

CAMBRIDGE ECONOMIC HANDBOOKS

Money

by D. H. ROBERTSON

A model of economic writing
and the best basic survey of the
economic role of money

CEH 5 \$1.75

F820.08
~~RDH~~
E602



8390737

BY D. H. ROBERTSON

MONEY



T8390737

THE UNIVERSITY OF CHICAGO PRESS

Library of Congress Catalog Card Number: 59-9825

Published by The University of Chicago Press in association with
James Nisbet & Co. Ltd. and The Cambridge University Press

The University of Chicago Press, Chicago 37
James Nisbet & Co. Ltd., Digswell Place, Welwyn, England
The Macmillan Company of Canada, Ltd., Toronto 2

Copyright 1922, 1929 by Harcourt, Brace & Co., Inc.
Copyright 1957 by D. H. Robertson. All rights reserved
Third Impression 1964. Printed by The University of Chicago Press
Chicago, Illinois, U.S.A.

3146

CAMBRIDGE ECONOMIC HANDBOOKS

Edited by

C. W. GUILLEBAUD, *St. John's College, Cambridge*

and

MILTON FRIEDMAN, *University of Chicago*

Initiated by the late John Maynard Keynes and continued under the successive editorships of D. H. Robertson and C. W. Guillebaud, the Cambridge Economic Handbooks are, in Lord Keynes's words, "intended to convey to the ordinary reader and to the uninitiated student some conception of the general principles of thought which economists now apply to economic problems." The series is now edited jointly by Mr. Guillebaud and Mr. Friedman in order to bring the best American as well as British economic thinking to bear on the major problems of economics in both countries.

The Economics of Under-developed Countries

By PETER T. BAUER *and* BASIL S. YAMEY

International Economics

By ROY F. HARROD

Supply and Demand

By HUBERT HENDERSON

The Business Cycle

By R. C. O. MATTHEWS

Money

By D. H. ROBERTSON

The Structure of Competitive Industry

By E. A. G. ROBINSON

The Economics of Trade Unions

By ALBERT REES



美国友好书刊基金会 惠赠

INTRODUCTION

TO THE CAMBRIDGE ECONOMIC HANDBOOKS

BY THE GENERAL EDITORS

SOON after the war of 1914-18 there seemed to be a place for a series of short introductory handbooks, 'intended to convey to the ordinary reader and to the uninitiated student some conception of the general principles of thought which economists now apply to economic problems'.

This Series was planned and edited by the late Lord Keynes under the title 'Cambridge Economic Handbooks' and he wrote for it a General Editorial Introduction of which the words quoted above formed part. In 1936 Keynes handed over the editorship of the Series to Mr. D. H. Robertson, who held it till 1946, when he was succeeded by Mr. C. W. Guillebaud.

It was symptomatic of the changes which had been taking place in the inter-war period in the development of economics, changes associated in a considerable measure with the work and influence of Keynes himself, that within a few years the text of part of the Editorial Introduction should have needed revision. In its original version the last paragraph of the Introduction ran as follows:

'Even on matters of principle there is not yet a complete unanimity of opinion amongst professional economists. Generally speaking, the writers of these volumes believe themselves to be orthodox members of the Cambridge School of Economics. At any rate, most of their ideas about the subject, and even their prejudices, are traceable to the contact they have enjoyed with the writings and lectures of the two economists who have chiefly influenced Cambridge

thought for the past fifty years, Dr. Marshall and Professor Pigou.'

Keynes later amended this concluding paragraph to read:

'Even on matters of principle there is not yet a complete unanimity of opinion amongst professional students of the subject. Immediately after the war (of 1914-18) daily economic events were of such a startling character as to divert attention from theoretical complexities. But today, economic science has recovered its wind. Traditional treatments and traditional solutions are being questioned, improved and revised. In the end this activity of research should clear up controversy. But for the moment controversy and doubt are increased. The writers of this Series must apologize to the general reader and to the beginner if many parts of their subject have not yet reached to a degree of certainty and lucidity which would make them easy and straightforward reading.'

Many though by no means all the controversies which Keynes had in mind when he penned these words have since been resolved. The new ideas and new criticisms, which then seemed to threaten to overturn the old orthodoxy, have, in the outcome, been absorbed within it and have served rather to strengthen and deepen it, by adding needed modifications and changing emphasis, and by introducing an altered and on the whole more precise terminology. The undergrowth which for a time concealed that main stream of economic thought to which Keynes referred in his initial comment and to which he contributed so greatly has by now been largely cleared away so that there is again a large measure of agreement among economists of all countries on the fundamental theoretical aspects of their subject.

