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RWL

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Dear Leonard,

Thank you again for the engrossing journal of your adventures abroad. I enjoyed enormously all the early part-- your way along the route I knew so well almost thirty years ago, and all the places that I remember as they were. My agony when you took a motorboat in Venice! Aren't those horses still rampaging atop St. Mark's? And what do you mean, no 400 bridges in Venice? as in Amsterdam. I never counted them, but when I lived in Albania there were lots of bridges in Venice. I always stayed at the Danieli. Oh well...

Your Mt. Pelerin statement was fine, I think.-- Possibly you're right about the futility of talking to Professors; maybe nothing can penetrate their solid contempt for everything American but the dollar.\* It occurs to me just now to ask, Why can our efforts not succeed at all in getting Mises to glance at the American political structure? Doesn't he in his heart feel that ~~he~~ he is an exile from civilization? Maybe it isn't stubbornness in him at all; maybe it is simply the fixed idea of the USA as a fringe of Europe still barbarian, which every assumption in his environment has ingrained in his mind since his infancy.

No!  
Very poor  
She still hasn't quit  
"Thinking in classes"

\* "but the dollar" modifies "contempt." I don't mean that the dollar penetrates it. My rhetorical error.

I don't understand any particle of the reams written about money, either. But money itself seems to me plain enough. As follows:

Everyone else all wrong  
But I understand its simple!

When exchange of goods is more complex than direct barter of the goods themselves, it is essential to have a standard of measurement for the value of goods. This is self-evident, isn't it?

No, totally wrong beginning

The value of goods is an intangible, being the subjective preference of individual persons, varying with these preferences, and fluctuating in Time.

Therefore, the problem is, How to represent this intangible (infinitely varying) by a measurable tangible which will serve the practical purpose of facilitating the exchange of tangible goods?

It seems to me evident that persons will exchange goods only for goods. (Goods of course include services; habitually farmers "(ex)change works," we exchange work when I write a piece to get money to spend for a movie, etc.etc. But for simplicity, let's use material goods to represent all forms of good--good to persons, satisfaction of human needs and wants.) Therefore, the measurable tangible must be itself a material and marketable good.

No!

Any material and marketable good will serve the purpose, in

given circumstances, place, and time. American cigarettes in post-war Europe are an illustration.

Money is not essential to exchange of goods; they can be and are directly exchanged, "traded." An enforced "standard" (gold or other) is not essential to exchange of goods; witness all "black" markets using such things as cigarettes. Human beings naturally, inevitably, exchange goods, and naturally create some "standard" to facilitate that exchange. In fact, and as everyone knows, it is literally impossible to prevent human beings from doing both, by any force that men can use upon each other. (Better phrasing: No force that men can use upon each other can stop trade or prevent traders from creating a standard of exchange-value.)

However, human desires are infinite; human action, including production of goods, is limited by space and time. Other factors, such as climate, limit the kind of goods that can be produced in given areas of space on this planet. Therefore, the amount of goods (satisfactions of human needs and desires) that human beings can obtain, is in ratio to their ability to overcome the limitations of space and time.

To extend trade-- i.e. to increase the number of persons co-operatively exchanging goods over larger area in space and longer duration in time-- it is essential to use a standard of measurement of value which is desired by persons living in a larger area, and which is durable in time. Also, for reasons of space and time in transporting that tangible good used as a measurement of the value of other goods, it is desirable that the amount of it easily produced be small, the available quantity small in comparison to the human desire for it.

Of course, historically, traders began using gold as the standard measurement of value, for precisely these reasons, during their recent invention of banking. A gold standard per se is unimportant; the necessary qualifications of the kind of goods to be used as measurement of value of exchanged goods, are as stated; gold has those qualifications. So has any "precious" metal which itself is a commodity; i.e., it is widely (in space) desired by human beings for its own sake, to use as ornament and in manufacturing other goods, watches, pens, dentures, glass, china, etc.etc. and is very little subject to deterioration in time, and exists in relatively small quantities not easy to extract and refine, so that demand for it is larger than supply and, therefore, persons will exchange for it a much larger bulk and weight of other goods more abundantly produced.

So far, the whole matter is simply one of exchange of goods, gold being one of the commodities exchanged, and traders reckoning the exchange-value that they place on other commodities in terms of quantities of gold, just as in postwar Europe they reckoned exchange-values in terms of quantities of American cigarettes. And for the same reasons: desirability, scarcity, durability, ease of transportation.

