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MEMOIRS OF
THE DEPARTMENT OF ECONOMICS
IN
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THE GOLD-PAPER STANDARD IN THE MONETARY SYSTEM OF JAPAN.

1. THE QUESTION AT ISSUE.

The question which confronts us to-day is whether or not we should adopt a gold currency or a paper currency. It may be said that in the evolution of monetary system the gold standard probably will be gradually replaced by the paper standard. I herein wish to uphold that the best system for the present is the gold-paper standard which is the happy medium between the paper standard, which is still premature for adoption, and somewhat obsolete gold standard.

Although some countries including our own have the gold standard, the system cannot be said to be either a pure gold standard or a pure paper standard, inasmuch as the conversion of paper money into gold, the melting of gold coins and the export of gold, are strictly prohibited. Under the gold standard system, not only is gold made the standard currency, but the government should allow free exchange of gold with the equal amount of gold currency, free coinage and free melting of gold coins, as well as the free conversion of gold money. But these things are prohibited in our county, although persons are permitted to exchange gold which they have either produced or imported from abroad with gold currency by offering the gold to the Mint or gold currency note by selling it to the bank. Curaency can be increased but can never be decreased. Although it is desirable at present to have the amount of our currency contracted as our currency is unduly expanded and the prices of commodities are high, yet the whole tendency is towards the expansion of currency. Since prices are fixed by paper currency which is the representative currency, and since gold currency is not usually used as currency and as there is no disparity between them, it cannot function as the medium of exchange, so that it is impossible to call the system a gold standard or a paper standard. This state of affaire certainly does not lead gold standard to paper standard. Even in order to meet the need of accommodating the supply of currency alone, one of the following three systems should be adopted: a pure gold standard with all of its requirements, a new paper standard, or a new and medium system between the two systems. I shall not herein concern myself with the practical task of how to settle the existing monetary questions. I believe that the present abnormal system is bound to be replaced by the pure gold standard in the future, and I shall now take up the gold-paper standard which, I believe, is an advance from the gold standard system.

Article 1 of our Monetary Law states that the right to coin and issue currency shall belong to the Government. This provision makes it clear that our country adopts state money instead of customary money, and this will remain the same whatever monetary system we may adopt in the future. There are also the following provisions regarding monetary standard:—

1. Two *fun* of pure gold shall be a unit of value which shall be known as "yen" (Article 2).
2. Appeal for coinage made by those who offer gold bullion shall be granted. (Article 14).

Formerly a private person who melted gold currency was not prosecuted, although the Government formally forbade such an action, because the Monetery Law did not recognize a private person's right to receiving gold bullion by exchanging with gold currency or gold currency note. However, after September 12, 1917, the regulation has been altered, the Government prosecuting those who melt gold money, and, at the same time, allowing private persons to get gold bullion by sale on lawful price although to a very limited extent. After November 2, 1924, again the regulation was changed so that the sale of gold bullion by the

Government to private persons is now based upon exchange price, while conversion of bullion with currency has been altogether stopped. I shall not discuss this act of the Government in limiting and stopping the transfer of gold bullion to private citizens, for such an action is a temporary abnormal phenomenon in the gold standard system.

I shall now make the following proposals for revising the Monetary Law which I, am convinced, will not disturb the existing state of money traffic.

FIRST PLAN.

1. Unit of monetary value shall be called "yen."
2. Standard currency shall be made of gold and every yen shall contain 2 fun of pure gold (0.75 gram).
3. The Government shall, at a request, purchase gold bullion at the price of one yen for 2 fun of pure gold, from a person or persons, by issuing standard currency, and also sell gold bullion at the same price to a person or persons, by withdrawing standard currency from them.

If no disturbance is made in the state of money traffic by adopting the first plan, Article 2 of the plan may be altered as follows:

SECOND PLAN.

2. Standard currency shall be paper currency.

If still no disturbance is made by adopting the second plan, I shall propose to revise Article 3 of my first plan as follows:

THIRD PLAN.

3. The Government shall, at a request, purchase gold bullion at the price of one yen for a fun of pure gold, or according to some other method of evaluation, from a person or persons, by charging him or them a certain amount of

a fee which amount shall be previously announced, and by issuing standard currency; and also sell gold bullion to a person or persons by withdrawing standard currency from him or them in return.

I am convinced that the first and second plan will not make any disturbance upon the statue of money traffic. As to my third plan, it may make some change in the condition of money traffic, but I believe that such a change will result in improving the condition. This article is devoted to elucidating these conclusions.

2. STATE MONEY.

The foundation of the existance of subsidiary money is usually explained by pointing either to limitation placed on its circulation and issuance or to compulsion for its circulation; this explanation, however, is true only at the time subsidiary money was established. New facts have sprung up relative to this form of currency. The foundation of the subsidiary money of the present is to be found in the fact that it represents either convertively or inconvertively standard money; and in that respect it is the same as convertible or inconvertible paper money. Subsidiary money need not have any proper value and for this reason can be made with any material. There is a question whether gold currency which is standard currency should be regarded as gold money, or as merely as state money made of gold, which, like subsidiary money made of silver or copper has value as currency without regard to its material value. This question has given rise to the schools of metallism and chartalism. I do not accept either of the two schools in its totality. On the contrary, I believe that the true explanation is to be found in the monetary evolution from gold money to money made of gold.

