ROUTLEDGE REVIVALS

Gold, Prices and Wages

With an Examination of the Quantity Theory

J. A. Hobson

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BY THE SAME AUTHOR

THE INDUSTRIAL SYSTEM
INTERNATIONAL TRADE
PROBLEMS OF POVERTY
THE PROBLEM OF THE UNEMPLOYED

GOLD, PRICES & WAGES

WITH AN EXAMINATION OF THE QUANTITY THEORY

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J.A.HOBSON

WITH TWO DIAGRAMS

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PREFACE

THE current rise of prices is an exceedingly attractive problem for two reasons. The first is its intellectual toughness and intricacy. For though a great deal has been said and written on price-movements during the last hundred years, it cannot be said that anyone has explained in a really satisfactory way why and how prices move.

The other attraction is the enormous practical importance of the problem. Never has this been clearer than at the present time. For whatever other causes contribute to the 'social unrest' from which most nations are suffering, it seems certain that the rise of prices has acted everywhere as a main source of irritation.

Both these attractions led me to the inquiry which forms the subject of these chapters. It was not with the hope of reaching a complete solution that I entered it. Nor do I claim to have reached one. But the confident assertion of some economists and business men that the problem was in reality a quite simple one, the rise of prices being evidently due to the enlarged output of gold in recent years, had never seemed satisfactory to me. I therefore decided to try to work out the problem afresh, testing the chain of causation connecting gold with prices, and bringing under survey certain other industrial and financial factors which seemed relevant to the issue.

Accepting at the outset the self-evident proposition that a rise of prices means an increase in the quantity of money paid for goods greater than the increase in the quantity of goods, I divided my inquiry into two sections. The first section concerned itself with possible causes of the acceleration of the supply of money: the second with possible causes of the retardation of the supply of goods. For a rise of prices may evidently be brought about in either of these two ways, or in both.

My investigation into the supply of money confirms the view that an acceleration of purchasing power is a large factor in the rise of prices. But the acceleration of purchasing power is not directly attributable to the increased output of gold. The influence of gold, either as coin, or as a support of credit, is much smaller than has been represented. The great extension of bank credit, which constitutes the acceleration of supply of money, is primarily due to three causes. Two of them relate to its supply, one to its demand. The rapid enlargement of enterprises in various countries, undertaken by states and municipalities, and accompanied by an equally rapid development of joint stock companies, has enabled a largely increasing proportion of property to figure as security for bank credit. Along with this movement has gone a wide extension of banking and of general financial apparatus. Thus there has been a great growth in those forms of wealth which are the real basis of credit and in the machinery which manufactures credit. So much for the means of supply.

A great demand for credit has coincided with this enlargement of the means of its supply. The chief factor in the enlarged demand has been the opening up of new large profitable fields of investment for the development of new or backward countries, chiefly in America. This demand for developmental capital has raised the rate of interest and profits, stimulated a full use of the new potential supply of credit, and has been a principal direct agent in the rise of prices.

The quite recent growth of facilities for credit explains the acceleration of supply of money. But since a large use of credit promotes industry, it might appear that the accelerated supply of money should be attended by a corresponding acceleration of supply of goods. In such an event there could have been no rise of prices.

An investigation into the industrial or goods side of the problem shows, however, that the growth of supply of goods, though doubtless considerable, has been much slower than the growth of credit. This is explained partly by the above-mentioned change of business structure, which has enlarged the proportion of existing wealth available as basis for credit. But other causes have directly assisted to retard production, especially the vast unproductive expenditure of modern states, the increasing wastage involved in the competitive distribution of modern commerce, and last, but not least, the temporary stress which the new investment policy has laid upon those industrial operations throughout the world which conform to the so-called law of diminishing returns. When the full fruits of the development of South America and Canada are reaped, the acceleration of supply of goods may be found to balance or outweigh the further growth of the supply of credit, and prices may cease to rise, or even fall.

Meanwhile, the counterplay of these two sets of forces, the one expanding the production of credit, the other checking the production of goods, seems to give the best explanation of the current rise of prices. The part played by the enlarged output of gold is a useful though a minor one. It has facilitated the operation of the forces stimulating credit, by furnishing the larger gold reserves which, though to a diminishing extent, are still required to maintain the easy currency of credit-notes. It is a condition, but not a chief efficient cause of the acceleration of supply of credit.

In a concluding chapter I reconsider ‘the quantity theory of money,’ adducing reasons for holding that, when it passes beyond the status of a self-evident proposition, and asserts the determination of prices by gold supply, it is erroneous. Discussing the paradox of the divergence between the hire-price and the purchase-price of money, I urge as a solution the view that all forms of money in their circulation are hired instruments of the exchange of commodities, the passing holders of which pay a hire-price for the single service of exchange which they require, not being concerned with the actual value of the instrument employed.

Such are the principal conclusions to which the inquiry leads. Some of them seem tolerably certain, others tentative or dubious. I indicate them here in the preface in order that busy readers may make up their minds, before starting, whether it is worth while to follow a line of reasoning which introduces into the solution of the price problem so many considerations incapable of exact statistical measurement and, in some instances, highly speculative in their character and influence.

I desire, in conclusion, to express my deep indebtedness to Mr. F.W.Hirst and Sir George Paish for many valuable points of information and of criticism.

J.A.HOBSON

LONDON, *February* 1913

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