Review

Reviewed Work(s): The Supply and Control of Money in the United States by Lauchlin Currie

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BOOK REVIEWS

VENETIAN SHIPS AND SHIPBUILDERS: A CORRECTION

A misapprehension may have been created by a passage in the very careful and sympathetic review of my *Venetian Ships and Shipbuilders* by Dr. S. H. Thomson.[1] I still maintain that the volume of the international trade of Venice was substantially stable between 1450 and 1560, and that "the Venetian merchant marine *employed in international commerce* appears not to have declined, but actually to have grown in cargo-carrying capacity during the sixteenth century." (Italics mine.) The two figures the comparison of which Dr. Thomson cites as being at variance with the above quotation are not comparable. One of them includes ships under 240 tons, the other does not. For reasons set forth at length in my book I consider that the figures concerning ships of 240 tons or more are those significant for the volume of international commerce. I certainly agree, however, with Dr. Thomson that Venice was not keeping pace with more rapidly expanding western trade centers, and I wished to emphasize, among the reasons why Venice fell behind, the decay of the shipbuilding industry at Venice.

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The Supply and Control of Money in the United States. By LAUCHLIN CURRIE. "Harvard Economic Studies," Vol. XLVII. Cambridge: Harvard University Press, 1934. Pp. xvi+199. $2.50.

This book should have a significant and salutary effect, both on professional opinion, and on college teaching. It attacks, at critically weak points, a dominant and decadent tradition of American thinking on banking questions; and it expounds clearly a set of views which, while firmly established in the "oral tradition" of some schools, are meagerly represented in the accessible literature.

Dr. Currie's general position may be indicated by a sample of quotations:

> The truth is that the whole modern conception of the function of a central bank of controlling the community's money is lacking in the Federal Reserve Act. (P. 88.)

[1] *Journal of Political Economy*, April, 1935, pp. 265–67.

As long as the reserve administration conceives its task as that of the qualitative control of bank assets, the best work of the monetary theorists cannot fructify in actual banking policy, and it is futile to seek to enhance the effectiveness of central bank control over money. (P. 45.)

It may be objected that even though the reserve administration conceives that the primary function of a central bank is to enable member banks to supply at all times and at reasonable rates the needs of their commercial borrowers, there is no great harm in this theory so long as it is so interpreted as to call for an easy money policy in the downswing of business and a restrictive policy in the upswing. It is, however, dangerous to expect adherence to a wrong theory to lead to the adoption of correct policies. (P. 43.)

There is no theoretical justification for the attempt to tie notes to commercial loans, as was done in the Federal Reserve Act. (P. 36.)

If bank assets were confined to commercial loans, which some people think would be the ideal state of affairs, there would be no reason why the decline in loans and the contraction of money should ever cease in the downswing of business. (P. 121.)

The problem of note issue in this country is that of assuring that the changing requirements of the community for notes do not, in themselves, bring about changes in the total volume of money. (P. 110.)

If it is desired to impose a check upon central banks, it would appear to be much more desirable to base reserve requirements on something they can control. In any case there is no good reason for requiring a much *higher* gold reserve against notes than against demand deposits. They should, at the least, be equal. (P. 111.)

The study reflects a rare combination of penetrating theoretical insights and patient competence in the analysis of banking statistics. The highly realistic treatment will make the author's argument convincing, or at least disturbing, to many readers who would be unimpressed by "mere theory." For critical students, however, Dr. Currie's inductive verifications will be largely gratuitous—although everyone will be grateful for the excellent statistical compilation and analysis. In general, the author's fundamental insights are so sound that failure of statistical confirmation would only indicate error or inadequacy in the statistics.

On several crucial points, however, Dr. Currie's position is, to the reviewer, highly unsatisfactory. He contends that only actually circulating media should be regarded as money. "If we include with means of payment all factors which contribute to economy of means of payment," he says (p. 18), "it is difficult to see where we should stop, and the concept of money would become so broad as to be useless."