The characteristic of gold standard, like any other metallic standards, is to be found in the fact that the State recognizes gold as money. This does not mean that in the early times a state's proclamatory law established money (as held by Knapp); on the contrary, it means that the State adopted customary money and converted it into state money, so that the real quality of money remains the same. When the monetary law of a country proclaimed that gold shall be regarded as standard money the law only adopted gold money which had been circulated as customary money, making it state money; and never meant that a State suddenly established an entirely new standard of value in the process of monetary evolution. The same thing can be said of other cases in which other metals are declared to be money by a State. Money in this sense, therefore, is not state money made of metal, but state metal money.

In China to-day, its Government gives silent assent to the circulation of uncoined silver money made in foreign countries, both of which are used side by side with state silver money. Unless there be scarcity of some particular money because of the great demand of the people of some district, exchange between different currencies is made in accordance with their qualities and weights. If, after supplying enough state money, the Chinese Government should effectively prevent the circulation of the customary silver money, the circulation of legal tender by nominal value, not based upon its quality or weight, will become possible in that country. But then, that means that legal tender is an extension of the customary money with its customary quality and weight and that a metal known as silver is made monetary standard and unit of state money. In all countries custommary money which was once current owed its existence to the specific material and its quality and weight having traffic-value which is based upon use-value. When a State establishes state money, it adopts the substance of customary money.

Customary money can be defined as money contained in a specific material having traffic-value which is based upon use-value; and, for this reason, its existence depends upon its material. Its supply in the currency market is regulated by the same law which operates in the production and distribution of its material. The supply of the material is made in accordance with its demand, while money contained in it is supplied by its owners. This is the original state of free supply of money.

The main purpose of the State in establishing a monetary system is to secure stability in money traffic. The essential condition for bringing about this stability is that a monetary system shall scrupulously respect social credit which is the very fundation of money traffic; and there are two main means for securing this stability. In the first place, popular credit in money should be made more certain by legalizing customary money—by making it "legal money"; secondly, free supply of state money should be assured as in the case of customary money. Free supply in this sense means that the State is willing to stamp customary money as "legal" as demanded by people, while forbiding the circulation of custamary money which does not bear this stamp. The system of free coinage, which is a sort of the free supply system, came into existence as a necessity of executing these means with certainty and to insure the legal quality and weight of state money. This system is said to exist in order to made the nominal value of standard currency the same as its real value; the former is meant to be the purchasing power of a unit of state money, while the latter is nothing but the purchasing power of customary money when has been transformed into state money. Strictly speaking, however, money has only nominal value, but not real value. Nominal value is the capacity of money for purchasing merchandise, while real value is what gives rise to nominal value, but is not the exchange value of the metal constituting legal tender. When one says that in the case of standard currency, its nominal value should be idential with its real value, he means that, when a State has made state money out of customary money and has secured a monopolistic right to issue money, it is merely called for transposing the purchasing power of customary money to state money.

When a State recognizes free coinage of gold money which is standard currency, it also must recognize free melting of gold coins. Of course a State should justly prohibit private persons to melt gold money wilfully, just as private coinage is forbidden under free coinage system. Free coinage system means the issuance of standard money in exchange with the metal, while free melting system means the withdrawal of the same in exchange with the metal. Thus money and metal are freely converted through the issuance and withdrawal of standard money. Free conversion is a system under which a State denies customary money in a formal way but adopts it in substance. Gold standard system (as well as any other metallic system) was originally adopted in this sense. State gold money was not originally created by legislation but it became so when a State recognized as legal tender the gold which had hitherto been money.

Where gold forms the basis of currency, there is a gold standard system in its strict sense. Gold is a material of state money in a different sense from one in which silver or copper of a subsidiary money or the paper of paper currency is a material of money. If the latter could be likened to clay for sculpture, the former would be as textile cloth is to a suit of clothes. If, as those simple-minded Chartalists, who shut their eyes to monetary evolution, maintain, gold money was merely a creation of a State's legislation, it would be impossible to explain why the nations of the world have not directly selected paper instead of gold which is a precious metal. True, most countries having a gold standard system adopted this system partly because England had a single gold standard. However, there remains the question as to why that country had in early times a monetary system based on this precious metal. At any rate, the adoption of the original legal tender was nothing more than that of customary money.

