



# WILEY

---

Review

Author(s): F. Y. Edgeworth

Review by: F. Y. Edgeworth

Source: *The Economic Journal*, Vol. 32, No. 128 (Dec., 1922), pp. 529-533

Published by: Wiley on behalf of the Royal Economic Society

Stable URL: <http://www.jstor.org/stable/2223437>

Accessed: 27-06-2016 07:44 UTC

---

Your use of the JSTOR archive indicates your acceptance of the Terms & Conditions of Use, available at

<http://about.jstor.org/terms>

JSTOR is a not-for-profit service that helps scholars, researchers, and students discover, use, and build upon a wide range of content in a trusted digital archive. We use information technology and tools to increase productivity and facilitate new forms of scholarship. For more information about JSTOR, please contact [support@jstor.org](mailto:support@jstor.org).



*Royal Economic Society*, *Wiley* are collaborating with JSTOR to digitize, preserve and extend access to  
*The Economic Journal*

*Die Lehre vom Gelde in der Wirtschaft* (eight chapters on the theory of money). By RICHARD KERSCHAGL. (Vienna : Manz, 1922. Pp. 64 gr. in 8°.)

THIS book, of which the first edition appeared in 1921, deals with the principles of monetary theory since 1800. The author seeks to explain questions of method in their historical order. One chapter deals with the Ricardian views and the quantity theory. Dr. K. believes that the theory of absolute value was the obstacle in the way of Ricardo's reaching a correct result as to the variations of the value of money. Next he gives an account of the monetary theories of Adam Müller, of Knapp, of Bendixen, of Wieser, who recognised the income problem as an important part of the problems in question, and of S. Gesell, the last a Socialist, not as well known as some parts of his writings—although mixed with blunders and error—would in Dr. Kerschagl's opinion deserve. K.'s own theory seems to be, that the development of money depends on the existence of clearing centres and of the growing importance of the modern state or of governmental administration as a centre of payments. The study of all these is difficult enough, and the explanation, how the "medium of exchange" has become "legal tender" is to be explained in a further book by the same author. An index of literature mentions the principal works about money during the last hundred years and the influence they have exerted on the methodical development of theoretical monetary problems.

E. SCHWIEDLAND

*Le papier-monnaie.* Par G. SUBERCASEAUX (Bibliothèque Internationale d'économie politique). (Paris : Girard. 1921. Pp. 446.)

*El sistema, monetario i la organización bancaria de Chile.* GUILLERMO SUBERCASEAUX. (Santiago de Chile : "Universo," 1921. Pp. 404.)

THE author of these volumes is a Professor in the University of Chile and a statesman who has played a great part in the monetary policy of that country. His twofold activities are reflected in his writings, which combine study of general principles

NN 2

with elaboration of practical details. The general theory of paper money is illustrated by concrete examples. The history and description of the Chilean monetary system is illuminated by reference to first principles.

In the first of the volumes before us the properties of an inconvertible currency are considered under three heads: the origin, life, and extinction of paper money. One of the commonest ways in which the phenomenon originates is through the permission given to Banks, on the occasion of some national crisis, not to cash their notes. Professor Subercaseaux tells once more the story of the English Bank Restriction. Other less familiar instances are furnished by Latin America, where paper money and national crises have abounded. The creation of a forced currency directly, rather than through the transformation of bank-notes, is illustrated by the fiscal notes which the Chilean Government issued on the outbreak of war with neighbouring States in 1879. Among the causes which our author passes in review he assigns a prominent position to the varying currents of popular opinion. As a specimen of the mentality which makes for paper currency, he cites a numerously signed petition which was presented to the Senate of the United States in 1775. "The troubles," so ran this document, "which afflicted the State were not to be cured by building up manufactures (or) by encouraging commerce." These were the things which made the troubles. The true panacea was paper-money. "From the very day on which the bills began to issue from the Treasury, the burden of taxes would grow lighter, debts be discharged with ease, arts and commerce flourish, and the faces of all men wear a contented expression." The partisans of paper-money in Latin America, the "papeleros," actuated by similar convictions, often prevailed; sometimes, when people were suffering from a surfeit of paper-money, the partisans of gold, the "oros," triumphed.

Confidence is essential to the life of paper currency. Given confidence, a currency declared to be eternally inconvertible may be maintained. In fact, however, such a declaration is not made, at least on the introduction of the currency. The importance of the "psychological factor" is illustrated by the case of Japan, where in 1869 the Government tried in vain to float the new paper currency by means of proclamations and penalties, and even the permission to pay taxes in the currency. But when they promised to redeem the notes in thirteen years, confidence was established, and the notes circulated. In this case

depreciation could not be attributed to excess in the quantity of notes issued; on the relation of which to the value of a money the author expresses a well-balanced judgment, assigning to experience and theory respectively their proper weights. He instances cases in which the increase of currency has not lowered the premium on gold, and cases in which the premium has fallen considerably without any reduction in the amount of the circulation. Still the increase in the quantity of money carries with it a tendency to depreciation. The multiplication of notes cannot go on indefinitely without the tendency coming into action, either directly or indirectly, by shaking confidence. It was not surprising that when (Spanish) Columbia increased her currency from three millions of piastres in 1886 to 800 million in 1900, the premium on gold should concomitantly rise from 35 per cent. to 10,000 per cent. We must pass over the explanation and exemplification of many important points in monetary science—the need of that *elasticity* which is proper to a convertible currency, the relation between the foreign exchanges and internal prices, and the rate at which depreciation is propagated to different markets.

