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The High Cost of Living, and Standardizing the Dollar.

BY DR. IRVING FISHER.*

AT a regular meeting of the Club, held on the 16th March, Dr. Fisher said:

Mr. Chairman and Gentlemen of the Canadian Club,— We are interested all over the world, not only in the cost of high living, but in the high cost of living: here is a question of fact at the outset which your Chairman has inadvertently raised: what the question really is. (Laughter.) My former master in political economy, Professor Sumner, one of the greatest men with whom I ever came in contact, said: Whenever you have any economic problem you should ask yourself four questions: first, what is it? Second, why is it? Third, what of it? And fourth, what are you going to do about it? And so I will take up these four questions with regard to this great world problem of the high cost of living: what are the facts? What are the causes? What are the evils? And what are the remedies?

Now as to the facts: is it a problem of the high cost of living, or is it a problem of the cost of high living? Mr. J. Hill, who I think is well known in Canada, suggested a couple of years ago that we were not suffering from the high cost of living, but from the cost of high living, and the phrase has been caught up until it is quite natural that we should confuse the two. But what are the facts?

I remember, a couple of years ago, talking with one of the directors of the Deutsche Bank in Berlin, and he said, "It is not a question of things costing more; you can buy just as much for a mark to-day as you ever could; but it is a question of extravagance." And I said, "You think, with Mr. Hill, that it is the cost of high living." He was very much delighted that some one across the sea had suggested the phrase. But phrases are not facts, and the fact is, we

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are suffering from a higher cost of living than during the last fifteen years. These facts are well authenticated; you have them in this country assembled by Mr. Coats, of Ottawa, the Statistician of the Department of Labor, we find them gathered by our Department of Labor in the United States. The Board of Trade's official statistics show the same thing there; Sauerbeck, in London, finds the same thing; so it is in Germany, France, Belgium, Holland, Denmark, Austria, Italy, Australia, New Zealand, India, and Japan. Everywhere where the gold standard exists we find the prices of commodities have risen during the last fifteen years, and they have risen rapidly. In the United States and Canada the two movements have been so nearly alike that if you apply the curve showing the index number of prices made by our Department of Labor and yours these two curves so nearly coincide that it almost takes a microscope to separate them.

We find also a resemblance between the upward curves of prices in countries which have the gold standard, for which we have statistics, which suggests, if it does not prove, that there is a common cause.

I would like to go into the discussion of these four subjects outlined, the facts, the causes, the evils, and the remedies; but as I would very much like to have questions asked and objections raised to my particular remedy, I would like to concentrate attention to-day on that; therefore I will run briefly over the other three.

We may assume, therefore, so far as the facts are concerned, that the rise in prices in the last fifteen years has been about fifty per cent. It has been over 50% in Canada and the United States, and somewhat less than 50% in other countries, the lowest of the large countries being Great Britain.

What are the causes? This is one of the largest subjects, and I greatly regret that there is not time to go into all the reasons for the conclusions which I have reached; but if I may take the liberty of advertising one of my books, I would refer you to my "Purchasing Power of Money" for the statistical proof of the conclusions which I am going to state somewhat dogmatically.

According to my philosophy, which is nothing more than a restatement of well known first principles as laid down by Ricardo, the general rise in prices, as distinct from a rise of particular prices, such as the price of beef, must be due proximately to one or more of five causes, and only five: you may have prices rise because of an increase in the amount of money in circulation; you may have prices rise because of an

increase in the amount of substitutes for money in circulation, or deposits subject to cheque—what we call the money in the bank, but which every banker knows is not all there. (Laughter.) In the United States, for instance, we have something like eight and a quarter billion dollars of deposits subject to cheque, but the banks only have something like one and a half billion of dollars there; that is, the deposits are a big credit, which serve the purpose of money, but which are not literally money. Therefore the expansion of deposits subject to cheque will have the same effect on general prices as the expansion of money in circulation. Thirdly, prices may rise because of an increase in the velocity of circulation of money. And fourthly, prices may rise because of an increase in the velocity of deposits subject to cheque,—that is, what the banker calls a quickening in the activity of his accounts. Fifthly, you may have prices rise because of a decrease in the volume of trade, in the actual number of tons, pounds, yards, acres, etc., of goods exchanged.

Briefly, then, we may say that a rise in prices may be explained either on the one hand through monetary inflation, that is, an inflation of money or its substitutes or in the velocity of its circulation, or on the other hand through a decrease in the volume of goods exchanged. And the great question to-day is, Is our present rise in prices due to the inflation of the means of paying for goods, or to the contraction in volume of those goods themselves? Are we suffering from a superabundance of money and its substitutes, or are we suffering from scarcity of the good things of life?