Thus, I believe that even state gold money was originally a money which was based upon the real value of gold, and that, in consequence, it is not merely a state token inscribed on gold. Nor is this view an extreme metallism disregarding the chartality of currency. Chartalism regardes money as the chartalistic means of payment and charta as a creation by law. I also believe that the nature of money in its last analysis is chartalistic; but I believe, at the same time, that this chartality does not owe its existence to state action but existed in customary money. Charta is a product of social psychology and charta-value is contained by money which is circulated by social customs. Although customary money owes its existence primarily to its real nature as useful goods, it also possesses chartality, as any money should have. The State only recognizes this chartality by legislation and thus makes it clearer that the characteristic of money is charta-value. When a State replaces silver money with gold money, the chartality of the former is inherited by the latter. Money, like a language, must live in society and in charta. But, as long as this chartality is possessed by an idol known as a metal—as long as metals do not become simply technical materials of currency—that metal is money, even as an idol is a god. This will apply equally to both customary and state money.

3. VOLUNTARY MONEY.

I have stated that the chartality of money actually exists in society instead of created by the authority of the State. One of the functions of a State is to develop this chartality, but in early times a State only recognizes and secures charta-value. However, a State's relation is by no means limited to this. As soon as money is transferred from social custom to a State's field of action, its ground of existence alters; or, in other words, natural money, which came into being and circulated naturally, becomes voluntary money, which is established and circulated in accordance with the will of a State. This great transformation often escapes the people's attention because no change in the content of money takes place, although the certainty of circulation is strengthened thereby. That this transformation is an epoch-making change for money becomes clear when one thinks of the fact that money is now placed under the will of a person know as State which can transform the content of money consciously and at its own initiative. Just as an individual's self-restraining moral power springs up when his natural impulse terminates at will power, so when the natural money of society is taken over by a State and becomes voluntary money, there appears a monetary policy. The phenomenon of money traffic, which is dealt only with the question of how is, evolved into a life of money traffic which deals with the question of what should be.

The first step of state regulation of money traffic is to select from among various forms of customary money one which is to be adopted as state money; decide on the question of the quality and kind of the material; prevent other materials from getting into the position of money; and enforce the circulation of money.

The State then establishes representative currencies such as subsidiary money or paper money. Although even a private person can issue certificates, a government alone can issue certificates which is acceptable to all unconditionally and which can fulfil the duty of transferring values; and state authority is needed to insure the circulation of money by coercion. A State may also do the following: adopt a customary money which was current in the past and replace the existing state money by it; establish a double standard system by unifying two different kinds of standard currency; transform a double standard system into a single standard system; make change in the quality and weight of standard money which is made of some metal; and even establish a restriction on the supply of standard currency. All of these are carried out in the actual practice of nations..

The characteristic of voluntary money is to be found in the fact that it is determined by the State will. The will of the State commenced in early times to reconstruct money for a certain object, though this objective may be reached by the natural power of society at a certain stage of social evolution. The fact that the result of this reconstruction is vastly different from customary money testifies the difference between the natures of these two kind of money. It must be noticed, however, that voluntary money is established when state money is established. Just as in the case of an individual, when a State manifests its will in establishing money, it must invoke the aid of the natural power of society. The action of a State in invoking this natural power of society is clearly seen in the case of the regulation of the supply of currency which I wish to take up later. At any rate, the State first decides on some object which it endeavours to carry out by employing whatever means it deems proper. Money will gradually manifest its pure nature of charta-value, discarding the impure element of real material property, should the State really understands the functions of money, and endeavours to bring about its realization.

4. PURE MONEY.

The chief function of money is to distribute economic values in social economy and the characteristic of this distribution in monetary traffic is to be found in the fact that the transfer of the value of some specific object is made in exchange for that of the general value-representatives, or in other words, it takes place in the from of purchase and sale. Another characteristic of money is power to purchase all salable objects. This power can be regards either as a capacity of a unit of money to purchase salable objects, or as an economic power possessed by " the subject of monetary traffic " to purchase salable objects with the money which it owns. Viewed from the standpoint of social economy, however, money is a mechanism, the function of which is to distribute values through buying and purchasing. The system of monetary traffic is an organization in the economic constitution in which this distribution takes place.

In consequence, the whole of currencies in a given nation has a distributive function and not purchasing power. In international relations, where one country carries on trade with other nations, its purchasing power in the foreign market is the amount of money it can pay to other nations either by sending it in specic or exchange.

We shall call this object, which contains only above mentioned function, " pure money." I do not mean to say that an object is impure simply because it happens to have two uses. When two utilities of an object conflict against each other and fail to fulfil their each duty, we may in view of a selected purpose of use, call it a mixed object. Wenn an object has a single quality which enables it to justify its existence, it can be called a pure object. Un-coined customary money undoubtedly can be called impure in this sence, because it is used for many other purposes in addition to the medium of exchange. As to subsidiary money, although there are still some people who trouble themselves with the amount of silver or copper as the case may be, in general it has been liberated from its metallic content, and it has become so pure as there is no room to choose between its monetary use and its metallic use. But as this is representative money, it cannot be said to be absolutely pure unless standard currency becomes a pure money.