One of the most important questions which arises is how to put an end to paper-money. Should we endeavour to restore the old par value of the paper; or, rather, having regard to the present value in gold of the paper unit, the “peso” in the case before us, shall we define the peso to consist of about that quantity of gold? Our author admits that the element of promise latent in almost all paper money is in favour of the former course. But the latter is demanded by economic expediency in order that the functions of money may be properly discharged. Professor Subercaseaux elucidates the question by reference to instances of “conversion” (from paper to gold) in Latin America and other countries. The experiences of Chile are shown in greater detail in the second volume, which we proceed to notice.

The history of the Chilean monetary system may be said to begin with the Spanish invasion; the traces of money among the primitive peoples in earlier times being insignificant. The evaluation of weights and measures used in the colonial period (under the rule of Spain) present difficulties of the kind which Thorold Rogers encountered in his history of prices. Interpreting these “hieroglyphics,” as our author well calls these obscure data, he obtains a measure of the purchasing power of money in past times. Here, for instance, are the materials

of an index number expressing the level of prices in 1913 compared with that of 1796

|  | 1796.       | 1913.        |
|--|-------------|--------------|
| Sugar ... ..                           | 100         | 25           |
| Rice ... ..                            | 100         | 25           |
| Certain cotton goods ( <i>Tocuyo</i> ) | 100         | 24           |
| Baize ... ..                           | 100         | 39           |
| Woollen cloth ... ..                   | 100         | 45           |
| Wheat ... ..                           | 100         | 187          |
| Barley ... ..                          | 100         | 185          |
| French Beans... ..                     | 100         | 288          |
| Beef ( <i>Animal vacuno</i> ) ...      | 100         | 373          |
| Mutton ( <i>Oveja</i> ) ... ..         | 100         | 807          |
| <b>Totals ... ..</b>                   | <b>1000</b> | <b>1,998</b> |
| <b>Index number ... ..</b>             | <b>100</b>  | <b>200</b>   |

We have purposely rearranged Professor Subercaseaux's data so as to bring out the circumstance that the relative prices fall into two groups of very different types; the median of the first five relative prices being 25, of the last five 288. The divergence corresponds to the classical theory that prices of manufactured articles and articles of which the import has been facilitated, tend to fall in comparison with the products which are more nearly raw materials.

The difficulty of interpreting the early monetary history of Chile is aggravated by the prevalence of a bimetallic system with ratio varying from time to time. When one of the metals was under-valued by the authorized ratio it would tend to disappear from circulation. There thus resulted a dearth of currency; one of the circumstances which our author enumerates among the conditions favouring the introduction of paper money. It is therefore remarkable that this substitute for coin should be so late in making its appearance in Chile. Even convertible bank-notes did not flourish there till the middle of the nineteenth century. Our author severely criticises the liberty of emission permitted to the banks at this period. An arrangement unsuited to the circumstances of Chile was fostered by the doctrinaire teaching of Courcelle-Seneuil, if we rightly interpret our author's reference to his distinguished predecessor in the Chair of Political Economy at the University of Chile. The rising generation of statesmen were diverted by that teaching from "the positive observation of the circumstances of economic life" which ought to be, says our Professor, "the leading guides in political economy in general, and especially in Banking." The convertibility of bank-notes was temporarily suspended in 1865 on the outbreak of war with Spain. But it was not

till 1878 that in consequence of war or rumours of war paper money came to stay in Chile. The subsequent attempts to throw off the disease and the continual relapse are graphically described. Very impressive is the picture of the evils attending the use of paper money which Professor Subercaseaux presented in a speech delivered to the National Congress in 1912. Subsequently he served on a Commission appointed to advise on reforms in Currency and Banking. The report drawn up by the Professor recommended the conversion of the paper money at (or in the neighbourhood of) ten gold pennies for the peso, the then prevailing rate of exchange. The measure might have been carried but for the outbreak of the Great War. Chile flourished during the War owing to the demand for her nitrate products to make explosives. The foreign exchange rose high above par; and it might be hoped that cash payments could be resumed at par, with the peso equated to eighteen gold pennies. But the demand for explosives fell off with the cessation of hostilities, and the exchanges had sunk by 1919 to a figure corresponding to about twelve gold pennies for the peso. Such was the position when Professor Subercaseaux was appointed Minister of Finance (*Hacienda*). In accordance with the principles laid down in his treatise he proposed to convert the paper money at about the prevailing rate. There were also salutary provisions about Banking, based on a part of our author's studies which we have not had space enough to notice. But the Bill was defeated by unscrupulous obstruction. Ignorance and sinister interests triumphed over knowledge and wisdom.

F. Y. EDGEWORTH

*Trusts in British Industry, 1914-21: A Study of Recent Developments in Business Organisation.* By J. MORGAN REES, M.A., Lecturer in Economics and Political Science, University College of Wales, Aberystwyth. (P. S. King & Son, Ltd. 1922. Pp. viii + 269. Price 10s. 6d. net.)

WHILE this book contains some original material, it is in the main built up out of the reports issued by the Sub-Committees appointed by the Standing Committee on Trusts and the Standing Committee on the Investigation of Prices under the Profiteering Acts, 1919 and 1920. Mr. Morgan Rees has had the opportunity of performing a very useful service to students by reducing these reports to a reasonable size and presenting them in an easily