Comment by the Editor

THE GAME OF PROFIT AND LOSS

When business activities exceeded the facilities of exchange, the pioneers of Iowa resorted to inflation of the currency. It was a perfectly natural and expedient device. The meager supply of gold and silver money was supplemented by paper, most of which was based upon private credit unsupported by a specie reserve. It was as sound as the willingness and capacity of its sponsors to redeem it in gold and as valuable as the current price of commodities.

While prosperity prevailed, the system of unlimited borrowing on hypothetical security worked very well, because public confidence in private credit was justified by the prospect of rising prices. But when prices fell and credit shrank, merchants and bankers could not meet their obligations, public confidence was destroyed, panic seized the people, and in the stampede to convert goods into gold the whole financial structure collapsed.

The panic of 1857 is only one episode in the perpetual alternation of prosperity and depression. As long as prices fluctuate, men will speculate on the board of trade for profit. Indeed, the profit system seems to be founded on the instinct to gamble. Men will risk financial ruin for a chance to win a fortune by other means than interest, rent, and wages. Yet some conditions of the game are subject to manipulation. Inflation of the currency, for example, is an artificial method of increasing prices (and profits).

But eventually economic forces cause deflation (and losses). The teeter-board of the business world goes down as well as up. After the boom, hard times will come again. When the bulls appear, the bears (and wolves) are never far behind.

The history of speculation is almost garrulous in its repetition.

J. E. B.