The Online Library of Liberty

A Project Of Liberty Fund, Inc.

Irving Fisher, ***Dollar Stabilization*** [1921]

The Online Library Of Liberty

This E-Book (PDF format) is published by Liberty Fund, Inc., a private, non-profit, educational foundation established in 1960 to encourage study of the ideal of a society of free and responsible individuals. 2010 was the 50th anniversary year of the founding of Liberty Fund.

It is part of the Online Library of Liberty web site http://oll.libertyfund.org, which was established in 2004 in order to further the educational goals of Liberty Fund, Inc. To find out more about the author or title, to use the site's powerful search engine, to see other titles in other formats (HTML, facsimile PDF), or to make use of the hundreds of essays, educational aids, and study guides, please visit the OLL web site. This title is also part of the Portable Library of Liberty DVD which contains over 1,000 books and quotes about liberty and power, and is available free of charge upon request.

The cuneiform inscription that appears in the logo and serves as a design element in all Liberty Fund books and web sites is the earliest-known written appearance of the word "freedom" (amagi), or "liberty." It is taken from a clay document written about 2300 B.C. in the Sumerian city-state of Lagash, in present day Iraq.

To find out more about Liberty Fund, Inc., or the Online Library of Liberty Project, please contact the Director at oll@libertyfund.org.

LIBERTY FUND, INC.
8335 Allison Pointe Trail, Suite 300
Indianapolis, Indiana 46250-1684

Edition Used:

“Dollar Stabilization” *Encyclopedia Britannica,* 12th edition, 1921 (a two-volume supplement to the 11th edition), vol. XXX, pp. 852—853.

Author: Irving Fisher

About This Title:

The 11th edition of the *Encyclopedia Britannica* was the last edition which appeared before the First World War destroyed the old liberal order in Europe. The next edition, the 12th, reproduced the 11th edition with the addition of 4 supplementary volumes which covered the war and its immediate aftermath. This article is part of the supplementary volumes.

About Liberty Fund:

Liberty Fund, Inc. is a private, educational foundation established to encourage the study of the ideal of a society of free and responsible individuals.

Copyright Information:

The text is in the public domain.

Fair Use Statement:

This material is put online to further the educational goals of Liberty Fund, Inc. Unless otherwise stated in the Copyright Information section above, this material may be used freely for educational and academic purposes. It may not be used in any way for profit.

Table Of Contents

Irving Fisher, "Dollar Stabilization" Edition: Encyclopedia Britannica, 12th Edition, 1921 (A Two-volume Supplement To The 11th Edition), Vol. XXX, Pp. 852–853.

DOLLAR STABILIZATION.—Under the existing currency system, the so-called "level of prices" is largely at the mercy of monetary and credit conditions. The tide of prices will rise or fall with the flood or ebb of gold or of paper money or of bank credit. Evidently a rise in the level of prices is a fall in the purchasing power of the dollar or other monetary unit, and *vice versa.* The purchasing power of money has always been unstable because a unit of money, as at present determined, is not a unit of purchasing power, but only a unit of weight. It is the one inconstant unit of measurement left in civilization. Other units—the yard, pound, bushel, etc.—were once as unstable and crude as the dollar, sovereign or franc still are; but, one after another, the other units have all been stabilized or standardized. Short weights and measures cheat the buyer; long weights, the seller. So a unit of money which changes in value or purchasing power is always playing havoc between contracting parties. When prices are rising—in other words, when the purchasing power of the dollar is falling—the creditor and the creditor-like classes suffer injustice. The sufferers include savings-bank depositors, bond-holders, salaried classes and wage-earners. In the great upheaval of prices—*i.e.* in the United States, depreciation of the dollar—which took place between 1896 and 1921 such injustice amounted to over a hundred billion dollars. On the other hand, when prices fall, as they did between 1873 and 1896, it is other classes—debtors, stockholders, farmers and independent business men generally—which suffer the injustice. The indirect effects of falling or rising prices—*i.e.* of a rising or falling dollar—are equally bad. These indirect effects include industrial discontent (either over the "high cost of living" or unemployment) and economic crises and depressions.

Hitherto there was ample excuse for the unstable monetary units of various countries. No instrument for measuring their aberrations had been devised. Likewise, until weighing scales were devised, weights could not be standardized, and until instruments for measuring electrical magnitudes were invented, electrical units could not be standardized. But for many years the "index number" of prices has provided an accurate instrument for measuring the value of the dollar in terms of its power to purchase goods. An "index number" of prices is a figure which shows for a specific period of time the average percentage increase or decrease of prices. One of the most suggestive signs of the times is that this instrument for measuring changes in the purchasing power of money has recently been utilized in adjusting wages and salaries to the high cost of living, *i.e.* to the depreciated dollar. A number of industrial concerns and banks, and some official agencies, have amended wages by the use of an index number of the prices of commodities.

It has been contended by some economists that this principle may be utilized in the future more generally to safeguard agreements made at one date to pay money at

another date. Such corrections of the dollar would gradually break down the popular superstition that “a dollar is a dollar”; for every time we correct the dollar, we convict it of *needing* corrections; and ultimately the correction might be applied, not, as at present, as a patch on the dollar from the outside, but by incorporating it in the dollar itself. Various methods for accomplishing this have been proposed. The one perhaps best known is Prof. Irving Fisher's proposal to vary the weight of the gold dollar so as to keep its purchasing power invariable. Instead of a gold dollar of constant weight and varying purchasing power, what is needed, he contends, is a dollar of constant purchasing power, and, therefore, of varying weight. It is not proposed, of course, to remint gold coins, but simply to count an ounce of gold bullion as being the equivalent not always of $20.67 (as at present) but of as much more or less than that sum as is required from time to time in order to keep the purchasing power of the dollar constant. In other words, the proposal is to vary the price of gold according to its worth relative to other commodities, instead of, as at present, keeping it artificially constant at $20.67 an oz. pure or £3 17s. 10½d. an oz. 11/12 fine. In this way, Professor Fisher contends, we can control the price level, lowering it, raising it, or keeping it from fluctuating much, if at all. Thus, if Mexico should adopt the dollar of the U.S. (instead of its present dollar of half the weight of gold), the price level in Mexico would be disastrously cut in two. Again, if the U.S. should adopt the Mexican dollar, the price level in the U.S. would be, disastrously doubled. That is, the more gold in the dollar, the greater its buying-power; and the less, the less. If, Professor Fisher contends, this principle be admitted, it follows that we hold, in the hollow of our hand, what the dollar's buying-power shall be—that is, what the level of prices shall be. It can be kept from changing greatly just as easily as it could be made to change, simply by periodical adjustments of the price of gold, each adjustment being made in accordance with the index number of prices. By this method, in conjunction with any of the sound systems of banking, Professor Fisher contends, variations of more than one or two per cent could easily be prevented except under the most extraordinary conditions.