

GOLD AND PRICES SINCE 1873

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CHAPTER I.

GOLD AND PRICES SINCE 1873.

§ I. MUCH of the difference of opinion as to the significance of recent movements of prices is due to the fact that the value of gold is a ratio which varies with a variation in either of its terms. Whether commodities fall in relation to gold or gold rises in relation to commodities, in either case the value of gold has risen. The same phenomena, therefore, may be due to radically different causes. So that, admitting the fall of prices, it is said, on the one hand, that the rise in the value of gold is due to some cause affecting gold itself, such as scarcity; and, on the other hand, it is claimed that the fall in prices is due to causes connected solely with commodities, and not with gold.

The believers in the scarcity value of gold substantiate their position by reference to the falling off in the annual production of gold; the unusual demands for gold since 1873, by Germany, Italy, and the United States; stringencies in the money market; the increased use of gold in the arts; the claim that the fall of prices is general; the exceptional character of the depression of trade since 1873; the general existence of low wages, profits, and rents; and the absence of any progress since 1873 in the means of economizing gold and silver. These opinions have been prominently associated with Mr. Robert Giffen,* the statistician of the English Board of Trade, and Mr. Goschen,† the present Chancellor of the Ex-

* *Journal of the Statistical Society* (London), March, 1879.

† *Journal of the Institute of Bankers*, April 18, 1883.

chequer; while the evident connection of the main proposition with bimetalism has given it a semi-political character, and many supporters in both Europe and America.

§ II. Inasmuch as the rise in the value of gold since 1873 is in proportion to the fall of prices, it is a matter of some importance to look critically at the facts in regard to prices. With this object in view, the more important tables of prices since 1850 have been collected in the Appendix, with explanations as to the methods of computation, sources, and reliability. It is hoped that a comparison of the diverse methods and results of these tables will serve a useful purpose.

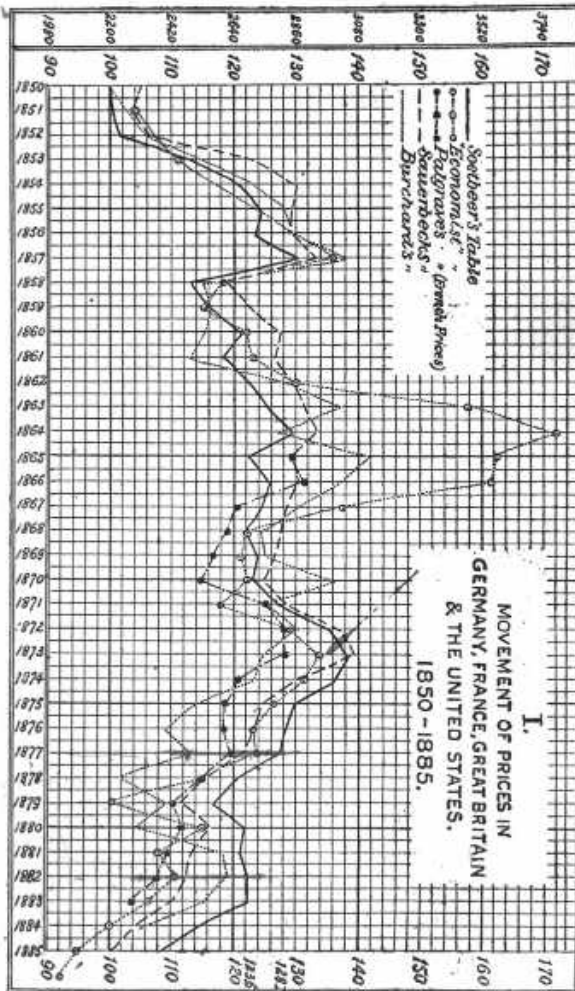
Hitherto, the figures of the London *Economist* for twenty-two articles have been almost universally used as evidence in regard to the movement of prices; but it is time that the worship of this fetich should cease.* Of late, much more trustworthy tables have been published.

In Chart I., a comparison is presented of the prices in Great Britain, Germany, France, and the United States. The untrustworthiness of the *Economist* table as a basis for inferences in regard to causes affecting the whole world will be seen at a glance in the years 1862-67. The table of Mr. Sauerbeck,† however, which gives the prices of thirty-eight articles, but all of raw produce, furnishes a somewhat better view of the movement of English prices to the present day. The French prices ‡ show a less rise to 1873 and a less fall since 1873 than the English figures, which accords with what we know as to the exemption of France from the violence of the crisis of 1873. The table of American prices cannot be depended upon. It is in-

* For detailed criticism, see Appendix, Table A.

† For the relative value of these tables, see the notes in the Appendix.

‡ The number 100 in this table corresponds on the chart to 123.6 of Soetbeer's table, which is the average of the latter's numbers for 1865-69 (the years used as a basis in the French prices).



