Chapter 9

On the Nature of Measures of Value

The terms "measure" and "standard" refer to two different things. They designate two entirely different concepts. Confusion is made certain if they are used interchangeably in discussing money.

A measure is a device used to determine the weight, length, area, volume, capacity or value of anything. The devices used as measures are varied in the extreme. To measure length the device used may be a yard-stick; to measure grain, a bushel-basket.

In the case of measures of value, the device used is money. Money as a matter of fact is often defined as a measure of value. Dollars, pounds, francs, and marks are used to measure and determine the value of things being bought and sold.

A standard, on the other hand, is one specific measure—the so-called standard—accepted by common consent as exactly correct. Measures used as a standard are usually declared by law to be correct, though many which do not give rise to legal problems are devised by scientific authorities. Most standards are made out of something tangible which is unaffected by use, temperature, and anything else which might change its accuracy. They are devices really

devised for the purpose of measuring measures—for establishing the accuracy of an ordinary measure by determining the extent to which it conforms to the standard.

To provide a standard for the purpose of determining the accuracy of yard-sticks, the government has on deposit in a vault in Washington a platinum rod which it has declared the official and legal length of a yard. A rubber yard-stick which can be stretched will obviously not measure accurately. It can therefore be used to cheat—to say that a thing is a yard long when as a matter of fact it does not measure up to the length of the agreed upon standard yard.

The measures of value used today—the dollar, the pound, the franc, the mark—though accepted and used as measures of value, are like rubber yard-sticks. Their value or purchasing power fluctuates. The value of the dollar, for instance, as I write this in 1974, is shrinking at the rate of 10% a year. The dollar, therefore, though used as a measure of value is not a standard of value. Because of this it causes infinite mischief, and makes it possible to cheat those who accept and use it. Until there is some alternative monetary unit, like the one I called a constant in the Exeter experiment, which is in fact a standard because it does not fluctuate in value, dependence upon rubber-yard sticks like the dollar will continue.

So will cheating.

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In the history of mankind almost every imaginable thing has been used to provide such a standard. The Romans used cattle, the American Indians wampum, the French Revolutionists land. Frequently, but for a time only these worked. But they proved themselves to be measures of value, not standards of value. None of them, not even gold, provided what a world which had replaced barter with money really needed. Once the trade of the world was not only monetized but also commercialized, industrialized and internationalized, the need not only for measures of value but for a standard measure of value became crucial.

Or did it? Is there, or is there not, a real need for such a standard?

This is the real problem. It was at the heart of the Exeter experiment. And the most curious thing about the matter is that since Keynesianism took over at Bretton Woods, it is hardly exaggerating to say that the problem has been systematically evaded. Is a monetary standard such as I have here attempted to define really needed? Can "paper gold" be made to replace the gold standard by the fiat of the members of the IMF?

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In the course of monetary history—of monetary evolution or perhaps I should say of monetary desperation—all other solutions of this problem were eventually discarded in favor of the gold standard. The traditional mystique which made gold desirable and valuable to everybody everywhere was accepted. With gold at least everybody knew what he was talking about. Gold is valuable; it can be graded; it can be weighed. A gold standard has these virtues.

Unfortunately not even gold provides an invariant measure of value. No one commodity can. Gold fluctuates in value relative to other commodities. Europe discovered this when the Spanish Empire flooded it with gold from its American conquests. The United States discovered it when, with and without the gold standard, it was periodically afflicted with inflationary and sometimes deflationary depressions. Irving Fisher proved this in a little classic he called "Inflation", published in 1933.

The gold standard, as long as it is not only the standard but also as long as there is enough gold available, is a better solution of the problem than no solution at all. But it fails to provide what is really needed. For one thing, there doesn't seem to be enough gold to redeem the amount of money which needs to be issued for the normal requirements of business in the modern world. Even worse is the fact that

there is not only not enough gold but can never be enough to redeem all the money which governments find it politically profitable and speculator-dominated banks find it financially profitable to issue. As long as the public can be fooled, as long as the public will stand for it, this will continue.

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In what seems to me desperation, the IMF, led by Arthur J. Byrnes, the Chairman of the Federal Reserve Board and leading exponent of "paper gold", has turned to what I think of as a "fiat solution".

A Fiat is a command by which an apparently omnipotent power creates or constructs something out of nothing. As the term was used in speaking of fiat money by the 19th century economists, it meant paper-money declared by the government to be legal tender for the payment of debts, but which was not backed by gold, silver, or any other commodity, and which contained no promise of redemption other than, by implication, acceptance for taxes.