There is much difference between pure money and mixed money relative to their constitution and fluctuation of value. The so-called static theory of tne constitution of value upholds that the value of a specific object is the one great element of the value of the mixed money which is constituted by that object; but the fact is that the value of pure money is free from the value of material basis. The value of pure money contains neither the use-value of its material content nor the so-called exchange value. Exchange value refers to a comparative value of exchangeable objects. Pure money is merely purchasing power from the viewpoint of those who are directly concerned with money traffic, but it is functional efficiency of distribution by exchange, viewed from the standpoint of the whole system of money traffic. We must either establish a third conception of value in addition to use-value and exchange value, or abandon the conception of the value of money altogether. Value of money in this sense is contained by mixed money to a certain extent and it increases as the money becomes purer. In pure money it exists in completeness when it has succeeded in driving out all impure values. On the other hand, the so-called dynamic theory of the fluctuation of value maintains that, when the value of the material of a mixed money changes, the value of that money also changes. An example may be found in the case of Chinese silver and copper. On the contrary, the fluctuation of the value of pure money is not dependent upon the fictuation ot the value of a specific object, but upon the total amount of monetary unit, how the amount is distributed among the different elements of society, the amount of various salable objects in the market, and how those objects satisfly the demand of the people.

Mixed money fulfils the function of distributing values in social economy, but is also used both in the production and consumption in utility economy. Such money may seem at first glance useful, but cannot fulfil completly its duty as money. The goods used as money is standard for measuring the value of salable objects, but at the same time it is one of the salable objects. Some object—food stuffs during the agricultural age, for instance—which is needed by everybody and which is necessary for every one, may be used as standard for measuring the values of other objects. But as present there is no such object; supposing there is one, it cannot function excellently as money because of the complicated distributive mechanism of present day society. Besides, since every good is liable to change in value and thus causes corresponding changes to the values of other objects, it will greatly disturb the stability of money traffic. An object having many useful values should not be used as money, so that it may be used for its natural useful purposes. One may think that gold should be used as money because it is comparatively difficult for people to use it. But the very fact, if one is aware of the fact that it is difficult for people to consume gold, is a good evidence that gold is not fitted for standard of the measurement of values.

5. CURRENCY MADE OF GOLD.

Whether the state money of to-day has passed over the stage of mixed money and has become pure money cannot be decided by merely looking at its outward appearance only. Although state money has become voluntary money in all countries, it is probable that, when gold money was established, it was not regarded as pure money. When gold is regarded as gold money and when one considers that gold constitutes the real nature of gold money, even state gold money should also be regarded as mixed money. On the contary, when gold money is regarded as an object possessing charta-value and gold as a substantial condition of the composing legal tender, its nature approaches pure money, although there may be defects as to its function.

Gold money in modern nations is, in principle, free gold money which recognizes the free conversion of gold. As we have already stated, this system of free conversion was a necessary system when a State first recognized customary money as state money, thereby taking into its own hand the power of coining and issuing money. But at present this system can be interpreted as a means of accomodating currency supply. The fact of free conversion has not changed at all, but conception regarding it has been changed.

Unless there be changes in credit and other organizations of monetary traffic, it is desirable that the amount of money should gradually increase with the increase in the amount of salable goods, and that it should never be increased or decreased in a great amount or suddenly. As a great amount of gold has been already stored up by mankind, the amount of the annual production of gold throughout the world is not very important. Moreover, up to the present time it has been impossible for men to increase gold by their power at will, because it must be dug out of the earth. Thus the system of gold standard can prevent the over-expansion of currency. And, since the price of gold becomes fixed because of the system of free conversion, the greater part of gold which has been produced at a cheaper price will become gold money; and if the expansion of currency should raise the prices of commodities, the productive cost of gold will also be raised, and thus will result in checking further increase in the amount of gold and incidentally that of gold money. On the other hand, if the supply of gold cannot meet its demand, melting of gold money will take place, followed by a contraction of currency. All this again result, through the intervention of prices of commodities, in an increase in the amount of gold production and also of currency. Although accommodation of currency supply is not limited to gold, the adaptability of gold in this respect is greater than that of any other. For this reason, gold is insisted upon. Those who hold that gold is gold money believe that the fluctuation of supply and demand is the least in the case of gold and that for this reason gold is best suited for money in which the stability of value is highly desirable. On the other hand, those who favour gold for money from the standpoint of the accommodation of currency supply, believe that undue fluctuation in the amount of money can be avoided if gold is used as the material of currency through free conversion system, as its supply and demand is most stable. Thus, there arises the two different forms of money, namely, gold currency having gold as its material basis and currency made of gold which has gold as a condition of its formation.

How did those two oppsing views of the identical fact of free conversion system arise in the monetary thought of the modern times? Because as customary money approches state money the idea is developed that money is not a natural product but a result of a voluntary action. As long as money is created and circulated under natural order, there is no necessity of considering and regulating its amount. Only after a State established money, did there appear the necessity of taking the proper step to regulate money traffic. Free conversion of gold coin with gold bullion is now regarded not as making gold bullion gold coin, but as basing the issuance and withdrawal of currency made of gold dependent upon the means of accommodating the supply of currency. Of course this view of gold money is held chiefly in reference to domestic money. Gold money is used both as domestic as well as international currency. Free conversion in this respect allows the gold currency of a nation to be common currency among the gold standard countries of the world, and in this way result in stabilizing that country's foreign exchange value. As international currency is a sort of natural money, a State cannot regulate it positively. What a country can do in this case is to correspond its domestic money to international money through the medium of the free conversion system.

