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PRIOR USAGE

THE COMMONEST TYPE of money in the world in the sixteenth and seventeenth centuries and probably also the eighteenth was the Spanish coin of eight reales. Alexander Hamilton took the silver real as the model for the U.S. dollar, to which he assigned the same specie content as the Spanish "pieces of eight" of average abrasion then circulating in the United States. To a lesser extent Spanish gold coins and gold and silver coins of other countries were in use. During these centuries a wide variety of forms of money in addition to metallic money also became familiar. Facilities for transferable deposits had long existed at private banks on the Continent, and later the public banks established in various European countries also issued banknotes and transferred fractional reserve deposits by entries on their books. Before the Bank of England and the Bank of Scotland came into existence as banks of issue, English goldsmith bankers circulated their own notes—promises to pay bearer on order. Endorsed domestic bills of exchange circulated as money in Italy, France, and later England. In France banknotes were issued from 1716 to 1720 in the course of John Law's experiment, and paper money in the form of assignats, from 1789 to 1796, by the revolutionary government. The American Colonies and later the Continental Congress issued bills of credit that were used in making payments.¹

As a result of this proliferation of means of payment, the term "money" from the eighteenth century on has meant different things to

¹ Alexander Hamilton, "On the Establishment of a Mint" (May 5, 1791); in *Reports of the Secretary of the Treasury of the United States*, Washington, D.C., 1828, Vol. I, pp. 133-156. J. G. van Dillen, *History of the Principal Public Banks*, The Hague, 1934. We are indebted to Earl J. Hamilton for this reference, for suggestions concerning this paragraph, and for his comments on a draft of this chapter. N. S. B. Gras, "Bill of Exchange," and D. R. Dewey, "Bills of Credit," *Encyclopaedia of the Social Sciences*, New York, 1937, Vol. II, pp. 540, 542.

different writers, or even to the same writer in different passages. In the theoretical literature, the term was often used without explicit consideration of its precise empirical counterpart, and this was sometimes true even in policy or in applied writing. However, it is generally possible to infer the meaning a writer attaches to the term money even when he gives no formal definition.

Three definitions of money have coexisted from that time to this: (1) metallic money and the paper money created by governments to meet their own financial requirements; (2) metallic money, government paper money, and bank notes; and (3) metallic money, government paper money, bank money, including deposits, and sometimes bills of exchange. To illustrate the difficulty of classifying views on the definition, those who used a restrictive definition of money tended to accept the real-bills doctrine, but some real-bills adherents did not use a restrictive definition; those who defined money broadly tended to accept the quantity theory, but many quantity theorists adopted the in-between definition. Critics of the bullionist position during the restriction of cash payments by the Bank of England (1797–1821) and writers of the Banking School in the decades thereafter usually used a restrictive definition, while bullionists and writers of the Currency School usually favored the in-between definition.

A further complication exists. Some writers made a distinction between the circulating medium or means of payment and money, and they did not identify the circulating medium—a more comprehensive concept—with money. In classifying such writers, we have referred only to their definition of money. Others, however, apparently used the terms “circulating medium” or “means of payment” as synonyms for money. We cite their definitions of the former term as their definition of money.

Most proponents of the narrowest definition argued that money had to have intrinsic value, that it had to be, or be fully backed by, some commodity that had exchange value independent of its monetary role, ideally, gold or silver. Though these writers have generally been labeled metallists, they also regarded “forced” government issues as money. The reasoning behind this definition had many strands. One strand was the implicit assumption that “money” had to be net wealth.² Metallic money and inconvertible government paper money, it was argued, were net wealth, while bank notes and deposits were exactly matched by

² This strand has reappeared in the writings of B. P. Pesek and T. R. Saving. See *Money, Wealth, and Economic Theory*, New York, 1967, pp. 235–244.

liabilities to the banks. Another strand was the view that metallic money and inconvertible government paper money were final income to those who acquired them, whereas bank notes and deposits, issued as advances by banks, merely anticipated final income. To repay the advances, an exactly equivalent amount had to be taken from final income. Still another strand was the classification of bank notes and deposits as two out of a host of credit instruments, all of which were interchangeable. To single out bank notes and deposits as playing any special role was condemned as error. It was on this ground that the Banking School opposed as futile the limitation of bank note issues which the Currency School proposed and which was enacted in Great Britain in 1844. The Banking School viewed bank notes and deposits as means of raising the velocity of bank vault cash but not as adding to the quantity of money. In the short run, its members argued, all forms of credit might influence prices,³ but in the long run only "money" defined as metallic and as inconvertible government paper could influence prices. This was so because the domestic price level could deviate only temporarily from normal equilibrium with the world level of prices determined by the gold standard. Preeminent among such metallists were Cantillon (1730-34), James Mill (1807), Tooke (1834-48), Fullarton (1844), John Stuart Mill (1848), Willis (1925), and Rist (1940).⁴

³ This view is the intellectual antecedent of the contemporary definition of "money" in terms of liquidity. See Chapter 3, section 2, below.

