.

2. Borrowers will be held strictly responsible for any damage done to books while the books are in their possession.