It seems possible, therefore, to change Article 2 of our Monetary Law to my first plan, without really changing the content of the former. That is to say the provision "Two fun of pure gold shall be a unit of monetary value which shall be known as 'yen'", can be changed to "unit of monetary value shall be called 'yen'; standard currency shall be made of gold and every yen shall contain 2 fun of pure gold." If this change is made, the words "free coinage" and "free melting" can be replaced by the provision that "the government shall either purchase or sell gold bullion at a certain price." Of course, exercise of this operation should be made on the condition that at the time of such purchase or sale the issuance or withdrawal of currency shall be accompanied. This qualification is necessary in order to preserve the fact of free conversion.

6. GOLD PAPER CURRENCY.

Supposing that the free gold money of the present to be money made of gold, can it be said that it has already reached the stage of pure money? It must be admitted in the first place, that, in the case of money made of gold, gold is not to be regarded simply as technical material such as is paper in the case of paper money. They question cannot at this stage be answered in the affirmative, inasmuch as the raison d'être of money made of gold is to be found as a condition of its constitution which is necessary for the accommodation of currency supply by means of free conversion between the currency and its materials. Conceptually it may be possible to consider gold money as pure money, but it cannot be denied that in reality the money is identical with gold which is a product. Perhaps an equitable and safe view is this that gold money has already manifested the real nature of pure money and itself is approaching toward pure money as an objective. Just as facts give rise to a concept, the latter often determines the course of the former. Facts concerning money also often show a similar inter-relation and movement. In a country like ours where convertible notes circulate without any hindrance, they are regarded as the same as standard money and conversion between gold bullion and gold coin is changed to conversion between gold bullion and convertible notes, through the media of the National Mint and the Note-issuing Bank. And money which is used in foreign exchange are convertible notes, while in the shipment of specie gold money is used, but it is in the capacity of gold bullion. For these reasons what is most essential is the free conversion of gold bullion with convertible notes, and there is practically no need of gold money as an intermediary. Furtheremore, were the system of free conversion is regarded as the means of accommodating currency supply, unless the effectiveness of this means be impaired, there will be no question as to whether currency is made of gold or of paper; at least there will be no theoretical difference. Thus if the word " convertible " is erased off the convertible notes, transfer the organ of its issuance from the Central Bank to the Government, thereby abolishing the system of circulation of gold money which never takes place in actuality, the system of gold standard immediately changes itself to a system of gold paper standard. There is much doubt as to the need of the system of issuing convertible notes in excess of the legal limit partly for the purpose of financial accommodation; but if it to be preserved, instead of levying a tax on the issuance of notes in excess of the legal limit, the Government can derive interest from the investment of the notes issued, the Government issuing notes and transferring them to the Central Bank. There will be no difference in actual practice.

Although the proposed change would result in no papctical alteration in the actual practice of monetary traffic, such a change is all-important from the viewpoint of the evolution of money. Under the system of gold paper money, gold will cease to constitute money within the country, and money will be only of two kinds, namely, gold paper which is the standard money and subsidiary money which is reprentative money. As to subsidiary money, if the Government should bear the task of converting it to standard money on demand (and such an action on the part of the Government is not only necessary but also highly practicable by limiting the sum of conversion), there will be no need of the Government's limiting the amount of its issuance, nor will there be the strange phenomenon of complaining of its shortage. Neither will there be the necessity of limiting the availabe sum of its circulation. A kind of currency made of metall and having small face value may persist to remain, but the subsidiary money existing side by side with standard money will disapper. Under a system of gold paper currency, convertible notes will naturally disappear, and there will be no room for the existence of unconvertible notes, because this existence is dependent upon the existence of some metallic standard currency, which they represent unconvertively. If, under a gold paper standard the withdrawal of currency in exchange for sale of gold bullion is stopped, gold paper currency will discard " gold " and become independent paper money, but not unconvertible paper money as representative currency. Thus, under the proposed system, in addition to paper currency of large denominations, the only metallic currency that are circulated are those which are of small denominations (their nature as money is the same as that of paper currency and are made of metal only because of convenience); and not only representative currencies, but also the composite currency system, (which is now regarded as very useful) will disappear. Not only that, but the idea of standard money as opposed to those of representative and subsidiary money will also vanish; and there will be no standard of money, though some standard of monetary value will persist to remain.

It becomes clear that, if gold money is replaced by gold paper money, the free conversion of gold with gold paper money simply amounts to means of acoommodating currency supply. When voluntary money has evolved to this point, it will be seen that money consists in charts-value and that, in reality, it does not depend upon any metallic basis, the form of pure money being contained therein. On the other hand, although gold paper currency is essentially charta-value, conditionally it is dependent upon gold which is kept in the back ground, so to speak. One advance in monetary evolution was in the establishment of customary material money, in which gold (or any other metals) was identified with money, to state gold money having gold as the foundation of its formation; the second advance is to establish a new system of gold paper money having gold only as a condition of its formation. Alteration of basis is difficult of realization, but one condition can easily be replaced by another. If a third advance be made, gold paper money will become an independent paper money. Thus, while gold paper money is based on the same basis—free conversion system—

with gold money and retains the same name "gold," it registers an important advance in monetary evolution inasmuch as it approaches independent paper money.