⁴ The term "metallist" is a coinage of G. F. Knapp (*The State Theory of Money*, H. M. Lucas and J. Bonar, trans., London, 1924, pp. 212 ff.). He also coined the antonym "chartallist," meaning one who denied that a monetary unit had to be tied to the value of a particular metal. J. A. Schumpeter in adopting Knapp's usage (and incidentally changing chartallist to cartalist), also distinguished between "Theoretical" and "Practical" Metallists (*History of Economic Analysis*, New York, 1954, p. 288). According to him, theoretical metallists affirmed that it is logically essential for money to consist of a commodity or to be convertible into it; practical metallists simply espoused a monetary policy of tying the monetary unit to, and keeping it freely interchangeable with, a given quantity of a commodity. On the basis of Schumpeter's distinction, David Hume would have to be classified as a practical metallist, while the other writers mentioned in this note would have to be classified as theoretical metallists. Hume saw that "institutions of Banks, funds and paper credit . . . render paper equivalent to money, circulate it throughout the whole state, make it supply the place of gold and silver . . ." and that paper money can have the same effects as metallic money, but he was opposed to the permanent and widespread use of paper money because of "the dearness of everything, from plenty of money" (*Essays, Moral, Political and Literary* (1752), London, 1875, Vol. I, pp. 337 and 311).

Richard Cantillon described bankers who issued bank notes as putting money back into circulation after it had been deposited, thus accelerating the circulation of coins left with them, the acceleration being "equivalent to an increase of actual money up to a point" (*Essai sur La Nature du Commerce en Général*, written 1730-34, trans. Henry Higgs, London, 1931, p. 161; see also pp. 141-143, 305).

For James Mill, neither bank notes nor "a common cheque upon a banker" were "money" (Review of Thomas Smith, *Essay on the Theory of Money and Exchange*,

London, 1807, in *Edinburgh Review*, Oct. 1808, p. 52). "We are disposed to give Mr. Smith very considerable praise whether he discovered the distinction, or learned it elsewhere, for having very clearly perceived the difference between the paper which a government may force upon the people, and the paper circulated from banks, which nobody receives but at his pleasure. He has seen, too, that many errors may be traced to the strange inaccuracy of confounding together these two species of paper money" (pp. 50-51).

Thomas Tooke's views embraced virtually all the strands described above. See his *History of Prices*, Vol. IV, London, 1848, pp. 171-183.

John Fullarton held that bank notes and deposits were not money but forms of credit, the total of which was important but uncontrollable (*On the Regulation of Currencies*, London, 1844, pp. 29-36). He wrote:

Gold and silver coin pass current in exchange for all sorts of commodities, because gold and silver are themselves commodities of value, and furnish the buyer and seller with a convenient equivalent that is universally in demand. Inconvertible government notes, though valueless in themselves, acquire a value in exchange . . . from the conditions annexed to their emission, and by reason of that value are received in exchange for commodities precisely on the same principle as coin. These two descriptions of circulation, therefore, fall naturally under a common head; and the phrase "money" may by a fair analogy be applied equally to the one as the other (p. 36).

Tooke and Fullarton were two leaders of the Banking School. In his discussion of the controversy between the Currency and Banking Schools, Viner leaves the impression that the Banking School adherents defined money more broadly than did the Currency School adherents, when, in fact, they did the opposite (Jacob Viner, *Studies in the Theory of International Trade*, New York, 1937). For example, he writes:

The banking school . . . pointed out that under a purely metallic currency there existed in addition to specie, and under a mixed currency there existed in addition to specie and paper notes, a large quantity of bank deposits and bills of exchange which, they claimed, were also "currency" and in any case operated on prices in the same manner as did bank notes and specie (p. 222).