This agreement on economic analysis is accompanied by wide divergence of views on questions of economic policy. These reflect both different estimates of the quantitative importance of one or another of the conflicting forces involved

in any prediction about the consequences of a policy measure and different value judgments about the desirability of the predicted outcome. It still remains as true today as it was when Keynes wrote that—to quote once more from his Introduction:

‘The Theory of Economics does not furnish a body of settled conclusions immediately applicable to policy. It is a method rather than a doctrine, an apparatus of the mind, a technique of thinking, which helps its possessor to draw correct conclusions.’

This method, while in one sense eternally the same, is in another ever changing. It is continually being applied to new problems raised by the continual shifts in policy views. This is reflected in the wide range of topics covered by the Cambridge Economic Handbooks already published, and in the continual emergence of new topics demanding coverage. Such a series as this should accordingly itself be a living entity, growing and adapting to the changing interests of the times, rather than a fixed number of essays on a set plan.

The wide welcome given to the Series has amply justified the judgment of its founder. Apart from its circulation in the British Empire, it has been published from the start in the United States of America, and translations of the principal volumes have appeared in a number of foreign languages.

The present change to joint Anglo-American editorship is designed to increase still further the usefulness of the Series by expanding the range of potential topics, authors and readers alike. It will succeed in its aim if it enables us to bring to a wide audience on both sides of the Atlantic lucid explanations and significant applications of ‘that technique of thinking’ which is the hallmark of economics as a science.

C. W. GUILLEBAUD
MILTON FRIEDMAN

April 1957

PREFACE TO THE FOURTH EDITION

THANKS, as I am constantly being informed, mainly to its chapter-headings, this book, in spite of not having been revised since 1928, still finds a market. I cannot allow this state of affairs to continue; but in view of all that has happened since 1928 I should find the book quite impossible to revise. I have therefore made no change in the old text except to introduce a needed refinement into the handling of one topic (the various meanings of 'the value of money') in Chapter II, and to cut out some little bits of specially dead wood (about index-numbers of prices) in the same chapter. But I have added two new chapters (IX and X), the one mainly narrative, the other more argumentative, in order to give the reader some idea of what has been going on, in the realms both of fact and of theory, since the book was last re-written. (The two new chapters are printed *after* the little symbolic appendices, so as to make it plain that the latter are part of the old book.)

It is important therefore that the reader who, in 1947 or later years, embarks on the book should realise clearly what he is doing. In the first eight chapters he will be looking at the world of 1928 through the eyes of 1928. He must not assume that all the statements of fact made in these chapters still hold good, or even that all of those which do not will be systematically corrected for him in Chapter IX. Nor must he assume that, if I were starting afresh, I should now invite him to approach the study of Money in exactly the same way. Provided this is understood, I venture to hope that the book will still be found to possess a certain measure of interest and usefulness. Anyway, there are still the chapter-headings—and two more of them.

In Chapter X I have made use of a few sentences which

formed part of a talk broadcast in May 1947 and printed in *The Listener*.

I append §§ 2 to 4 of the preface to the 1937 reprint of the 1928 edition.

* * * * *

§ 2. The book is intended to be a more or less self-contained unit: but it was also in its original form the second volume of a series. Its connection with its predecessor—Mr. Henderson's *Supply and Demand*—is to be found in the emphasis laid on the theory of money as a special case of the general theory of value. Its bearing upon the remainder of the series is to be found in the conclusion to which the book leads up, that Money is after all a subject of secondary importance, in the sense that neither the most revolutionary nor the 'soundest' monetary policy can be expected to provide a remedy for those strains and disharmonies whose roots lie deep in the present structure of industry, and perhaps in the very nature of man himself.

§ 3. This is a work of exposition and not of research. I have therefore availed myself freely, and (except on a few rather special points) without detailed acknowledgment, of the ideas and the labours of others. I owe a great debt to the standard writings of Marshall, Pigou, Cassel, Knapp, Irving Fisher, Hawtrey, Taussig and Withers: and on the subject matter of Chapter VI to the works of Gregory and Jack. The immeasurable debt which both the original and the 1928 editions of this book owed to Mr. J. M. Keynes has not been diminished by the lapse of time. I have made use of ideas and of a few passages contained in my *Banking Policy and the Price Level* and in a lecture on *Theories of Banking Policy* reprinted in *Economic Essays and Addresses* (both published by P. S. King & Son).