Credit now enters. Credit is based on an intangible-- the trust that persons place in other persons. This trust further facilitates exchange of goods, for the same reasons that using a certain kind of

*No*

*not for sure?*

*No. seriously in error of facts.*

*denial of earlier returns*

commodity as measure of exchange-value of other commodities does: i.e.,

it is rare, difficult to obtain, durable in time and extensive in space. Traders discovered this fact in Europe at the beginning of modern times. They found, for example, that a Rothchild's promise to deliver gold was as good as the gold; the Rothchilds had the gold, and they delivered it. A trader going from Vienna to London to buy English wool to sell in France or Holland need not ~~take~~ take a caravan of wagons loaded with bulky goods (which the robber barons would seize enroute,) or a more easily transportable quantity of gold-- desired nearly equally in both places and therefore having roughly the same exchange-value in each-- (which he risked losing to cutthroats all along the way, as well as to the barons;) he gave the goods or the gold to the Rothchild in Vienna and carried a bit of paper, in exchange for which the London Rothchild would give him the gold-- and not give it to anyone else, so the paper was not worth stealing. So far as I can see, this is ALL that credit is, intrinsically-- a person's trust in the honesty of another person.

If I am correct so far, the State--which is the legal monopoly of the use of physical force by persons upon persons-- has two essential functions to perform in a modern economy, in regard to money.

1. Establish and maintain the unit of measurement of the commodity (let's say, gold) which is used as the measurement of exchange-value. This should be a duty of the Bureau of Weights and Measures, which establishes the number of inches (or is it mm?) in a yard; the number of ounces (or grams or whatever it is) in a pound; the number of ounces of gold in a dollar. and in the same way should establish

The necessity for this State function is illustrated by a little incident in the 14th century, which it always amuses me to remember. The cloth market of Ragusa was then just inside the inner gate of the city's double walls. In the midst of the market stood (and still stands) a lifesize statue of St. Basil, patron saint of Ragusa, holding an iron pike. Ragusa's trade was enormous, the city rivaled and at intervals surpassed Venice as entrepot between Orient and Occident. Great quantities of cloth of all kinds were exchanged daily in the cloth-market, and all was sold by the pike (when was the yard invented, I wonder; do you know?) Without cessation from earliest dawn to candlelight, men stood by the statue, reeling off pike after pike of cloth. Then began an uneasiness in the market, a murmuring, quarrels, fights, finally an open scandal, threatening to damage Ragusa's commercial prosperity from Gibraltar to Cathay: foreign traders asserting that Ragusan pikeage was short-measure. The City Fathers instituted an investigation of this subversive movement, and discovered in truth that the length of St. Basil's pike was diminishing nightly. No miracle. The Ragusan merchants stealthily by night were filing it down. The City of Ragusa brought them to trial, convicted and banished them, and had a strong iron fence firmly erected around the figure of their patron saint. Then by edict the City Fathers established the unit of measurement of cloth in Ragusa's market.

It is as essential that a unit of measurement be established, known, and permanent, for the measurement of exchange-value, in the time-dimension, as it is essential that units of measurement so exist for the measurement of objects in space--their length-width-height and weight. All these measurements are essential to what is called the stability of a modern--

*No, not parallel.*

*But she just finished operating on p. 2 that my force could thus destroy trade!*

*This is the fruit of error when beginning error*

i.e., relatively free-- economy. They are not necessary in simple barter, where trade is exchange of objects between two persons having the objects present. It is the extension of trade in space and time that makes fixed measurements essential.

Digression: Some Princeton students having tea with me this spring insisted that there are no principles, everything is relative. I said, If everything is relative, nothing can be, because then there is nothing to be relative to. These infants, Princeton juniors, countered triumphantly with the hackneyed two trains, one going 80 miles an hour, the other 60 miles an hour, their speed being mutually relative. I said, Yes, but the mile and the hour are fixed. This simple fact stunned them speechless. Such is modern education; the pride of your Mt. Pelerin professors.

2. The State's second function, of course, is to arrest (stop) persons who (let's say for short) file down the pike. Those who destroy credit by actions diminishing trust. Those who promise to deliver goods, including gold, and don't. Those who deliver fewer than the legal number of ounces of gold for the dollar. Just as now --in theory at least-- the State stops the grocer who puts sand in the sugar, or his thumb in the scales, or water in the milk.