But you say, "surely, the problem is not so simple as this! Surely it is due to many other things than these five." I reply, "Yes, but only so far as these other causes affect or work through one of these five." You have the rise in prices due to droughts, or to tariffs, to the concentration of population in cities, or migration from the country. We may have it due to a great many causes, but these cannot affect the general level of prices except as they would through one or other of the five causes first mentioned. There is the task before the statistician—to study the volume of money in circulation, and its velocity, the volume of substitutes for money in circulation, and their velocity, and the volume of trade.

I have endeavored for many years to collect statistics, and relying on these I make bold to say, that the rise in prices to-day is due to money and credit expansion, or in other words, to inflation. We are not suffering from impoverishment of goods—quite the opposite. Statistics show that the volume

of trade in the United States has increased during the past fifteen years 5.3 per cent. per annum, while the population has increased only 1½ per cent. per annum, showing that trade has outstripped population.

We hear a great deal of the fact of our farms being denuded of population, and that they are not producing so many bushels of wheat as formerly. These facts are misstated. Taking the last fifteen years as a whole, we find this in the United States, that the product of our farms has increased. True, during 1910 there was an exceptionally small production of the farms, compared with the exceptionally large production in the year 1900, when the former census was taken, which gives some people the impression that wheat production is falling off. But those two years were exceptional, one one way and one the other, so that there is an exaggerated contrast between the two. But take the intercensal statistics of agriculture as a whole, and the only question as to the productions of our soil—to say nothing of trade and other things entering into consumption—is as to how much they have increased.

Take the statistics of the International Institute of Agriculture at Rome, which has assembled the figures, so far as they are available, for all the agricultural countries in the world. We find the increase of the production of the soil is far outrunning the world's population. The average man is better off to-day than fifteen years ago: he has more bread; he has more clothing; he has more of almost everything. Of course, you can point to meat, or some other particular commodity, which is relatively scarce; but take things in the large, you cannot explain the rise in prices through a progressive scarcity of goods. On the other hand, we do find increased abundance of means of paying for goods. Money has increased very fast in the United States; it has increased very fast in almost all the civilized countries where the gold standard exists, and as a consequence of the great increase of gold production in Cripple Creek, in the Klondyke, and in South Africa.

Then, not only has money increased, and not only has its velocity increased, but deposits subject to cheque have increased still faster. In Canada the deposits held by the people in the banks have increased something like 12% per annum, and in the United States there has been an increase at the rate of 7½% per annum in deposits subject to cheque. In Germany, where they are just beginning to wake up to the advantages of banking, we find a very great increase,

something like 13%, in deposits subject to cheque. You can readily see, if my philosophy is correct, these facts will fit into it. To put it into the form of an equation, the money, multiplied by the velocity, plus the deposits multiplied by their velocity, will equal the price level, multiplied by the volume of trade. Almost every year we find by studying the statistics of this equation, an inflation of money and credit just enough to explain the facts which we have actually to explain; we find there has been an increase in price just exactly enough to keep pace with the increase in the money and deposits which would cause that effect.

Now, what are the evils. What is the real significance of this increase in the cost of living? To my mind, if the causes are monetary, the significance is monetary, the evils are monetary, and the cost of living problem is a problem of currency and banking. And by the way, I tried to make a rough forecast of what would happen in the next fifteen years, and I believe we have good reason to suppose that in the next fifteen years prices will rise very much as they have risen in the last fifteen years. I base that conclusion not simply on the fact that there is a great deal of gold still in sight in South Africa, but even as much on the frightful rate at which our deposits subject to cheque are increasing. When I say that, I do not mean that the banks are not performing an important service to trade. I was one of those who advocated the change in our banking system by which we will have eight or twelve central banks in the United States. I believe this would greatly outweigh the disadvantages. But it is unfortunate that this reform should take place just at the time when we are all suffering from a surfeit of the means of purchase of goods. As it is, this expansion of deposits, or deposit currency, will be superimposed upon the expansion already going on of a monetary kind. Consequently, although we shall reap the advantage in benefits from this reform, we shall aggravate for ourselves the cost of living. That is inevitable by reason of the expansion of banking going on all over the world. You will recognize that only in Anglo-Saxon countries is the bank book, the cheque book, used. In the United States 92 per cent. of transactions are performed by cheque; so in other Anglo-Saxon countries you will find something like this percentage. It does not hold true of France, or of Germany. If then expansion is still going on where they have already reached the limit, think of the tremendous, enormous room for expansion in the continent of Europe, in Japan, and elsewhere in those lands now waking up to the advantages of banking.