§ 4. When a conclusion previously reached is being used as the basis for a fresh argument, I have often been obliged, for

the sake of brevity, to content myself with a mere page-reference, instead of helping the reader by restating the conclusion at length. The reader who is irritated by these signposts is entitled to neglect them: but if he neglects them, he forfeits the right to complain that the new argument is putting too great a strain on his memory or his understanding. No reader is under any obligation to look at the two appendices.

D. H. R.

CAMBRIDGE,
May 1947

CONTENTS

CHAPTER I

THE MERITS AND DRAWBACKS OF MONEY

	PAGE
§ 1. Introductory	1
§ 2. A Definition of Money	2
§ 3. The Advantage of Money to the Consumer	3
§ 4. The Advantage of Money to the Producer	5
§ 5. The Monetary Veil over Lending and Saving	7
§ 6. Monetary Instability and the Distribution of Wealth	8
§ 7. Monetary Instability and the Creation of Wealth	10

CHAPTER II

THE VALUE OF MONEY

I. WHAT IS MEANT BY THE VALUE OF MONEY

§ 1. A Definition of the Value of Money	14
§ 2. Changes in the Value of Money	15
§ 3. Difficulties of Measurement	17
§ 4. Provisional Solution	20

II. HOW THE VALUE OF MONEY IS DETERMINED

§ 5. Resemblances between Money and Other Things	23
§ 6. Differences between Money and Other Things	25
§ 7. The Public's Demand for Money	28
§ 8. Money Sitting and Money on the Wing	30
§ 9. Problems Ahead	31

CHAPTER III

THE QUANTITY OF MONEY

I. THE KINDS OF MONEY

	PAGE
§ 1. Bank Money and Common Money: Legal Tender, Optional and Subsidiary Money	34
§ 2. Convertible and Definitive Money	36
§ 3. Token and Full-bodied Money	38

II. THE QUANTITY OF BANK MONEY

§ 4. The Relation of Cheques to Deposits	40
§ 5. The Relation of Deposits to Reserves of Common Money	42
§ 6. The Magnitude of Bank Reserves	44
§ 7. The Relation of Deposits to Common Money outside Bank Reserves	48

III. THE QUANTITY OF COMMON MONEY

§ 8. The Relation of Convertible Common Money to Reserves	49
§ 9. The Composition of Reserves	52

CHAPTER IV

THE GOLD STANDARD

§ 1. The Gold Bullion and Gold Circulation Systems	53
§ 2. The Bimetallic and Limping Systems	55
§ 3. Foreign Exchange under Arbitrary Standards	57
§ 4. Foreign Exchange under a Gold Standard	61
§ 5. The Gold Exchange System	62
§ 6. The Value of Money and the Value of Gold	65
§ 7. The Value of Gold and its Cost of Production	67

CHAPTER V

MONEY AND SAVING

	PAGE
§ 1. A Preliminary View of Bank Loans	70
§ 2. The Continuity of Bank Loans	72
§ 3. The Imposition of Forced Saving	74
§ 4. The Conversion of Spontaneous Saving	77
§ 5. Bank Loans and Industrial Progress	80
§ 6. Bank Loans and the Needs of Trade	82
§ 7. Circulating Capital	85
§ 8. The Four Crucial Fractions	86

CHAPTER VI

MONEY IN THE GREAT MUDDLE

I. MONETARY COLLAPSE

§ 1. The Causes of the Expansion of Money Supplies	90
§ 2. The Expansion of Bank Money in England	92
§ 3. The Expansion of Common Money in England	94
§ 4. The Inter-reactions of the Conditions of Demand for and Supply of Money	97
§ 5. The Misbehaviour of the Foreign Exchanges	99
§ 6. The Divergence between Internal and External Price- levels	100

II. MONETARY RESTORATION

§ 7. The Pinning of the Exchanges	102
§ 8. The Machinery of Stabilisation	104
§ 9. The Effects of Stabilisation on Industry	107
§ 10. The Aftermath of Stabilisation	109

CHAPTER VII

THE QUESTION OF THE STANDARD

§ 1. The Case for a Price-level Varying Inversely with Productive Power	111
§ 2. The Case for a Gently Rising Price-level	114