When gold paper standard has replaced gold standard, there will be neither convertible notes nor a conversion system for them; neither will there be any necessity of gold reserves for convertible notes. The government which issues paper currency, however, must keep gold for the domestic demand of gold, the government withdrawing paper currency in exchange with gold. But the amount of such a demand for gold in the country is very small and to be easily estimated comparing with the next case, and consequently the amount of reserve need not be much. The chief purpose of gold reserve under the proposed system are to send them to foreign countries in case of unfavourable foreign trade balance. Thus the gold reserves, which are used for the conversion of convertible notes under the gold standard system, will be employed under the proposed system as reserves for foreign exchange, as is seen throughout the world even under the prsent monetary system. Prior to the European War, the general rule that the amount of gold reserves of a country should be one third of the amount of convertible notes issued was quite disregarded, and the nations of the world were busy accumulating gold as reserves for foreign exchange. Under the proposed system, there will be no corresponding relation between the amounts of paper currency and gold reserves, and the latter's amount can be fixed with due consideration to the favourable or unfavourable balance of a country's foreign credit and debt. Thus a country whose international account is likely to be unfavourable must prepare a correspondingly large amount of gold reserves, while a country whose international account is sure to be favourable does not need to have any reserves for this purpose. The international credit of a nation will be determined, under the proposed system, not by the relation between gold reserves and the paper currency but by that between gold reserves and the nation's foreign trade balance.

And thus the minimum amount of a country's gold reserves should be determined from the standpoint of its foreign credit and debt relations. If a country's reserves are not sufficient to meet the deficit in its foreign trade balance, that country should regulate its foreign relations according to that fact. When a country cannot prepare any necessary gold reserves, gold paper standard, under similar circumstances like gold standard, is only destroyed.

7. ADVANTAGES AND DISADVANTAGES OF THE FREE CONVERSION SYSTEM.

A system of gold paper standard recognizes the free conversion system by which the supply of currency is accomodated. Thus the free conversion system is regarded as a means, and we must consider whether this means fulfils its duty of properly accomodating currency supply. If we should find another means more effective than this system, the former can replace the latter. The very idea that the means of currency supply can be changed is an indication that the system of gold paper standard approaches pure money. However, if its means of currency supply is not connected with gold, its existences come to an end.

The first advantage of the free conversion system is that it prevents an excessive issuance of paper currency by the goverament for purposes other than monetary purpose. Although state money is established by the will of the State, the latter places a self-restriction upon the excessive issuance of currency by making the question of issuance dependent upon the natural restriction of the production and importation of gold. Until the day when the government is so perfected that there is no danger of the government's misrepresenting the will of the State, this self-restriction is a necessary system. However, past experience regarding the system shows that this restriction is not always effective. Instead of considering the question of expansion and contraction of currency, the government often increase gold by importing foreign capital or decrease it by exporting capital, thereby making the self-restriction ineffective. Chiefly due to the great development in international communications, the production and importation of gold, (when regarded from national economy), have ceased to be an effective means of accommodating currency supply, the contraction and expansion of money being largely dependent upon the artificial policies of the government. Of course those policies are not by any means always bad; on the contrary, they often eliminate the excessive expansion or contraction of currency by the free conversion system. This fact also discredits the system and lessens its value.

In the second place, the free conversion system entrusts the accommodation of currency supply to the natural function of the supply and demand of gold, because the supply and demand of gold fluctuate least among various goods. However, this is not very true of the production and consumption of gold. This is why Professor Fisher proposed a plan for "The Compensated Dollar." Moreover, the movement of gold due to the favourable or unfavourable balance of foreign trade results in the expansion or contraction of currency, and thus the free conversion system rather proves an impediment upon money traffic. When steps—for instance to keep idle superfluous gold or to issue unreserved notes abundantly—are taken to prevent this result, the accommodation of currency supply is brought about by means other than the free conversion system which then exists only in name.

What is then a proper method for the accommodation of currency supply? Mr. Keynes in his "A Tract on Monetary Reform" advocates a plan of entrusting the task to the credit policy of big banks. Such a plan may be workable in a country like England whose financial organizations are well arranged and where commercial morality is well maintained, but not in our country. I advocate here a plan which I regard as rational, although I am not sure of its practicability. It is a plan by which the expansion and contraction of paper currency are to be made in accordance with the fluctuation in the prices of commodities, without the assistance of the free conversion of gold.

