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Review of J. A. Hobson, *Gold, Prices and Wages*

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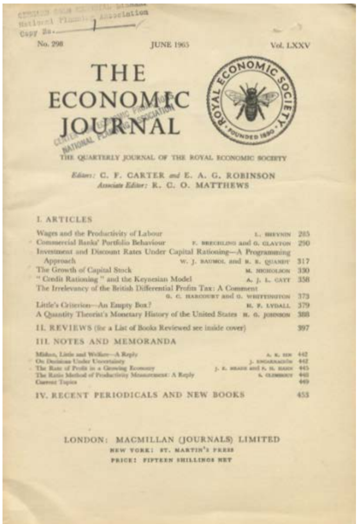

Gold, Prices, and Wages. By J. A. HOBSON. (London: Methuen. 1913. Pp. xi+181. 3*s.* 6*d.* net.)

ONE comes to a new book by Mr. Hobson with mixed feelings, in hope of stimulating ideas and of some fruitful criticisms of orthodoxy from an independent and individual standpoint, but expectant also of much sophistry, misunderstanding, and perverse thought. In some of his books the first elements greatly predominate. In his latest work now before us, the latter prevail almost throughout. The book is a very bad one, made much worse than a really stupid book could be, by exactly those characteristics of cleverness and intermittent reasonableness which have borne good fruit in the past. I will endeavour to elucidate his main contentions.

Mr. Hobson begins by distinguishing the different sources of the supply of money—*new* gold from the mines, *additional* credit from the bankers, and money "derived from prior acts of sale." If all money were derived from prior acts of sale, the aggregate receipts would rise and fall with these acts of sale, and therefore prices must remain stable. This would be the case with a stationary community or with one "growing in such a way that it did not shift the proportion of its demand for different classes of goods." If that is to say no new gold were to be mined and no new credit created by bankers, but we were all to produce, buy, and consume double (say) of what we do now, then prices, according to Mr. Hobson, would remain stable. "The only way in which prices could change in a community where money was entirely derived from previous receipts would be . . . if a larger proportion of money were directed to buying goods whose production conformed to the so-called law of diminishing returns," and conversely. What is one to say to such an argument? It sounds like a parody of economic reasoning; the words have, in a way, the right sort of jingle to the ear, but the mind is left at a loss.

Mr. Hobson seems to be content with this conclusion for its own sake, and does not make much use of it. He passes on to prove that the gold produced during the last fifteen years cannot have had any appreciable influence in raising prices. Since the net income of the British nation is about £2,000,000,000, we may estimate the gross turnover at £10,000,000,000. The gross turnover of this country cannot be more than one-tenth of that of the world. "This would give £100,000,000,000 as the quantity of money operative for a year. To this sum there has been added (annually) from an extraneous source the gross income of the gold mines, an amount of £67,000,000. The gross income from gold-mining will have precisely the same amount of influence on general prices as the same gross income got from the textile or metal industries. The effect would be an increase of the aggregate quantity of money to the extent of $\frac{67}{100000}$. The influence upon prices would thus be considerably less than $\frac{1}{1000}$ or $\frac{1}{10}$ per cent. The actual influence of this addition to money in raising prices would, of course, be much less, if allowance were made for the increase of goods which has been going on." It seems almost incredible that Mr. Hobson should have convinced himself by such an argument. It appears to be based on the assumption that no new coin can be used more than once; but it depends, I think, in Mr. Hobson's mind on an earlier and rather obscure argument that new money only influences prices the *first* time it changes hands.

Mr. Hobson turns next to the confutation of the theory "that an increased supply of gold somehow will necessarily expand the volume of credit which is said to be based upon it, and therefore enhances proportionately the entire volume of purchasing power." If the theory were true, we should find, now that prices have risen, Mr. Hobson says, a lower average rate of discount than formerly, and a larger accumulation of gold in the reserves of banks. Of course, the average rate of discount has risen and not fallen, but Mr. Hobson must know very well that the adherents of the theory he is disputing maintain, not that the *average* rate of discount must fall, but that new gold in bank reserves has the temporary effect of making the rate lower *than it would otherwise have been*—for he quotes the relevant passage from Dr. Marshall's evidence before the Gold and Silver Commission some pages further on, and points out himself that the rise in the average rate of discount is mainly due to the greatly increased demands for capital in new countries. Mr. Hobson goes on to deny the second indication, namely, the accumulation of gold in the reserves of banks, basing his conclusion on the amount of gold in the *issue department* of the Bank of England (not even on the Bank's reserve, and in spite of his own statement—p. 80—that there have been considerable new accumulations of gold in the reserves of English Joint Stock Banks), and slips on two pages later (p. 43) to apply this conclusion to "other European countries," although, since he himself gives a table setting forth the contrary on p. 46, he must well know that this is not the case.

