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The Need for an Elastic Currency

Money as a medium of exchange is merely an instrument for moving goods. The use of money makes possible the production of goods under the most favorable conditions and the distribution of such goods where they serve the most urgent needs. Clearly the demand for an agent which sustains such a close relation to the state of industry and trade will be subject to variation from season to season and from year to year. In the most progressive nations of today the precious metals have been made the basis of the currency. Now a gradual strengthening of the demand for money through slow changes in industrial processes and trade relations will tend to stimulate the quest and further the production of precious metals and so to increase the money supply; and a gradual relaxation of the need will likewise be met by a conversion of metallic money into bullion for use in the arts. But within a given area at least the condition of trade and industry are subject to more or less violent changes, to alternating periods of stimulation and depression, and to these abrupt alterations in the demand for money a metallic currency seems incapable of easy adaption.

But the diversification of modern industry and the growth of commerce have been accomplished with the development of banks and financial institutions and have given rise to the use of checks, drafts and other credit devices which have supplemented the body of metallic money and given it a certain element of elasticity. The important consideration from the standpoint of currency problems is that there need be no fixed ratio between the volume of such credit transactions and the amount of specie on which they are based, but within the bounds of safety and reason they may swell to meet an increasing demand for payments and subside with a