They are going to introduce the cheque book. However much good it may do in other ways, it will aggravate the evil of inflation, and tend to increase rapidly the rising prices all over the world. And then in the next two or three decades, when the continent of Europe will have perhaps in some degree caught up with the Anglo-Saxon nations in this regard, there will next be an expansion rapidly going forward in the Far East. Banking is being introduced in India, and will be introduced into other Oriental countries in the Occidental sense. So if there is the same tendency to increase the cost of living, while having a temporary slump due to contraction, the tendency will be to expansion, so in the next decade or two we may look forward to an increased rise of prices.

If it ever transpires that prices shall fall, we are simply jumping out of the frying pan into the fire, for a progressive fall of prices is just as injurious as a progressive rise. Many of you can remember a long period of falling prices, from 1873 to 1896. There was a proposal to inflate our currency with silver, and the "16 to 1" heresy held men's minds at that time. In other words, we were gradually waking up to the fact that we were suffering from a monetary cause, from inadequacy of the monetary means to pay for the goods to be exchanged. And not having a scientific remedy to propose, people got one of the most unscientific and harmful remedies that could be proposed. And I venture to predict, if the business men don't get some scientific treatment, we will find some unscientific treatment, which may be as hard to get rid of, as we found in the United States the free silver heresy.

The fact of high prices, not understood scientifically, is leading to bread and meat riots, discontent, and Socialism. A Socialist who recently spoke at a meeting at which I gave my views, said, "Professor Fisher, I know you are right, that this high cost of living has a monetary cause, but we let them think it is due to capitalists." Some day, business men will be sorry, when there is a violent revolution, if they do not take up and handle it in a scientific manner.

What are the evils? The evils are of distribution. We may sum them up in the phrase, a transfer of wealth and a gamble in wealth. During the last fifteen years a certain class have lost heavily, but their losses, in some individuals, have produced gains for others that did not belong to them. Those who have lost are the creditors and the creditor-like classes, namely, bondholders, savings bank depositors, salaried men—

some of us can speak feelingly on that subject—(Laughter)—and wage earners; and those who have gained are the stockholder, the independent producer, the farmer, the speculator, the plungers. There has been a subtle transfer of wealth from one great class to the other, but the net loss to society is the lack of certainty and the increased risk; we have become to-day, as it were, speculators in the dollar, speculators in gold. And the evil in every speculation is, that though someone is bound to win, the net effect of increased speculation is a loss.

The bondholder and the savings bank depositor has not been getting any increased income. This seems at first impossible. But consider the servant girl who put \$100 into the savings bank in 1896; to-day, if she has allowed it to accumulate interest, she has \$150, having accumulated 4 per cent. She says, "I have got 50 per cent. more than I had," but when she tries to spend that \$150, she finds that everything costs 50 per cent. more than it did in 1896—(Hear, hear)—therefore she gets for her \$150 only as much as she could have bought for \$100 fifteen years ago. Where is her interest? (Applause.) She has been unconsciously swindled out of her interest from depreciation of the dollar!

With the bondholder it is the same way. Suppose a bondholder owning \$100,000 of 4% bonds, he has been spending every year his \$4,000 of interest paid him on those bonds, and calling it income, but it was not income. One of the first principles of you business men is that you must first put back a depreciation fund to upkeep your principal. When we are talking in absolute units we must keep up the principal to real, not nominal, value. If a bondholder fifteen years ago had \$100,000 of principal, to-day he will also have \$100,000, but only two-thirds of this \$100,000 to-day is really worth the principal with which he started. If he had really kept up his principal, he would have had to put by a sinking fund every year to have accumulated the increased amount, so as to-day to have not \$100,000 but \$150,000 invested, to equal the principal of \$100,000 when he started. How much would he have had to put by each year out of his \$4,000 interest? Every cent!—it would have taken every cent to keep up the principal, so he has simply been eating up, and living on his principal every year. So I assert the creditor is robbed of his interest, if the interest is only 4% per annum; if it is more, he will get only the difference.