It was, as we have seen, the position of the banking school that bank notes and bank deposits were both means of payment and parts of the circulating media, and that, since the proposals of the currency school dealt only with bank notes and left bank deposits free of control, they were bound to operate unsatisfactorily if put into practice (p. 243).

John Stuart Mill stated: "I apprehend that bank notes, bills, or cheques, as such, do not act on prices at all. What does act on prices is Credit, in whatever shape given, and whether it gives rise to any transferable instruments capable of passing into circulation or not" (*Principles of Political Economy*, W. J. Ashley, ed., London, 1909, Book III, Chapters VII-XIII, p. 523).

H. P. Willis wrote of bank notes: "they are spoken of as *currency* or (incorrectly) as money. . . . In fact they are not money . . . and the only difference between an issue of bank notes and the placing of a volume of deposits on the books of a bank is in the form in which bank credit is thus given circulation" (*Banking and Business*, New York, 1925, pp. 96-97, 103).

For Charles Rist, bank notes and deposits are "instruments of circulation," but cannot be considered money, because they are not a standard of value (*History of Monetary and Credit Theory from John Law to the Present Day*, J. Degras, trans., New York, 1940, p. 41). Rist distinguishes between the velocity of circulation of bank vault cash and of the total stock of money within the country, as follows:

The two phenomena may occur simultaneously, may strengthen each other, cancel out, or act in contrary directions. But they do not arise from the same causes. The second phenomenon is slow and steady in its working, the first displays rapid alternations of growth and decline, corresponding to phases of boom and slump, or to a prolonged rise or fall in prices. It is by far the more important. The second is of interest because, up to a certain point, it can compensate for an inadequate supply of the precious metals (pp. 320-321).

Writers who regarded bank notes as money but excluded deposits usually relied on one of three lines of argument. One was that general acceptability in exchange was an essential characteristic of money. Bank notes, like metallic money and government paper money, had this quality, while checks drawn on bank deposits did not, since they were acceptable only under particular conditions.

A second argument was that the exclusion of deposits and bills of exchange from the definition of money was justified by their much lower velocity of circulation as compared to that of bank notes or coin.

A third argument was that the total of specie and notes, whether issued by banks or by governments, remained a fairly constant proportion of deposits, so that no special notice of deposits was needed in the definition of money. These arguments flourished in the nineteenth century because of the failure to understand the distinction between primary and derivative deposits. Some writers believed that deposits were all primary and not money because their very presence in banks indicated they were not in use as means of payment.

So far as we know, Ricardo was the first writer to discriminate between checks and bank notes, considering the former a money substitute and treating bank notes, inconvertible government issues, and metallic money as indistinguishable components of money. Paper money in his view differed from metallic money only in that it cost less to produce, whereas he regarded the use of checks as restricting the quantity of money and increasing the velocity of its circulation. Ricardo explicitly recognized that the multiplication of claims to money would tend to raise the level of prices that could be supported by any given quantity of money. For a single country on a commodity standard, the effect would be not a higher price level, but a lower quantity of money, the claims on money "driving out" the specie. For the group of countries on a single-commodity standard, the initial effect would be a higher price level, but the long-run effect might also be a smaller quantity of money. The extent to which one or the other of these effects predominated would depend on the production conditions of the monetary commodity. Other economists⁵ who defined money in the same way as

⁵ Adam Smith is not listed in this group, although he was not a metallist, because he did not specifically discuss the role of bank deposits. He held that bank notes simply displaced an equivalent amount of specie, so that the total of bank notes plus specie did not exceed the amount of specie alone that would have been in circulation in the absence of bank notes (*An Inquiry into the Nature and Causes of the Wealth of Nations*, London, 1776, Modern Library Edition, Edwin Cannan, ed., New York, 1937, pp. 276-277, 284).

Ricardo were Thornton (1802), a contemporary, and Norman of the Currency School (1838–41), McCulloch (1850), Walker (1878), Fisher (1911), Marshall (1887, 1922), and Cannan (1931).⁶

⁶ *The Works and Correspondence of David Ricardo*, ed. by Piero Sraffa with the collaboration of M. H. Dobb, Royal Economic Society, 1951, Vol. I, *On the Principles of Political Economy and Taxation* (1817), Chapter XXVII; Vol. III, *The High Price of Bullion, A Proof of the Depreciation of Bank Notes* (1810), pp. 54–55, and *Reply to Mr. Bosanquet's 'Practical Observations on the Report of the Bullion Committee'* (1811), pp. 210–212; Vol. IV, *Proposals for an Economical and Secure Currency* (1816), pp. 54–58.