When fiat money replaces money backed by gold or silver, or something equally tangible, its backing is simply the ipse dixit of the government. The government can issue as much or as little as it wishes; it can issue it to pay its own debts and meet its own deficits; it can issue it for any purpose good or bad, of which the worst purpose is probably to finance speculative banking, speculative lending, and speculative exploitation. It can, in sum, issue it without regard to the normal needs of normal commercial transactions, without regard to the needs of "trade".

The fiat solution of the problem is simply the issue of fiat money—in practice the substitution of paper for gold, of "paper gold" for real gold.

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Since the United States went off the gold standard in 1933, (retaining it only internationally), and off the gold standard even internationally in 1971, the dollar has steadily shrunk in purchasing power. The Federal Reserve System which issues the dollar redeems it from what might be called a pool of debts, a pool in which government debts are the single biggest item. It pays off what it owes for its dollars simply with another debt. But the new dollars with which it pays off the old always have less purchasing power. They would have hardly any purchasing power at all but for the fact that the pool of debts from which it redeems them includes the commercial debts which commercial banks had previously discounted. Unfortunately, the ratio of government debts to real commercial debts in the pool is constantly increasing.

The situation of the IMF itself, as compared to each of the nations belonging to it, is much worse. Its pool of debts, which are called "special drawing rights", consists only of the debts or overdrafts of its member nations—nations every one of which is running a deficit and every one of which is actually if not legally bankrupt. Very properly these alleged assets of the IMF are called paper gold.

Since the abandonment by the IMF in 1971 of the pretense of gold redemption and the abandonment of all pretense of a standard for measuring values, the inflation of not only the dollar but all the currencies of the members of the IMF has become steadily worse and worse.

In every nation, prices rise no matter how great its prosperity, no matter how much it is producing, no matter how completely everybody is employed, and no matter how much the gross national product is increased. But even more mysteriously, prices continue to rise when unemployment is high, when there is a surplus of goods, and when depression replaces prosperity. This is what makes inflation seem so inexplicable. This is why nobody seems to know what to do about it.

The simple truth about the matter is that nothing can be done about it in the absence of a satisfactory standard measure of value. Such a standard must meet four requirements. It must consist of a large number of tangible commodities (a) which are internationally used and consumed, internationally wanted and traded and internationally valued; (b) which as a unit are constant in value; (c) which can be used to redeem money and (d) of which there are always ample supplies available for the purpose of redemption. Neither solid gold nor paper meets these requirements. Solid gold meet two of them: it is universally wanted and can be used for redemption. Paper gold meets only one of them: ample supplies of it are available. No matter how great the demand for redemption, paper can always be supplied in limitless quantities.

This is the reason I became interested years ago in Irving Fisher's idea of a "staple dollar" and in Frank Graham's and Benjamin Graham's idea of an "international commodity reserve currency". This is the reason for my attempt to demonstrate the practicability of a standard based upon an international staple commodity price index and upon a unit of redemption consisting of what came to be called a "basket of commodities"—a basket consisting of commodities which can be graded, weighed, stored, and arbitraged.

Until such a standard unit of value is established and such a unit of redemption is made available by a bank-of-issue, dishonest inflation and monetary dishonesty will continue unchallenged. There is no way of justifying the failure of economists, bankers, and government authorities to grapple with this problem. It is high time that they gave up inventing expedients to make the existing lunacy and chicanery less intolerable. It is high time that the economists to whom it is logical to look for guidance in this matter unite in a call for the substitution of a commodity standard and commodity unit, such as the one with which I experimented and which I called a constant, for the paper gold pseudosolution of the IMF.

The attempt to create an International Staple Commodity Standard was based upon studies which I began to make in 1965. The last, made during the course of the Exeter experiments, was made in 1973. The various versions made differed as to the commodities used, the weighting of the importance of the commodities, and the base years used. In the first nine versions the base year was 1965. The tenth differed from the ninth only in the weighting of gold and silver. The eleventh version was based upon the year 1970; it differed as to three commodities, and the resulting weighting. The fact that no measure of value can be perfected has to be accepted. Even with physical measures some miniscule margin of error has to be accepted. The margin of error in the best possible measure of value is certain to be larger because of the number of variables involved. But good sense plainly prescribes that measures in which inaccuracy is inbuilt should be discarded and a standard substituted which in its essential nature is accurate and can become more and more accurate the longer it is used.

There is nothing sacrosanct about my version—particularly my thirty commodities. Better statisticians than I with greater resources than mine will, I am sure, produce a better version than the one I used.