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Articles

E. W. Kemmerer's contribution to the quantity theory of money

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Abstra

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Keywords:

Kemmerer prices money credit quantity theory business confidence

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Notes

1 I would like to thank Cornell University for sending me the first copy of Kemmerer's 1903 PhD dissertation, Money and Credit Instruments in their Relation to General Prices. I develop some differences between his thesis and two after-editions of this work.

2 On th … , see Chandle …

3 Even … by the economi … e to determin … Kemmerer was one … oney. Fisher mad … his own quant … ous in the history … interesting in the di … conomic theories …

4 Even … merican ones, th … resent in the

US monetary debate. On the British Monetary Orthodoxy see de Boyer des Roches and Diatkine (2008) and Laidler (1991).

5 Kemmerer (1907: 1) recommends reading Willis (1896) to better discern the state of the quantity theory at the beginning of the twentieth century in the United States. I also suggest Fisher (1894), Harvey (1894), Walker (1895), Mitchell (1896), Clow (1903), Laughlin (1886, 1903), Scott (1903), and more recently Friedman (1990), Timberlake (1993) and Dimand (2003).

6 'While adherence to the quantity theory does not necessarily make one bimetallist, it is none the less true that the principal argument advanced for bimetallism rests upon this theory for support' (Kemmerer 1903: 3).

7 Kemmerer was young when the controversy between the monometallists and bimetallists took place. Nevertheless, he was engaged in the discussion: 'I was greatly interested in this campaign controversy and read avidly the political literature on both sides, including such books as Harvey's Coin's Financial School, Laughlin's Facts about Money and Coin's Financial Fool. I early came to the conclusion that … the case for national bimetallism was untenable, and that the gold-standard advocates had much better of the argument.' (Kemerrer n.d.: 20). See also David Laidler (2004) on American bimetallism and the quantity theory, and the gold monometallism and the 'banking' approach

8 Most … etween the quantity …

9 'Adv… a means for temperi… er, in the presence… the intend…

10 'Th… ce in the causes c…

11 On K… 008b).

12 'E. W… t of elasticity… ng medium. He found … nd foreign

exchange rates, check payments, and the price of bonds. Failures, he found, occurred in greatest numbers during the seasons of tight money markets; and the same was true for panics. None of the hand-to-hand currency showed any marked seasonal movement, except that all forms showed some slight tendency to increase in the autumn and early winter; and "none of them exhibit[ed] any considerable capacity to contract during the slack months of the year". He used figures for clearings to indicate seasonal movements of deposit currency' (Mints 1945: 227). See Kemmerer (1910) and Gomez Betancourt (2009).

13 About the notion and the role of bank deposits and checks I have to say that it is ambiguous in Kemmerer's book. In some places, Kemmerer understood that the bank deposits are money and the checks merely means of transferring it, but not everywhere. I have assumed that in Kemmerer's equation C represents the bank money (the checks and drafts that pass through the clearing houses). Credit obligations (promissory notes, drafts or bill of exchange) may be expressed by means of check circulation. 'A draft may be looked upon as a check drawn by one bank upon another bank, and a non-interest-bearing bill of exchange as a check drawn by one individual or corporation upon another. For convenience we will adopt the common practice and refer to the all under the term checks' (Kemmerer 1903: 50).

14 Kemmerer presents his quantity theory, which establishes a direct relation between
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exchang [...] ed out in an
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economy [...] merer
worked [...] y inherited
from the [...] 907: 2–3).
He also [...] were
autho [...] Nicholson in
1893 [...] he history of
economi [...] quantity
theory o [...] e for
example [...] nkin (1965).

15 'One [...] ne
nineteen [...] t' of his
time. He not only defended the quantity theory against all kind of attacks, but also

maintained that the value of money was completely determined by its quantity and that individual prices were determined by the quantity of money in circulation' (Hegeland 1951: 75).

16 See also de Boyer des Roches (1999: 576).

17 'Except for the inclusion of velocity in his concept of the money supply, his [Kemmerer's] analysis is the same as modern monetarists' (Humphrey 1984: 20).

18 Kemmerer wrote his exchange equation and did the test in his PhD dissertation as early as 1903 (Kemmerer 1903: 52). Nevertheless, in the economic circumstances of the time, there were differences between the two authors, and also among several of their colleagues from various universities and financial institutions on the solutions to the instability of the value of money, the gold standard regime, and the debate on the creation of their central bank. I found this discussion in Dimand (2003). See also Gomez Betancourt (2008a).

19 In Fisher's words: 'Since no other kind of bank deposits will be considered by us, we shall usually refer to "bank deposits subject to check" simply as "bank deposits". They are also called "circulating credit." Bank checks are merely certificates of rights to draw, i.e. to transfer bank deposits. The check themselves are not the currency; the bank deposits which they represent are the currency' (Fisher 1911: 33).

20 Ther [illegible] emmerer's PhD diss [illegible] n). I observe an evolu [illegible] his dissertat [illegible] ank reserves is a func [illegible] erer writes: 'the prop [illegible] s confid [illegible]

21 Ke [illegible] only to explain t [illegible] Torrens and the [illegible] tant whereas [illegible]

22 Fishe [illegible] : 50) 'the fact is th [illegible] ation to M, the quantity of money in circulation; that is, deposits are normally a more or less

definite multiple of money′. Fisher explains that the banks must maintain a constraint of bank liquidity; that is, a constant ratio between the amount of their reserves in money and the volume of their deposits (Diatkine 1995: 52).

23 Kemmerer built his index of business confidence from the proportion of commercial failures and the variation on the stock market data to the number of concerns in business. 'While the figures of commercial failures are probably the best criterion of business confidence, it may be well to test the movement they portray by reference to other data. I have accordingly included in the table certain figures pertaining to the stock market and to the banking business, figures which likewise furnish evidence concerning the movement of business stock' (Kemmerer 1903: 97).

24 The rapidity of monetary circulation made out by William Petty (1665) and John Locke (1691) acquires with Cantillon a central place in monetary history (Jevons 1875). According to Cantillon (1997[1755]: 7990) the rapidity of monetary circulation depends mainly on three factors: the periodicity of income payment, the hoarding behavior and the development of credit. See de Boyer des Roches (2003: 34–5).