Henry Thornton, *An Enquiry into the Nature and Effects of the Paper Credit of Great Britain* (1802), reprinted New York, 1939, pp. 55, 134, 271. Thornton noted that bills of exchange were also used in making payments and took the place of money (p. 92).

J. R. McCulloch, *Essays on Interest, Exchange, Coins, Paper Money, and Banks* (1850), republished from the 7th ed. of the *Encyclopedia Britannica*, Philadelphia, 1851, pp. 146–147.

For the views of George Warde Norman (who, incidentally, was the grandfather of Montagu Norman, Governor of the Bank of England, 1920–44), see *Great Britain, Parliament, House of Commons, Report from the Select Committee on Banks of Issue* (1840), pp. 142–143, 199, 204, 206; *Remarks upon Some Prevalent Errors, with Respect to Currency and Banking*, London, 1833, p. 23.

F. A. Walker, *Money*, New York, 1878, pp. 8–17. The page headings read as follows: *Bank Notes Are Money* (pp. 9–13); *Cheques Are Not Money* (p. 15); *Inconvertible Notes Are Money* (p. 17).

Irving Fisher, *The Purchasing Power of Money*, New York, 1911, p. 53. Fisher's views are summarized in the following quotations: "Banks supply two kinds of currency, viz. bank notes—which are money; and bank deposits (or rights to draw)—which are not money. . . . There tends to be a normal ratio of bank deposits (M') to the quantity of money (M); because business convenience dictates that the available currency shall be apportioned between deposits and money in a certain more or less definite, even though elastic ratio. The inclusion of deposit currency does not normally disturb the quantitative relation between money and prices" (pp. 53–54). Fisher, however, recognized that "transition periods," when the normal ratio of deposits to money was disturbed, were the rule and analyzed the consequences of such disturbances.

Allan H. Meltzer has suggested to us that by the term money, Fisher really meant high-powered money. That may be so. Fisher used the term "circulating media" to refer to the total of money, as he then defined it, and bank deposits subject to check. Later Fisher discarded the definition of money which excluded deposits (*100% Money*, New York, 1935).

Alfred Marshall, *Money, Credit, and Commerce*, London, 1922. After noting "the need for elasticity in the use of the term 'money,'" Marshall went on to say that when nothing was implied to the contrary, "'money' is to be taken to be convertible with 'currency' and therefore to consist of all those things which (at any time and place) are generally 'current,' without doubt or special inquiry, as means of purchasing commodities and services and of defraying commercial obligations. Thus in an advanced modern society, it includes all the coin and notes issued by Government. Almost in the same class are the notes issued by banks which are in good repute . . . and therefore we may proceed on the understanding that they are reckoned as money, unless something is said to the contrary" (p. 13). In 1887, testifying before the Royal Commission on the Values of Gold and Silver, Marshall had given essentially the same definition, excluding deposits, "because a cheque requires the receiver to have formed some opinion for himself as to the individual from whom he receives it" (*Official Papers*, London, 1926, p. 35).

Edwin Cannan, *Modern Currency and the Regulation of Its Value*, London, 1931. Cannan is scornful of the practice of

the last forty years . . . of regarding the amount which bankers are bound to pay their customers on demand or at short notice as a mass of "bank-money" or of "credit" which must be added to the total of the currency (of notes and coin)

John Law was probably the first to define money to include bank deposits. "The use of banks has been the best method yet practised for the increase of money," he wrote. He was thinking primarily of bank note issues but was clearly aware of the existence of deposits. Law remarked that the Bank of Amsterdam, which by its constitution was required to maintain a 100 per cent reserve behind its transferable receipts, in fact lent some of the funds on deposit with it. "So far as they lend they add to the money, which brings a profit to the country by employing more people, and extending trade; they add to the money to be lent, whereby it is easier borrowed, and at less use; and the bank has a benefit. But the bank is less sure, and though none suffer by it, or are apprehensive of danger, its credit being good; yet if the whole demands were made, or demands greater than the remaining money, they could not all be satisfied, till the bank had called in what sums were lent."⁷

Law thought that silver should be the monetary standard and that gold should be coined for use in large payments, but should circulate at its market value. He argued that, when properly issued, paper money is more stable in value than gold or silver.⁸ He proceeded, therefore, to

whenever variations in the quantity of money are being thought of as influencing prices. . . . The more intelligent of the bank-deposit theorists, as we may for short call those who add bank deposits to currency in considering the effect of quantity of money on prices, cannot be supposed to believe with the populace that the banks are full of bank-notes and coin, but they rely on the rather misleading idea that a credit balance at a bank is "purchasing power" and therefore if the total of such balances increases, aggregate purchasing power in the sense of power to spend money on goods and services is increased. They assume that the additional power, having been once created, will be used, and thus raise prices just as additional currency does.

