
The problems considered in Nominalistic Principle arise from the economic importance of currency units or, simply, money. Market transactions (or trades) between economic agents are only undertaken when both participants expect to benefit by doing so. In the absence of a medium of exchange, trade must be conducted by barter. The likely result of the barter economy is that each economic agent attempts self-sufficiency in production. The existence of a medium of exchange means that trade need not be conducted by barter. More precisely, the existence of money reduces the cost (or increases the efficiency) of trade and encourages production specialization. Plainly, money must be convertible into goods to function as a medium of exchange. The predominant requirement for this result is confidence in the general acceptability of the currency unit throughout the economy. This process introduces a time dimension to consumption. Obviously, money may be reserved for conversion into goods at some later point in time. As a consequence, another function of money is as a store of value. The success of money as a store of value plainly depends on the physical or real amount of goods and services that the monetary unit can buy over time. This obviously depends on the stability of prices over time. Should prices remain unchanged over time, the real purchasing power of the monetary unit remains unchanged over time. Alternatively, inflation (deflation) reduces (increases) the real purchasing power of money. Hirschberg argues that the specification of monetary obligations as a specific number of currency units or nominalism necessarily means that creditors suffer real losses while debtors make real gains in periods of inflation. He contends that this real income redistribution is inequitable and that legal procedures are necessary to effect justice.

The origins of price level changes is the starting point of this author's discussion of solutions to unanticipated real income redistributions. He argues that price level changes may result from deliberate government manipulation of the money supply (which is exogenous to the private sector of the economy) and from the normal commercial motivations of economic agents (which are endogenous to the private sector of the economy). The argument concludes with the contention that exogenous, but not endogenous, price level changes require intervention to prevent excessive real income redistributions. Hirschberg suggests that the relationship between monetary policy and price level changes is crucial but ignores the relationship between the latter and fiscal policy. This distinction is unnecessary and artificial. Lastly, despite the theoretical implications above, the operational separation of price level changes according to source is virtually impossible.

Given this problem and its sources, Hirschberg considers alternative monetary structures for an economy — metallistic, nominalistic, and va-
loristic. The metallistic standard, which directly ties the money supply to the stock of precious metals, prohibits government manipulation of the money supply. However, it also is an arbitrary standard and may restrict growth. Accordingly, it is not an acceptable monetary structure. The nominalistic standard works efficiently when prices are stable and produces the above mentioned real income redistribution when they are not. More completely, this standard allows government use of monetary and fiscal policies to attempt to attain national objectives. Hirschberg’s contention that nominalism allows government decision-makers to make choices to maximize their personal wealth, at national expense, is generally incorrect. He argues that custom and institutional arrangements promote the continuation of this system. The valoristic standard is simply the adjustment of nominal monetary obligations to reflect constant real purchasing power over time. The adjustment technique proposed involves some type of cost of living index. Hirschberg concludes that the political and social entrenchment of nominalism prohibits its replacement by valorism. Consequently, the solution to the problem is a variation of nominalism — ex post revaluation using price indices to gauge the degree of compensation. He further argues that this policy should be applied by the judiciary rather than legislators since the latter may be influenced by interest conflicts.

The implementation of the modified nominalistic principle is another question entirely. Hirschberg argues that the rate of price level change as well as the term of the obligation must be considered. Specifically, the system should apply to medium and long term, rather than short term, obligations. The extent of compensation to losers is subject to judicial decision. This analysis desperately needs some consideration of the social cost (benefit) and private benefit (cost) effects of such a system. More precisely, how large is the problem? Do private contracts, currently, deal with price change expectations efficiently? Will such a system disturb the economy’s constellation of prices, output, income and employment so that inefficiency is encouraged? How will judicial income redistributions affect these variables? Lastly, can price indices accurately represent the change in living cost for any entity, except the average? In summary, Hirschberg has identified an interesting problem; however, the proposed solution does not really tell us if the problem is actually worth considering, operationally.

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