But having thus disposed of the orthodox contention and greatly belittled the part played by gold in the raising of prices and the manufacture of credit, Mr. Hobson seems to come back to a position very little removed from that which he has demolished and hardly consistent with the weapons he has lately used. "Gold is not," he now maintains, "the chief efficient cause or stimulus of the enlarged credit, but it is, or may be, an essential or at least a facilitating condition of its production." "Had there been," he admits on p. 61, "a constriction of the gold supply and bank reserves been low, the price of money would have been higher than it has been, the aggregate amount of borrowing less, the subsequent demand for goods reduced, and the rise of prices correspondingly less." If Mr. Hobson merely wishes to deny that the new gold has been "an efficient cause" of higher prices, while admitting that it has been a necessary condition of them, his earlier arguments have proved too much.

Whether the new gold has been a necessary or only a favouring condition to the manufacture of new credit, Mr. Hobson sees the main explanation of the increased credit elsewhere, namely, in the greatly increased volume, chiefly arising out of the borrowings of Governments, municipalities, and railways in new countries, of "stocks and shares and other certificates of value." "All such modern saving can furnish material for the creation of more credit." The argument he bases on this is founded on two very old confusions, which always have been and probably always will be made by certain types of mind having, as it were, a natural affinity to this way of thinking. The first is between the volume of credit (measured in terms of goods) and the value of credit (measured in terms of money). If credit, Mr. Hobson argues, is based on actual goods, and every piece of wealth carries with it "a credit-note representing its present value," how can it ever become redundant? "Each specific piece of wealth would have a corresponding token of general wealth attached to it. That token could be used for general purposes of purchase, its recipient holding a claim upon the general wealth into which the specific piece of wealth will be convertible. The volume of credit would evidently expand or contract with the expansion or contraction of the value of the goods which command it, and the notion of an excess or deficiency of 'money' would be meaningless." This is newly transmuted. But can we not hear in the distance the voice of Mirabeau urging on the National Assembly the issue of assignats?—"Paper money, we are told, will become superabundant. Of what paper do you speak? If of a paper without a solid basis, undoubtedly; if of one based on the firm foundation of landed property, never. Reabsorbed progressively in the purchase of the national domains, this paper money can never become redundant, any more than the humidity of the atmosphere can become excessive, which descends in rills, finds the river, and is at length lost in the mighty ocean."

The second confusion, of which I spoke above, is between the two senses of the word "credit," the sense in which it stands for the method by which the control of liquid wealth is temporarily transferred from those who have less need of it to those who have more, and the sense in which it stands for methods of making payments and effecting exchanges without the use of actual coin. There is, of course, no necessary connection whatever between these two. If a bank receives money from depositors and then lends it out again to borrowers against suitable security, the use of coin as a medium of exchange is in no wise diminished and prices, directly at any rate, in no degree affected. Only when a bank passes to its other function and creates notes, bills, or cheques as a means of effecting exchanges, does the influence on prices come in. Mr. Hobson has muddled up the two senses to the extremest point conceivable, and ascribes to causes which have facilitated the development of the first function results which could only arise out of the development of the second. No doubt the creation of suitable security, due to the opening up of new countries, has greatly developed the mechanism of credit in the first sense. But I doubt whether the development in these new countries of credit in the second sense, though considerable, has kept pace with the growth of business and the demand for media of exchange in these same new countries. If, therefore, gold had been mined at the same rate as in recent years, and new countries had *not* been developed as they have been, prices would, I expect, have been appreciably higher than they actually are. The development of South America, for example, since credit in the second sense is less perfectly developed there than in Europe, has retarded the rise of prices, not, as Mr. Hobson argues, hastened it, by affording a fresh source of demand for large quantities of gold. I am inclined to think, therefore, that his main practical conclusion is exactly opposite to the truth.

There are numerous other points of detail which might be worth dealing with if this review were not already so long. I will catalogue some of them :—The confusion of borrowers, who are mainly the entrepreneur class and the holders of ordinary shares, with the poorer part of the community (p. 116); the view that "the increasing proportion of the energy of modern nations that is applied to the distributive, as distinguished from the productive, trades" tends to raise prices (based on the eternal fallacy that only the latter are *truly* productive); the opinion that a rapid introduction of improved industrial methods is socially wasteful because it involves the scrapping of the older plant; and the theory that the rate of interest and the level of prices are but two faces of the same phenomenon, since one is the hire-price and the other the purchase-price of money. This last point deserves a little more attention. "It would be impossible to conceive," Mr. Hobson writes, "the general price for houses to be rising over a period of years while the rents of these houses were falling." This is so, apparently, because "if motor-cars become cheaper to buy, we know they will become cheaper to hire." Since the rate of interest has risen while the purchasing power of money has fallen, we have a paradox to explain. Mr. Hobson is led to the view that "money has not really a sale-price at all." For the extraordinary theory he builds on this, the reader must be referred to his last chapter.

Belonging to no one race or age more than another, there lives an intellectually solitary race of beings who by some natural prompting of the soul think about monetary theory in certain specific, definite ways, superstitious or delusive, mystically, not materially, true, if true at all. All of these will find their natural instincts expressed here in forms more plausible-topical than they can usually shape themselves. Mr. Hobson has given us the Mythology of Money,—intellectualised, brought up to journalistic date, most subtly interlarded (and this is how it differs from the rest) with temporary concessions to reason.

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