Cannan goes on to say

Few if any pseudo-economic theories have fared worse than this one did in the third decade of the century. Prices continued to wax and wane with currencies, and to exhibit towards the variation of bank deposits the complete indifference which would have been expected by the nineteenth century innocent who could see no more money in the world when he let his bank have £100 which it lent to somebody else than he saw when he lent that £100 to the other person direct (pp. 88 ff.).

⁷ John Law, *Money and Trade Consider'd; With a Proposal for Supplying the Nation with Money*, 2nd ed., Edinburgh, 1720, pp. 30-31.

Though he made no explicit reference to bank deposits, Sir William Petty may also have had in mind the same definition of money as did Law. In his *Quantulumcunque concerning Money* (1682), Petty's answer to "What remedy is there if we have too little Money?" was "We must erect a Bank, which well computed, doth almost double the Effect of our coined Money . . ." (*The Economic Writings of Sir William Petty*, C. H. Hill, ed., reprinted, New York, 1963, Vol. II, p. 446).

⁸ Law was expelled from France in 1707 for having proposed to issue there paper money more stable in value than gold or silver (Earl J. Hamilton, "John Law," *International Encyclopedia of the Social Sciences*, New York, 1968, Vol. 9, p. 79).

Schumpeter suggests that Law must be classed as a theoretical metallist, on the ground

propose a form of money with extrinsic rather than intrinsic value. In 1705 he suggested that Scotland appoint a public body with powers to issue notes against the security of land. Anybody who was prepared to mortgage his land or sell it to the public body could obtain notes therefor. Nothing came of this proposal, but Law subsequently gained a following in France. In 1716, a royal edict authorized Law to establish the Banque Générale, with the right to issue notes, to receive and transfer deposits payable on demand, to deal in bullion, and to discount commercial paper. Sixteen months later, another royal edict authorized the establishment of the Compagnie d'Occident (later changed to Compagnie des Indes), of which Law was to be the managing director, with a monopoly of the trade with the Louisiana territory and in furs with Canada (later also of the trade with the East Indies, Africa and China and of the right to the profits of the royal mint and collection of royal revenues). In December 1718 the bank was nationalized under the title Banque Royale, with the government assuming responsibility for the note issue. In 1720 the bank was managed by the colonial company and, as Controleur Général, Law was placed in charge of all the public finances and of internal administration. Before its nationalization, Law's bank had been conservatively managed. In fact his reputation as a financial adventurer grew out of his association with the Mississippi Bubble, the name by which his ill-fated System has since been known, not with the Banque Générale.⁹

that he was opposed to debasement of coinage, recognized several physical attributes of silver which made it useful as a medium of exchange (*Money and Trade*, p. 6), and in practice redeemed notes as long as he could (*History of Economic Analysis*, pp. 321-322).

In general, Schumpeter held that, whatever a writer's definition of money, if he regarded convertibility as essential, he was basically a theoretical metallist. We have classified as metallists only those who denied the label money to bank notes and deposits, whether convertible or not, and who applied it exclusively to specie and inconvertible government paper money.

⁹As the Banque Générale, 1716-18, it made no significant increase (about 3 per cent) in the currency circulation, but as the Banque Royale its actions were first highly inflationary and then correspondingly deflationary. The bank freely granted loans secured by the shares in the colonial company, initially to float an increase in capital and later to peg the price of the shares in an attempt to dampen the wild speculation that had developed. By May 1720 the bank had increased the note issue to double the specie circulation in 1716 before Law's bank was opened. At Law's behest, action was taken to contain the inflation. A royal edict of May 21 announced a reduction of one-half in the value of bank notes and of five-ninths in the pegged price of the company shares, to be accomplished in successive stages by December 1. Panic ensued and the bank stopped payment for ten days, although the edict was in the meantime repealed. Shares, however, were no longer pegged. The bank resumed payment on June 1, on a restricted basis, and proceeded to contract the note issue by 35 per cent from June to September. Loss of confidence in the notes led to their withdrawal from circulation as of Novem-