Under this system, when prices have reached a certain point, a certain amount of currency is withdrawn by the government. This withdrawal is made through the imposition of a temporal tax upon all individuals of all classes whose incomes exceeds a certain point. This withdrawal is intended to reduce the people's purchasing power. The tax may assume the form of either a general income tax or a consumption tax on articles the consumption of which is to be discouraged by the tax. Both taxes may be adopted simultaneously. At any rate a tax which is most satisfactory from the viewpoint of taxation technologies should be adopted. The revenues thus obtained are to be classed as temporary expenditures in the national accounts, and their amount is to be placed outside of the current circulation. Next, when prices have fallen to a certain point, a certain amount of currency is to be issued. This amount is to be regarded as a temporary revenue and is used as replacement fund of the tax which is to be reduced temporarily in the ordinary tax pay. This reducement of tax thus increases the purchasing power of the taxpayers. I believe this necessity of reducing the tax will be seldom felt. At any rate, the accommodation of currency supply by this method should be carefully separated from the ordinary function of national finance. The method of legal recognition of the rise and fall of prices, the degree of the rise and fall of prices calling forth the accommodation of currency supply, the amount of the currency to be either issued or withdrawn for this purpose, and the ratio of the amount to be issned or withdrawn to the total amount of currency—all these should be determined legally, so that they can be known to everyone beforehand. There is another method of accommodating currency supply in accordance with the rise or fall of money interest, supplemented by consideration of the rise of prices. But, as the plentifulness and stringency of money are often due to the nature of the financial system and its function, care should be taken, so that the defect of finance itself may not intrude into the business of accommodationg money supply.

The aforementioned system of accommodating currency supply is based upon the idea that prices are affected by the quantities of currency. Whether or not this principle is true in actual life will be determined by various other factors. However, it is almost incontestable that every individual in society is a comsumptive purchaser and that, for this reason, changes in his purchasing power affect prices. As the proposed scheme will increase tax burden when prices are high and reduce the same burden when the prices are low, some will think that the whole system is unjust. But this is not so. The fact that prices are high is an indication that there are people who are willing to pay high prices, while the opposing fact shows that the people cannot pay high prices. It may be supposed that those who are poor consumers will get the most benefit of the proposed plan, inasmuch as they will be exempted from the temporary tax, as their income is small and their consumption is limited to daily necessaries. Not only that, but they will also be the recipients of the benefit resulting from the low prices. As the proposed tax is to be levied according to the people's ability to purchase, no one will suffer loss on that account, while the corresponding fall in prices will compensate their tax burdens. Low prices are desirable from the standpoint of purchasers, but it is not so with sellers who may justly wish to raise the low prices and who must inevitably find production and the distribution of commodities greatly hindered. Some may think that increasing the consumptive power of the people when prices are low is like enriching the rich, but it is not the case; when prices are low, many people usually have a very low consumptive power, and they suffer from the rise of prices. But their suffering is the consequence of their joint duty of remedying the production and distribution of commodities.

Of the various causes of the rise and fall of prices, there are two principal ones: namely, the fluctuation in the purchasing power of consumers and the original price of goods (chiefly the cost of production). There is no question that special remedy is needed in the time of a panic when the fall in prices causes a lasting fall under the cost of production in various industries. In normal times, sellers try to sell their goods at as high a price as possible, and the decisive factor in this respect is the ability of purchasers. For this reason the purchasing power of the people should decide the question of adjusting prices. And, as each individual in society is a consumer, changing his purchasing power is the most universal and just method of stabilizing prices, although its effectiveness may somewhat depend on other factors. The tabular standard system may be a good method of preventing injustice in the distribution of values. But, for us, the prices of commodities in a country are not a question for that country only, but a concern of all other nations as well. As one of our objects is making the prices of a country correspond to international prices, we must adopt a method which is likely to stabilize prices. I believe that I have stated the concluding part to the accommodation of currency supply which is a highly complicated matter in a too simple way, so that there are many points left uncleared. However, as that point is not the main theme of my article, I am willing to drop it for the present.

I believe that my proposal is practically impossible of realization under the prevailing taxation system and under the existing taxation morality. I expect that my plan will be laughed at as being a dream by practical people, and there are two reasons why I make this practically impossible plan. In the first place, I wish to show that it is difficult to adopt a pure paper standard and that we must be satisfied with a gold paper standard. In the second place, the discussion is meant to be a step for the presentation of a system of conditional free conversion which is a means of accommodating gold paper and which I shall presently take up in this article. If we could replace the free conversion system by some other effective means of accommodationg currency supply with or without the aid of a tax, then gold would cease to be even a condition of the formation of currency; there would be no necessity of currency being gold paper; currency would sever relations with gold and all other material goods; and independent paper currency or pure money which is an unqualified charta-value would be established without any risks. The present is premature for such a possibility.