With the stockholder we find the opposite effect. During the Civil War we had a depreciation of paper money;

between 1860 and 1865 paper money depreciated until it was not worth more than about 40 cents as compared with its original purchasing power. What happened? The farmers in the West liked it, for those on farms which were mortgaged were paying off their mortgages in depreciated money, and these "disappeared like smoke;" they were getting the advantage, and at the expense of the creditors. During the past fifteen years the stockholder has been winning from the bondholder. He has been getting not only his dividends, but what belonged to the bondholder as interest. Consequently there is a new class of rich people. The people on Fifth Avenue are an entirely new set. These people have been unconsciously picking the pockets of other people,—and I use the word "pickpocket" in the highest sense. (Laughter.)

Now, gentlemen, this matter is of very considerable importance. It means there has been a transfer, a subtle transfer, from one set of pockets to another set of pockets during the last fifteen years, running into billions of dollars, due to lack of a stable monetary standard, due to the fact that our money is a fixed weight of gold; and gold will vary inevitably in purchasing power like any other commodity. There could not be any more unscientific yard stick of commerce than the gold dollar. I don't mean that the silver dollar would be any better, or that an iron dollar, or a tin dollar, or a platinum dollar, or a radium dollar. The one ideal dollar would not be dependent on one metal or one commodity, but one which represents the same average purchasing power over all things.

We got the gold standard by accident. Gold was selected because it was a convenient medium of exchange. Money in the early days served only that one function, of being a medium of exchange, but to-day it serves as standard of value, for life insurance companies, railways, banks, all sorts of relations where contracts are a feature. Leases are sometimes framed to run for a thousand years; but even if they ran but ten years the depreciation or appreciation of the dollar in the intervening time is of the utmost importance.

I think every business man should recognize that a standardized dollar is of first importance. We have standardized every other unit,—the yard stick, the measures of electricity, such as the ampere, the kilowatt, the volt, the ohm, etc. There is an international standard, everything except the dollar is standardized; and yet the dollar enters into every contract, whereas these other units only enter into some. What would

you think if the yard stick was not a standard measure? The yard was originally the girth of the chief of the tribe, it was called a gird; afterwards they took the length of the arm of Henry I.; then a stick was made, of a certain length of iron; then it was made of platinum. What would a business man think if the yard stick were the girth of the Governor-General of Canada, or the President of the United States? (Laughter.) Imagine some of you business men having made contracts to supply cloth, so many yards of cloth, which contracts were drawn before the 4th of March last—(Laughter)—I am a friend of Mr. Taft, and I voted for Mr. Wilson, and intend no derogation of either; but I think you will agree that there would be a depreciation in the yard stick! Well, that depreciation in the yard stick, if we had an unscientific yard stick, would affect only the cloth merchants; but the depreciation of the dollar affects every merchant. The dollar is on the other side of every contract. We have standardized the unit on the one side, but not that on the other!

My proposal, therefore, is this: to standardize the dollar, to do for money what we have done for every other magnitude, to have a unit of value that shall be a unit of *value*, of purchasing power, and not a unit of weight.

There are some shallow minds who have said that gold must have been selected because it is stable. Look, they say, at the mint price: £3 17s. 10½d. an ounce; or, in the United States and Canada it is \$18.60 an ounce 9-10 fine, or \$20.60 an ounce for pure gold. Does the constancy of the mint price prove there is any stability in gold? Not a bit!

I remember some months ago attempting to banter my dentist: with a very sober face I said to him: "I suppose you suffer from the high cost of living just as other people? Does it affect the price of gold?" He replied, "I do not know; I will look it up," and he asked his clerk to find out the prices of gold then and some years back. The clerk came back with a surprised look on her face, and said that the prices were the same to the last cent as fifteen years ago! I said, "Well, that is just about as surprising as that the price of a quart of milk is always two pints of milk!" (Laughter.) The dentist said, "I don't get your meaning." I answered, "You are measuring the price of gold in gold; you measure in ounces, the other man in dollars; which is simply another weight, that is all; one weight is called an ounce, another weight is called a dollar. The dollar is 1-19 of an ounce; so naturally it takes 19 dollars to equal an ounce. Therefore an ounce

of gold costs the same in dollars now as it used to, just as a quart of milk will always cost the same in pints." So the fact that the mint price is constant is no argument in favor of the stability of gold. (Applause.)