	PAGE
§ 3. The Case against the Gold Standard	116
§ 4. The Case for Conformity to a World Gold Standard	120
§ 5. The General Case for the Gold Standard	121
§ 6. The Control of the World Value of Gold	123
§ 7. The Case for Re-valuation of the Pound	124
§ 8. The Case against the Re-valuation of the Pound	126

CHAPTER VIII

THE QUESTION OF THE CYCLE

§ 1. Money in a Trade Boom	129
§ 2. The Mechanism of Control by the Central Bank	132
§ 3. The Stimulation of Saving	135
§ 4. The Qualitative Control of Bank Loans	138
§ 5. The Manipulation of the Rate of Interest	140
§ 6. The Rationing of Bank Loans	142
§ 7. The Need to Control Falling Prices	145
§ 8. Expedients for the Control of Falling Prices	147
§ 9. The Scope for Government Intervention	148
<i>Appendix A</i>	150
<i>Appendix B</i>	152

CHAPTER IX

MONEY IN THE SECOND GREAT MUDDLE

§ 1. The Great Slump	155
§ 2. The Scramble to Recovery	158
§ 3. The Morrow of War	161
§ 4. Changes in the Rules	162
§ 5. The New Monetary Club	166

CHAPTER X
PROBLEMS OF WORDS, THOUGHT AND ACTION

	PAGE
§ 1. Prices and Output	171
§ 2. Saving and Capital Outlay	173
§ 3. Hoarding and Dishoarding	178
§ 4. Depression and Stagnation	179
§ 5. The Rôle of Public Finance	181
§ 6. Monetary Policy and the Rate of Interest	183
§ 7. Monetary Policy and Money Wage Rates	186

CHAPTER I

THE MERITS AND DRAWBACKS OF MONEY

‘Crabs and all sorts of things,’ said the Sheep: ‘plenty of choice, only make up your mind. Now what *do* you want to buy?’

Through the Looking-glass

§ 1. **Introductory.** Money is not such a vital subject as is often supposed; nevertheless, it is an interesting and important branch of the study of economics. It is necessary for the economic student to try from the start to pierce the monetary veil in which most business transactions are shrouded, and to see what is happening in terms of real goods and services; indeed so far as possible he must try to penetrate further, and to see what is happening in terms of real sacrifices and satisfactions. But having done this he must return and examine the effects exercised upon the creation and distribution of real economic welfare by the twin facts that we do use the mechanism of money, and that we have learnt so imperfectly to control it.

The necessity for such an enquiry became especially obvious in the years immediately after the war, when the monetary systems of the world were thoroughly out of order. For a monetary system is like a liver: it does not take up very much of our thoughts when it goes right, but it attracts a deal of attention when it goes wrong. In those days almost everybody became acutely aware of the violent changes which were taking place in the purchasing power of money over the things which he wished to buy; and most people became also, though less vividly, aware of the violent changes which were taking place in the purchasing power of the money of their own countries over the money of other countries. We have now entered

calmer waters once more. The monetary problems of to-day are less spectacular than those of a few years ago: but they are not less intellectually interesting, nor is an understanding of them less necessary in order to clear the approach to those more vital questions of the creation and apportionment of real wealth with which the other volumes of this series are concerned.

§ 2. A Definition of Money. It is clearly desirable to arrive at an early understanding of what we mean by money. There is no very general agreement upon this point; but as with so many other economic terms, it does not matter very much what meaning we adopt as long as we stick to it, or at any rate do not change it without being aware that we are doing so. In this book, the term money will be used to denote anything which is widely accepted in payment for goods, or in discharge of other kinds of business obligation. If things which are intended to be money—the notes of certain Governments, for instance—cease to be widely accepted in discharge of obligations, they cease to function as money, and, from the point of view of the student at any rate, to *be* money. On the other hand, if things which have not been hitherto considered as money, such as tobacco or cattle or tins of bully-beef, become widely accepted in discharge of obligations, they become, in our present sense, money.¹

This property of being widely acceptable generally, though not always, involves another, namely, the property of being expressed in units, in terms of which it is common to reckon the value of all those goods and services which men are in the habit of exchanging with one another. This is what the text-books on money mean to convey when they say that money is not only a ‘medium of exchange’ but a ‘standard of value.’

¹ Of the beer in which in effect wages were partly paid in the Staffordshire coal-mines in the middle of the nineteenth century, a recent historian remarks: ‘This currency was very popular and highly liquid, but it was issued to excess and difficult to store.’ Fay, *Life and Labour in the Nineteenth Century*, p. 197.