I shall next consider what effects my plan will have upon international money traffic. If all nations maintain gold standard or the free conversion system, the parity of foreign exchange will be fixed and the fluctuation of the exchange price will be reduced to a minimum; and, therefore, if we should abandon this system, we should find another method which take its place successfully. One method is that which was practised during and after the European War among many nations—I refer to the method of settling foreign payments through the transaction of international certificates. Nations should carry out this method regularly in ordinary times. Austria used to regulate the paper exchange price through the transaction of pound sterling bills. In order to utilize this method effectively, a paper currency country must be in a position where she can be in constant touch with the international money market and can transact first class international certificates quickly and to her own advantage; she must also be in a position where she can regulate currency and prices effectively and where she can be free from continuous unfavourable debit balance. Moreover, these conditions are not quite enough. Unless a country is a first class country financially, she would find it difficult to maintain a stable exchange rate continuously, as she can under the free conversion system. Of course, it will be difficult to maintain the free conversion system, when a country's prices rise and her foreign trade is extremely unfavourable; but, as long as this system can function properly, the more inferior the financial position of a country is, the greater will be the benefit which that country derives from the stabilizing effect of the system in the exchange market. Gold, which is an international money, is a natural money. Naturally, it may be forced to evacuate the important position it now is occupying in the near future; but, until that time, it will be difficult to abandon this system of free conversion of gold. All these considerations tell us that it is highly desirable to replace gold standard by gold paper standard for the sake of the future. It can be adopted at the present without any hitches in the monetary system generally, and it will be able to meet the new situation when gold has been driven away from international money traffic.

8. MEANS OF ACCOMMODATING THE SUPPLY OF GOLD PAPER CURRENCY.

Although the system of free conversion of gold has many defects, it is almost impossible to find any other system that can replace it at present. For this reason, gold paper standard is the most progressive system that can be adopted at present. Even if we are to adopt this standard, the free conversion system will be too conservative a system unless proper changes are made on it. As a supplement to this system, I wish to adopt a system of accommodating currency supply based upon the fluctuation of prices. A certain standard is to be fixed in prices. When prices have rised or fallen over this standard, a fee should be charged for the issuance or withdrawal of paper currency. If prices rise above a certain point, a progressive fee should be charged to those wishing to get paper currency issued in return for gold bullion according to prices, or should buy bullion by discounting the amount of the fee. To those wishing to buy gold bullion, the government should accept paper currency by discounting the amount of fee in exchange with gold bullion. When prices fall below a certain point, a progressive fee should be charged to those wishing to secure gold bullion in exchange for paper currency, or gold is sold to them with an extra charge. On the other hand, to those wishing to secure paper currency in exchange for gold bullion, the government should give them paper currency after charging them an entra charge. In the former case the price of gold is reduced to the amount of the fee, and the production and importation of gold are discouraged, while its consumption and exportation are encouraged. Moreover, currency does not expand excessively as in the case of the unmodified free conversion system. In the latter case, the price of gold rises to the amount of the fee, by checking the consumption and exportation of gold and encouraging its production and importation; and currency does not excessively contract as in the case of the unmodified free conversion system. Various factors of the proposed system —method of official recognition of the rise and fall of prices, the maximum and minimum points in prices calling forth a fee in exchange between gold and paper currency, the amount of the fees or their establishment—all these and others must be fixed by law, and the fixed amount of the fees must be officially announced. This system may not be very effective, but at any rate it will be much better than the unmodified free conversion system, because the former does not need such a roundabout method as a check by the supply and demand of gold, but it depends on the immediate fact of the fluctuation of paices. It is a more effective method of accommodating currency supply. Moreover, imposing a condition on the free conversion system will result in elucidating the fact that the free conversion system is only a method of accommodating currency supply, thereby pointing to the nature of voluntary money and the true nature of pure money in general.

The proposed system will have the effect of stabilizing prices, but there will be no fear of its hindering money traffic. Although it will somewhat affect the production and consumption of gold, the effect will not be a serious one, inasmuch as an increase in the consumption of gold resulting from the adoption of the system, will not cause the extinction of gold, nor will a decrease in its production result dasastrously in the gold mining industry, because its production is only put off for the future. On the other hand, it may be argued that the new system will have objectionable consequences in international money traffic. The fee charged for the issuance of paper currency will cause a rise in exchange rate, while the fee charged for the withdrawal of currensy will result in a fall. It may further be said that the former fee is nothing less than a fee for coinage while the latter fee amounts to a conversion charge. However, since these fees are to be fixed beforehand and announced, and are not to be changed often, there will be no room for speculation in this respect; and consequently there will be no fluctuation in foreign exchange resulting from the method. And, as I have already pointed out, it may prove convenient to establish a financial method of accommodating currency supply; but if such a method be adopted, care should be taken so as not to sacrifice prices for the sake of finance.

The gold paper standard I herein advocate is intended as a plan for improving the monetary system. It may contain various defects which I hope to eliminate at the suggestion of generous readers. Moreover, my proposed plan will not be effective in eliminating the debit balance resulting from our excess importation which is a cancer in our national finance. The very existence of the proposed system itself may be threatened by this debit balance, and in this respect is no better than the present system of free gold currency. At the same time, it must be admitted that however good a monetary system may be, it will not be able to eliminate this cancer by its motive or controlling power. While our country should direct its energy in curing this "chronic disease," the improvement of our monetary system is equally important in order to bring about an improvement in international accounts.

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