Some men have objected to the plan I am going to describe, saying it interferes with supply and demand, but the opposite is true. The plan we now have interferes with supply and demand. We have an enormous quantity of gold from South Africa flowing through the mints into the world; has that affected the price of gold? Not one cent! If you had increased the amount of tin, or of lead, or of any other metal like that, it would decrease the price enormously; but an increase in the production of gold does not influence the price of gold, because it is fixed by law. This will continue as long as we have a fixed weight of gold for the dollar. Since the increased supply of gold cannot decrease the price of gold, it takes revenge by increasing the cost of living. Since you can't decrease the price of gold in terms of which everything else is expressed, you increase the price of everything else in terms of gold as your alleged unit.

My proposal is this: turn the thing around; have gold affected by increased supply, just as everything else is; let the increased supply of gold reduce the price of gold, instead of increasing the cost of living. That amounts to the same thing as for the price of gold to be allowed to fall, as to say that the weight of the dollar is to be allowed to rise. We now have a dollar of fixed weight, and therefore of variable purchasing power. We should have a unit of fixed purchasing power, and therefore of variable weight. That is the proposition. We have now but a mockery of the standard, just as much a mockery as to have for a yard stick a stick that weighs a pound. Suppose we elaborately weighed the yard stick, and were to say that every stick that weighs a pound should be called a yard. It would make a great difference whether the stick were of hickory or of pine. For a dollar, we want a unit that buys just the same, we don't care what it weighs.

"But," you say, "how are you going to vary the weight?" I am not going to say change the weight of coins from time to time. The best way would be to get rid of the actual gold in circulation altogether, and have in Canada what we have in the United States and Canada, only paper, representing gold bullion. We have a gold certificate. There are a billion dollars in the United States Treasury to-day represented by a billion dollars of gold certificates. A bar weigh-

ing a thousand times 25 8-10 grains of gold is called a \$1,000 bar, and will always buy or sell for \$1,000. A man comes from the Klondyke with gold weighing that much,—he will get \$1,000 for it; and the jeweler can go to the Sub-Treasury and get back that bar for \$1,000.

I propose that the bar shall have a variable, not a fixed price. That price shall be not \$1,000 always; sometimes it will be \$990; in other words, the price of bullion shall be, not \$18.60 for all time and forever, but \$18.50 sometimes, \$18.30 sometimes; it shall vary back and forth.

"But," you ask, "are you going to leave a dangerous discretionary power with the Sub-Treasury officials,—to always name the price? No. We have an index number now;—you have a most excellent system gotten up by Mr. Coats. This index number of prices would be calculated from market prices by clerks, also without discretion. That is, the idea is simply to watch the prices of the market averaging them into an index number. Suppose between now and next month the Index Number should show 101 per cent.; that deviation of 1% above par would *ipso facto* be the signal for decreasing the price of gold by 1%. So the Sub-Treasury would always know what to do—follow the official Index Number. Therefore, in international relations all we would have to do would be to have the Powers fix on one Index Number for the world. The system would be introduced without a jar; individuals in commerce would not know there was any change, except that instead of great convulsions in prices, which cause discontent, and are the cause of the increased cost of living, this discontent in trade bringing on crises, we would be on even keel, the general level of prices would always be near 100 per cent., never varying more than one or two per cent., since as soon as it varies the correction is applied and it is brought back to par.

I have taken so much time in the preliminaries, I have not given any details. I would not like you to accept the proposal second hand, but I don't mind saying that where my proposal has been studied it has been almost universally accepted. Naturally the stand-patters of society are averse to making any improvement, even when it promises something good, but with that exception, there are really none who have studied it but have accepted it. President Wilson told me some time ago that my plan was entirely feasible. Sir David Barbour, largely responsible for introducing the gold exchange standard into India, one of the greatest steps forward in practical monetary science; Prof. F. Y. Edgeworth of All

Souls College, Oxford, England; J. M. Keynes, editor of the *Economic Journal*, London; Adolphe Landry, author and member of the French Chamber of Deputies, Paris; G. H. Knibbs, Commonwealth Statistician of Australia, are all endorsers of the plan which I have suggested for standardizing the monetary units. In this is the promise of a stable yard stick of commerce. The idea of stabilization is the important thing, not my particular method of producing stability. There may be many other ways of achieving stabilization and of standardizing the dollar. Whether my particular method or some other device is better, whichever we adopt does not matter, so long as we adopt a standardized dollar. It seems to me the idea of standardization should be in the bottom of the minds and hearts of all business men. For that reason I came to speak to you to-day, because it will not be through college professors and presidents, but only through the growing of the idea in the minds of business men that the standardization of the dollar will ultimately be brought about. Then, and not till then, shall we have a real standardization of the dollar." (Applause.)