All the rest of the expert and technical discussions of currency and credit, and all the complexities of all the actions of bankers and States in "expanding" "contracting" "inflating" "deflating" "reflating" and "stabilizing"-- actions that occur, and in that sense are facts-- seem to me to be nonsense and irrationality amounting practically to insanity. For example, to say that a function of the U.S. Federal Government is the Federal Reserve system seems to me like saying that the function of a perpetual-motion machine is perpetual motion. Nobody can deny either statement, but in reality neither is true. The perpetual-motion machine (though many men have spent lives making them) is a fantasy, and so is the Federal Reserve system. They are the actions of human beings in time, yes, but they don't work in time. The actions CAN'T produce the result intended by the persons acting.

No economist would listen to me seriously for a moment, of course. I hope I have not bored you too much with this unintended length of letter. When can you and your AG come to see me? This time I promise to deliver a chicken pie. Oh yes, and don't be snooty about mashed potatoes and ice cream. What is the final, ultimate, most supremely difficult test of the gourmet-chef, the crowning achievement which--IF he can do it-- graduates him with the world-coveted Cordon Bleu? A plain pot roast. The dish that thousands of American "nothing but housekeepers" turn out perfectly and often. Nobody learns to make mashed potatoes at the Cordon Bleu in Paris because, 1, French chefs never heard of them, 2, they don't have Oregon or Maine potatoes, 3, they don't have MixMasters. The best they know is pommes purees, which is soggy potatoes mashed with a fork in the water in which they were boiled. Item: the reason they make such marvelous sauses (as they do) is that their meat undisguised is uneatable, at best, and at worst is slightly tainted since ice is as rare as window screens. The animal must be eaten as soon as killed. Only the faithful student and true artist who has passed all minor

*Contempt  
destroyed the  
would of the  
teacher!*

*But only 300 he  
said that they could  
- that it was a proper  
function of gov't to do so.*

tests, made to perfection all the marvelous suaces, and preferably invented one approved by the Masters, is worthy to be entrusted with a piece of beef from which CAN be made a plain undisguised succulent pot roast, an ordinary dish in this country. I have great hopes of you. Continuez, continuez, mon garcon, mon vieux; Je crois bien qu'on verra le jour ou on mange le pot-roast de vos mains, d'un delice supreme, merveilleux!

Veulliez agreer, mon cher monsieur, l'assurance de mes sentiments les plus distingues et de mes remerciements sincerés,

RWL

My along the route I knew so well about thirty years ago, and all the places that I remember as they were. My agent took a photograph in Venice aren't those horses still reposing at St. Mark's? and what do you mean, no 400 bridges in Venice? as in Amsterdam. I never counted them, but when I lived in Albania there were lots of bridges in Venice. I always stayed at the Danelli. Oh well...

There is, I believe, a statement was fine, I think. -- Specifically you're right about the utility of talking in Professor's way: nothing and perhaps their solid content for grasping American but the latter. It occurs to me just now to ask, why can our efforts not succeed at all in getting Nixon to change if the American political structure? Doesn't he, in his heart feel that as is so calls from civilization? Maybe it lacks stubbornness in him at all; maybe it is simply the fixed idea of the FBI as a fringe of Europe still barbarian, which every description in his environment has ingrained in his mind since his infancy.

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I don't understand any article of the news written about money, either. But money itself seems to be plain enough. As follows

The existence of goods is very complex that direct transfer of the goods themselves, it is essential to have a standard of measurement for the value of goods. This is self-evident, isn't it?

The value of goods is an intangible, being the subjective preference of individual persons, varying with those preferences, and fluctuating in time.

Therefore, the problem is, how to represent this intangible infinitely varying by a measurable tangible which will serve the positive purpose of facilitating the exchange of tangible goods?

It seems to me evident that persons will exchange goods only for goods. Goods of course include services; sufficiently far from "exchange words," as exchange word when I write a piece to get money to spend for a movie, etc., etc. But for simplicity, let's use material goods to represent all forms of good--good to persons, whether for their basic needs and wants. Therefore, the measurable tangible must be itself a material and measurable good.

The material and measurable good will serve the purpose, in