Boston, Mass. Appil 8, 1961

Comments on Knud Tholstrup*s
"Whu Put up with Inflation?"

While some of the statements made are irrefutable and well-presented, the argument is stated in non-professional economic language involving inexplicable and inconsistent assumptions and conclusions.

Let us begin with the initial statement in the preface: "I am convinced that there is an exact balance between the sum total of real values and the total amount of money, and that a point of balance is reached between yearly profudction and total yearly purchasing power."

This is at first inexplicable ~~because~~ until one learns later in the text that by money, the author means all credit instruments and claims that may possibly be used in exchange for goods, services or other credit instruments and claims.

The phrase "the sum total of real values" is ambiguous. The whole paragraph would take a lot of explaining to make sense. I think that what the author is trying to say is that the production of goods is synonomous with the creation of purchasing power represented by those goods in the marketplace.

In the next paragraph there is the phrase "the intrusion of purchasing power which is not, either directly or indirectly, earned by previous production..." Those who render personal services are intended to be included in the phrase by the word "indirectly." They do not produce but exchange services for goods and services.

I think that Mr. Tholstrup is saying in the next paragraph that when there is an appreciation in the market value of land, for example, the owner can sell it for more dollars and can enter the marketplace with more dollars so obtained. These extra dollars he considers to be false money. A net increase in such additional potential dollars may have the effect if enough people sell for the increased dollars obtainable and enter the market place, of raising dollar prices. The relationship is not necessarily propostional because it depends upon activity. No one can quarrel, however, with his fundamental identity that dollar values of goods are equal to the dollar values of the claims on such goods.

The statement in the next to last paragraph of the Preface is that the purchasing value of the dollar is diminished in the exact ratio to the extent to which false money is absorbed. This is the quantity theory of money which is not borne out by the record of prices.

I cannot quarrel with pages 5, 6 ~~and~~ 7.and 8.

On p. 9, inflation is defined in the first sentence as decrease in the purchasing power of the dollar. That is a vulgar definition. That is the same as saying that inflation means higher prices. In the next sentence, Mr. Tholstrup corrects this statement.

He adds the fact of an ever increasing amount of money. Here I am not sure whether he means money in the sense of dollars in circulation and in demand deposits of commercial banks or the total value of all claims and credit instruments.

(In the previous pages, he clearly refers to money in the first sense; subsequently, he brings in his own, unconventional definiton of money, which does violence to the usual meaning of the word.)

He continues to clarify by saying what is generally regarded as correct: that money, in the sense of cash and demand deposits, created on values of obligation rather than values in production, is the measure of inflation in one of the more authoritative definition of the word inflation.

A minor error appears in the first sentence on page 10. Part of it reads" the treasury normally does not issue more notes than are necessary to satisfy the daily turnover." In one sense that is corect' in another, it is not. The treasury does not issue notes without an offsetting consideration. In other words, a bank that callls upon our Federal Reserve System for money dollar bills, pays for them out of its balance in its Federal Reserve Bank or by putting up collateral. That is where the gold standard comes in. Gold backing is supposed to put a limitation on the Federal Reserve Banks as to how many notes and loans they can create. What they do create is always offset.

I would correct the first sentence of the last paragraph on page 11 as follows: "Real purchasing power arises only as a result of production." It does not rise from services which involve no production.

The statement on the bottom of page 13 is a gratuitous, dogmatic, unproved, and begging-the-question asseveration. That is the point of my argument with Bob Clancy.

Let me introduce some of my own ideas in connection with the comments appearing on page 14. When gold was defined at $20 an oz. and was followed by a rising price level, then gold commanded less than theretofore. Gold mines found it less profitable to produce gold. Mines from which gold was aby-product in the abstracting of other metals, had to figure that one of their by=products, gold, gave them a small return and operations could be carried on only if nthe net yield from all the products produced enable the mine to operate in the black. Gold production obviously is cut down as prices rise. When prices fall, the opposite is the case. Gold production is quickened. Briefly, in 1933. when gold was made equal to $35 an oz. in an attempt to raise prices, this was a boon to gold mining companies. Foreigners with gold now could buy more here and it was thought that prices would rise. Government made a profit of four billion dollars (or something like that) which it could spend in additionx to taxex revenues. The limitations on notes and deposits were liberalized because the same amount of gold now permitted the creation of almost twice as much in notes and demand deposits.

Today prices levels are much higher than a few years ago and gold is not so profitable to mine - production has lessened. That is why gold mining companies want another devaluation. By defining ~~gold~~ the dollar in terms of gold, only the price of gold is fixed and other items vary as they vary

Mr. Tholstrup says on page 14 that gold is no longer a good meas- of value since the metal is steadily falling in value compared with the general average of goods. Gold is still a good measure of value even though the latter part of his sentence is true. In terms of purchasing power an oz. of gold buys much less today. Therefore production os gold is cut way down. The situation would rectify itself if convertibility were permitted. All the speculators - who are to be credited with knowing what they are doing, assuming they are successful enough to claim many dollars - would convert to gold at once if convertibility were permitted.

To say that our standard today is a goods standard is an incomplete and erroneous statement, for it tells nothing except that the dollar is now buying less - a conclusion by no means earth-shaking.

On page 15, Mr. Thorstup goes on to say that deeds and mortgages, which can, in unusal cases, be used in swaps of real estate, are money. One of the best and essential characteristics of money, in any definition that has usefulness, is that the payment of money is supposed to close a transaction. The giving of a mortgage does not conclude the transaction; it is merely a promise to pay in the future, in money.

The first paragraph on page 16 is the statement of an identity.

Psge 17. There can by cartels which raise prices by collusion and protection from competition - a form of taxation - which do not cause inflation. The privilege of taxation by a private group simply enriches that group at the expense of other producers.

Pag4 18. Subsidies and tariffs are not necessarily the cause of inflation. They are the mulcting of ~~xxx~~ many for the benefit of some. Simiarly, too many government employees on the payroll do not necessarily cause inflation. Many are helping to support a few who are not producing goods and services that would be similarly rewarded on a free economy.

I have no time to go further. What has been said indicates my reactions.

Inflation is cause by an increase in notes and demand deposits by govt. monetization of debt, by loans on values in obligation arising principally in land values, special franchises and privileg es, and on consumer debt. These are the sources of "false money."

M S. Lurio

WORKING FUNDS · FOR INDUSTRY ·

WALTER E. HELLER & COMPANY
OF NEW ENGLAND, INC.
31 MILK STREET · BOSTON 9, MASS. · HAncock 6-1140

IN REPLY PLEASE REFER TO

April 8, 1961

Dear Bob,

I would not recommend your publising and distributing Mr. Tholstrup's booklet for the reasons given in the enclosed quick job.

It is well=written but deficiaat in its understanding of anything other than that "false" money bring trouble and higher prices. With that no one can disagree.

Enclosed is an ad that I decided to run suddenly when I learned that several of our neighbors on the same floor where the School is located remarked to a friend"The whole gang here knows that this School is Communistic."

We have only a dozen enrollments thus far. I take the class Monday, Schirago Wednesday and Farkas Friday. Several friends have promised to come with their friends. Mr. Madden is sensible and helpful. Since we are at the bottom, we have no way to go but up.

I'll gkeep you advised. May get to New York next week or so and will make a special effort to spend some time with you at your convenience.

Cordially

Mike

I have not even re-read enclosed as am late for appointment.

Mike

Will send Conference suggestions shortly