After Law, we may add to the roster of those who defined money to include bank deposits (and, in some instances, also more broadly) the names of Steuart (1767), Bollman (1810), Gallatin (1831), MacLeod (1855), Sidgwick (1883), Newcomb (1886), Dunbar (1887), Hawtrey (1913), Robertson (1922), Mitchell (1927), Pigou (1927), Keynes (1930, 1936), and Hansen (1949). Bank deposits were sometimes limited to demand deposits, sometimes not.¹⁰

ber 1. In January 1721 liquidation of the combined enterprise began. Holders of bank notes and shares realized from 5 to 95 per cent of the nominal value of their claims. See A. M. Davis, "An Historical Study of Law's System," *Quarterly Journal of Economics*, Apr. 1887, pp. 289-318; July 1887, pp. 420-452; and E. J. Hamilton, "Prices and Wages at Paris Under John Law's System," *Quarterly Journal of Economics*, Nov. 1936, pp. 42-70; *idem*, "Prices and Wages in Southern France Under John Law's System," *Economic History Supplement to the Economic Journal*, 1937, pp. 441-461; *idem*, "John Law of Lauriston: Banker, Gamester, Merchant, Chief," *American Economic Review*, May 1967, pp. 273-282.

¹⁰ Sir James Steuart, *An Inquiry into the Principles of Political Economy*, London, 1767, Vol. I, pp. 32, 365. Steuart, who was influenced by Law, defined money as follows: "By money, I understand any commodity, which purely in itself is of no material use to man . . . , but which acquires such an estimation from his opinion of it, as to become the universal measure of what is called value, and an adequate equivalent for anything alienable" (p. 32). For internal purposes, "symbolical money," meaning "bank notes, credit in bank, bills . . ." (p. 365), would suffice, but in addition, a country needed gold and silver, "the money of the world," for international payments.

Erick Bollman, *Paragraphs on Banks*, 2nd ed., Philadelphia, 1810, p. 11. Bollman (who gained some notoriety as an agent of Aaron Burr in the western military project for which Burr was tried for treason, and who only subsequently turned to the analysis of the U.S. banking system in several pamphlets) referred to "the quantity of circulating medium afloat in the form of checks, bank notes, or specie" (p. 26; also pp. 35, 80, 86).

Albert Gallatin, *Considerations on the Currency and Banking System of the United States*, Philadelphia, 1831. Gallatin included bank deposits payable on demand in "the currency of the United States. This, it appears to us, embraces not only bank notes, but all demands upon banks payable at sight, and including their drafts and acceptances" (p. 31).

H. D. MacLeod, *The Theory and Practice of Banking*, London, 1855, Vol. 1, p. 37; *The Elements of Political Economy*, London, 1858, pp. 41-42. MacLeod included not only bank deposits and bills of exchange in his definition of "the currency or circulating medium," but all promissory notes, book debts of traders, and private debts between individuals, excluding only stocks and bonds because holders did not expect to receive exactly the sum of money stated on their face.

Henry Sidgwick, *Principles of Political Economy*, London, 1883. Sidgwick described money as coin, bank notes, and "bankers' liabilities . . . not embodied or represented otherwise than by rows of figures in their books" (pp. 233-234).

Simon Newcomb, *Principles of Political Economy*, New York, 1886. Newcomb used the term currency "to designate everything, material or immaterial, which passes from hand to hand as money" (p. 188), and then proposed a method for determining the total volume of currency in dollars:

. . . the total volume of the currency may be obtained in this way: Add up all the coin in the hands of persons, all the legal-tender and bank notes in circulation, and all the bank deposits. The sum is the total volume of the currency. We do not include the coin held by the banks or the treasury as a reserve because this is not in circulation. If we know the total amount of coin in the country, we may find the amount in the hands of individuals by subtracting the bank and treasury reserves from the sum total. We may therefore find the volume by adding up the total

In the past quarter of a century, the definitions of money restricted to coin and inconvertible government issues or to these plus bank notes have lost ground. Some variant of the third class of definition, which includes bank deposits, is now common. The tendency to broaden the total regarded as money has continued under the stimulus of Keynes' emphasis on liquidity preference, which led economists to pay more attention to the asset motive for holding money balances. Since World War II, a number of British and American economists have urged the desirability of using a definition of money, discussed in Chapter 3, that includes not only deposits at commercial and mutual savings banks but also a wide variety of other assets expressed in nominal terms.