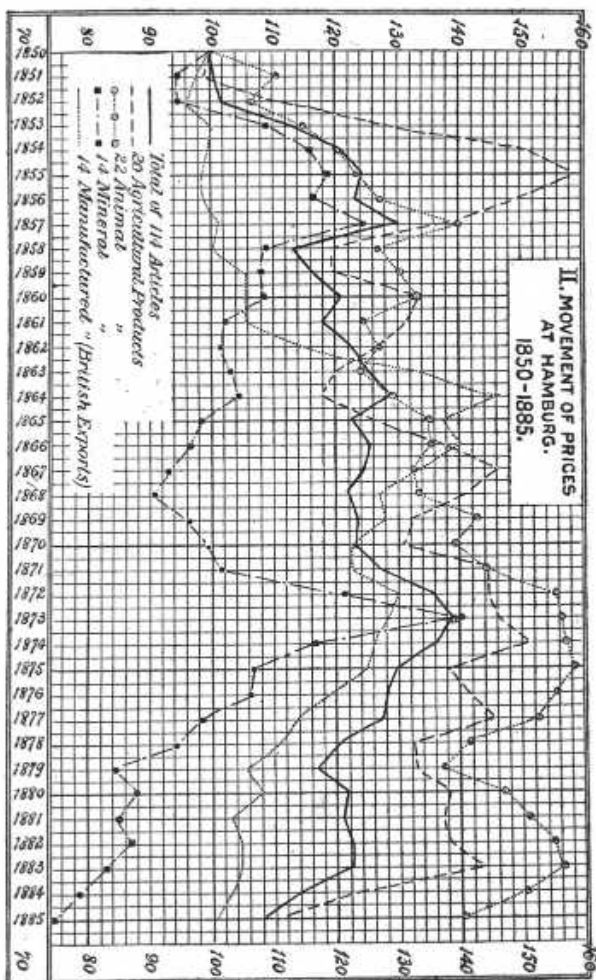
served only for the sake of comparison. The Hamburg prices, published by Dr. Soetbeer, in the second edition of his *Materialien* (1886), furnish the most satisfactory, accurate, and complete collection of prices yet made. It will be seen that, while Sauerbeck's English figures* show a greater fall since 1873 than the Hamburg prices, they do not fall so low in 1885 as the *Economist* prices. The very important fact to be observed, however, from the Hamburg table is that prices in 1885 were still 10 per cent. higher than they were before the discoveries of gold (1847-50); and it is significant that prices seem to have fallen less as we go to tables which include a greater number of articles. There is thus a difference of about 30 per cent. in the results of the Hamburg and *Economist* table, much to the discredit of the latter; and, in fact, the *Economist* table is not of a kind to be compared with the other.

The separation of the movements of prices in special groups of commodities in the Hamburg tables, as presented in Chart II., shows a striking divergence in the prices of agricultural, animal, mineral, and manufactured products. The eye is at once struck with the great rise in the prices of animal and agricultural products since 1850; while there has been the expected fall in the case of manufactured goods, accompanied by a surprising fall in the prices of mineral products.

Among other illustrations † of economic principles to be seen in these charts, there is one which Englishmen may well consider. It seems possible that English prices have fallen since 1873 more than prices in other countries. If so, may this not be attributed to a readjustment of the equation of International Demand, due to a lessened de-

* The standard 100 in Sauerbeck's table represents the average of the years 1866-77, which corresponds on the chart to 128.7 of Soetbeer's table.

† A verification is given of the principles laid down by Mr. Cairnes, *Leading Principles*, pp. 117-46, on derivative laws of value.



mand in other countries for England's products compared with England's demand for the products of other countries? Many complaints have been heard in England of the increasing competition of Germany, France, and the United States in foreign markets; for only since the war of 1870 have Germany and France given full play to their modern industrial spirit.* In fact, evidences are multiplying to the effect that the demand for English goods has not grown in a sufficiently gratifying manner. If this explanation be given full weight, it may suggest that other causes are at work to bring about a fall of English prices than the scarcity of gold. Too often, the reasoning on this subject takes for granted that what is true of Great Britain is true of all the rest of the world. It will not by any means be admitted that the lower range of prices, when once reached, has prevented prosperity † in other countries.

§ III. Granting a fall in prices since 1873 of 20 per cent., yet it will not be possible to reason directly from a fall of prices to a scarcity of gold. But this is the import of Laveleye's argument ‡ in answering Mulhall,—who had gone to quite as great an extreme in the opposite direction, and had denied § any connection whatever between prices and the quantity of the precious metals,—for Laveleye even classes Mill among the believers in what the Germans call the *Quantitäts-theorie*, by quoting his words: || “The value of money depends, *cæteris paribus*,

* Cf. Fowler, *Appreciation of Gold*, p. 34.

† The clearings in the United States for October 1, 1886, were one-fourth larger than for October 1, 1885, at the lower range of prices.

‡ *Contemporary Review*, May, 1886, p. 632.

§ *History of Prices since the Year 1850*, pp. 138, 139; and *Contemporary Review*, August, 1885.

|| Laveleye strangely omits the succeeding sentence: “In any state of things, however, except the simple and primitive one which we have supposed,