For quantitative study, of course, a line must be drawn somewhere; the author's distinction is both convenient and sound as a basis for his statistical analysis; but, carried over uncritically into discussion of matters of policy, it reveals an uninspired preoccupation with simple quantity theory and a tendency toward almost fallacious simplification of problems. In particular, the author's definitional reflections seem to account for his notion that changes in the volume of savings deposits, and possible conversions of demand deposits into the savings form, are of minor importance for central-bank policy.

More striking is the fact that Currie's narrow definition of money seems to explain his characterizing as ideal (chap. xv) a system which would represent only a small first step toward an ideal financial structure. The reviewer, while sharing the author's enthusiasm for abolition of banking on the fractional-reserve basis, is impressed with the probability that the fundamental faults of the present system would soon reappear (as with the development of checking accounts, after the strict limitations upon note issue), if reform were undertaken according to Currie's prescriptions. To argue that the functions of commercial banks might be assumed without much disturbance by savings banks, amounts almost to recommending drastic changes on the grounds that their intended effects would never be realized.

At all events, it seems likely that we shall make substantial progress toward understanding of monetary problems, and toward wise proposals for reform, only by facing squarely the task of working with that concept of money which Currie describes as "so broad as to be useless." We realize now that the currency problem has been swallowed up in the problem of commercial banking; but we must go further. We must see that there is little significant difference between demand deposits and savings accounts, and that all institutional borrowing and lending at short term presents the same problems and anomalies as does deposit banking. The criterion of "effective circulation," like legal tender and "general acceptability," must not be taken too seriously.

The effort to discuss banking policy, while only skirting and touching casually upon monetary problems, is not conducive to elegance or clarity. The book, in spite of its title, and in spite of its central thesis, deals almost exclusively with banking. There are a few remarks about the gold standard; and in many places the author impliedly approves of price-level stabilization. But nowhere does he face the fundamental questions as to the proper objectives or ideal rules of policy. Thus, he leaves himself open to the charge of defining error without defining truth—of criticizing other people's positions without taking a position himself.

Finally one note of emphatic dissent. Dr. Currie evidently is guided (against all experience, one might say) by a faith in monetary dictators—in authorities with large discretionary powers. His notions of desirable reforms run largely in terms of means for augmenting the powers of the Reserve Board. Here he has many writers and students on his side. Yet one may insist that the position is questionable empirically and, above all, that it is simply incompatible with a liberal, democratic faith. Managed currency without definite, stable, legislative rules is one of the most dangerous forms of "planning." A free enterprise economy can function only within a legal framework of rules; and no part of that framework is more important than the rules which define the monetary system. In the past those rules have been empty and inadequate; but there is no tolerable solution to be found in resort to the wisdom of "authorities." No liberal can contemplate with equanimity the prospect of an economy in which every investment and business venture is largely a speculation in the future actions of the Federal Reserve Board.

There is an unpardonable scarcity of punctuation in the volume. Dr. Currie's style is such as to require a generous sprinkling of commas and semicolons; and readers will resent the waste of time involved in rereading sentences repeatedly to discover their structure. While the discussion moves along briskly and concisely in the main, there are numerous protracted digressions on minutiae and elaborate arithmetic illustrations of points that needed only simple statement. With all its faults, however, this book is one of the few economics treatises of recent years which has left the reviewer genuinely grateful and indebted to its author.

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Führer durch die Krisenpolitik (Vol. 6, *Beiträge zur Konjunkturforschung*). By FRITZ MACHLUP. Vienna: Julius Springer, 1934. Pp. xv+232. Rm. 7.80.

This is a brilliant popular exposition of economic policies from the point of view of a Manchesterian doctrine as represented today by what may be called the Neo-Austrian School (and its London subsidiary). Dr. Machlup deals with all sorts of policy-proposals discussed publicly during the crisis but without reference to, or evaluation