Advocates of very broad definitions of money have however remained a minority, probably a declining minority. Recently there has been renewed emphasis on defining money to include only those items generally used as a medium of exchange. The most common usage is

amount of coin, bank-notes, and deposits, and subtracting the reserves held by the banks (pp. 190-191).

C. F. Dunbar, "Deposits as Currency," *Quarterly Journal of Economics*, July 1887. Dunbar deplored the failure to attend to "deposits as a part of the currency" in the public concern over the post-Civil War retirement of greenbacks and the contraction of national bank notes during the decade of the 1880's: "It is a circulating medium in as true a sense and in the same sense as the bank-note, and . . . , like the bank-note, it is created by the bank and for the same purpose" (p. 402).

R. G. Hawtrey, *Good and Bad Trade*, London, 1913. Hawtrey wrote that money is "taken to cover every species of purchasing power available for immediate use, both legal tender money and credit money, whether in the form of coin, notes, or deposits at banks" (p. 3).

D. H. Robertson, *Money*, New York, 1922. Robertson defined money "to denote anything which is widely accepted in payment for goods, or in discharge of other kinds of business obligation" including both "common money," "which is universally acceptable within a given political area," and bank money, "which requires special knowledge, and the making of special arrangements, on the part of the recipient" (pp. 2, 40).

W. C. Mitchell, *Business Cycles*, NBER, 1927. Mitchell abjured the term money, because of the "confusing variety of meanings" attached to it, and substituted the "circulating medium" which included "all the common means of making monetary payments." These are described as "coin and paper money" (p. 117) and as "bank notes, checking deposits, and bills of exchange" on which business depended "to keep the supply of the circulating medium adjusted to its changing pace" (pp. 121-122).

A. C. Pigou, *Industrial Fluctuations*, London, 1927. In *The Veil of Money*, London, 1949, Pigou defined money as the sum of "two divisions, current money and bank money." Current money is his term for currency. "Bank money consists of bank balances—the distinction between balances on current and on deposit account is more formal than real—plus overdraft facilities." Pigou remarked that commercial bank note issues could be classed either under current money or under bank money, "convenience favouring the former, logic perhaps the latter" (p. 6).

J. M. Keynes, *Treatise on Money*, New York, 1930; *General Theory of Employment Interest and Money*, New York, 1936, *vide* p. 167, note 1. In both works Keynes defined money as "co-extensive with bank deposits" including time deposits.

Alvin Hansen, *Monetary Theory and Fiscal Policy*, New York, 1949. Hansen gave figures on "money supply—currency plus demand and time deposits" (p. 3).

probably to identify "money" with currency plus demand deposits adjusted (Table 1, col. 8) rather than any other total. However, current practice is itself sufficiently diverse and imprecise that it has become common to attach adjectives such as "narrow" or "broad" or identifying numbers such as 1 and 2 to the term money wherever the precise meaning is important.

Historically, the choice of definition has been made on two different grounds. Some writers have regarded the choice as dictated by a priori considerations which enforced a sharp dividing line between "money" and "nonmoney" assets; others have regarded it as involving no question of principle but simply the need to draw a line "at whatever point is most convenient for handling a particular problem."¹¹ For the former, one dividing line signified truth, any other dividing line, error; for the latter, the line could be shifted, depending on the nature of the problem under investigation, but once drawn required consistent use of the term money as defined.¹²

¹¹ J. M. Keynes, *The General Theory*, p. 167, note 1.

¹² Examples of writers who adopted an a priori approach include Tooke, Rist, and Cannan. On the empirical approach, in addition to Keynes, we may cite Marshall: ". . . the need for elasticity in the use of the term 'money' is somewhat greater than in most other economic terms. There are some inquiries in which it may with advantage be used narrowly and others in which a broad use of it is appropriate" (*Money, Credit, and Commerce*, p. 13). D. H. Robertson commented: "It is clearly desirable to arrive at an early understanding of what we mean by money. There is no very general agreement upon this point; but as with so many other economic terms, it does not matter very much what meaning we adopt as long as we stick to it, or at any rate do not change it without being aware that we are doing so" (*Money*, p. 2).