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stock in proportion to the annual supply needed to maintain it undiminished in proportion to the people, the less differences of pressure and consequently of price will given fluctuations in that supply cause. But to allege, as Professor Laughlin's fetishism requires him to do, that the increase of gold money and paper kept by convertibility on a par with gold is never, and perhaps never can be, great enough to raise prices, is, in view of recent experience in his own country, simply grotesque.

EDWIN CANNAN

The Paper Pound of 1797-1821. By PROFESSOR EDWIN CANNAN.
(London : P. S. King. 1919. Pp. xlix + 71.)

PROFESSOR CANNAN has supplied us with a reprint of the Bullion Report of 1810. The Report has been rightly regarded as marking an epoch in currency history. Even if it deserved Horner's modest description of it as "stating nothing but very old doctrine" (quoted on p. xxii of Professor Cannan's Introduction), it at any rate expressed this doctrine in a form which caught the attention of practical men, and exercised a real influence on the course of events.

But Horner was probably quite well aware that the Report did something more than state "very old doctrine." That a depreciation or over-issue of the currency might affect the foreign exchanges had indeed long been recognised. Gresham mentions this in the very letter to Queen Elizabeth which has gained him (erroneously) the credit of discovering "Gresham's Law." But, for all that, what may be called the Balance of Trade Theory held the field as the recognised doctrine of the foreign exchanges. An unfavourable exchange was attributed to an excess of imports ; a favourable, to an excess of exports. The Bullion Committee pointed out that a depreciation of an inconvertible currency alters the par of exchange itself, the new par being such amount of a foreign metallic currency as the depreciated unit will buy at the market price of bullion. What is more, they showed that "there cannot be, for any long period, either a highly favourable or unfavourable balance of trade ; for the balance no sooner affects the price of bills than the price of bills, by its reaction on the state of trade, promotes an equalisation of commercial exports and imports." Consequently, that excess of exports, which they found to have characterised British trade in the five years preceding the Report, was to be interpreted, not as an influence conducing to a favourable state of the exchanges, but rather as a

symptom of an unfavourable balance of payments, due to excessive expenditure abroad, which was aggravating the currency difficulties of the country.

Here was an answer to the prevalent argument that an excess of imports threatened to denude the country of its gold, and made a gold standard impossible. An excess of imports was not an act of fate, an unalterable fact. The balance of trade no doubt affected the exchanges; but it was equally true that the exchanges affected the balance of trade. And it was at this point that the quantity theory came in. If the excess of imports could be cured by a restriction of cash payments, which left the exchanges free to range far beyond the specie points, it could equally be cured by a contraction of the currency, which would raise the bullion value of the monetary unit.

Remedies did not come within the Committee's reference, and the Report left the method of contracting the currency to the discretion of the bank. But this did not prevent the Committee from pointing out the importance of the rate of discount as an instrument of currency control, and the disadvantages of the legal limitation of the rate to 5 per cent. And they appreciated the fact that the essential function of a high rate is not, as is now so often assumed, merely to attract foreign lenders, but to act as a deterrent on trade borrowing. In this respect they understood the regulation of credit better than many who have had the advantage of seeing the results of the bank-rate control by which for three-quarters of a century the credit system of London, and therefore of the whole world, has been successfully regulated.

Indeed, the fallacies against which the Bullion Committee contended are widely prevalent at the present time. They are confidently voiced by bankers, politicians, and others, who from prestige and position have every right to be heard, and who yet hardly seem to be aware that the Balance of Trade theory is not the last word of scientific thought. The appearance of a reprint of the famous Report is therefore most opportune.

Professor Cannan provides an interesting Introduction, mainly historical. Perhaps a little more theoretical discussion of the Report would not have been out of place. Such theoretical discussion as there is is too much concerned with the Quantity Theory, and, for example, does not bring out the importance of the Committee's exposure of the Balance of Trade fallacy.

There are one or two points in Professor Cannan's interpretation of history which are open to challenge. He follows most economists in attributing the original suspension of gold payments

in 1797 to excessive borrowing for the war. The sums borrowed were large ; but is this explanation reconcilable with the reduction of the note issue and of the unfunded debt in the years immediately preceding the suspension? And when he comes to the resumption of cash payments in 1821, he attributes the bank's success in resuming to the repayment of £10,000,000 of Exchequer Bills by the Government, in accordance with the recommendations of the Committees of 1819. But the premium on gold vanished after a last faint flicker in November, 1819, and the repayment of the Exchequer Bills did not *begin* till after that date. With gold at the Mint price, and the foreign exchanges at or above par, the gold standard was restored, and the repayment of the Exchequer Bills (a sound measure in itself) did no more than aid the bank in accumulating a large reserve of bullion and specie.

And is the accuracy of Professor Cannan's references to the history of his own day beyond reproach? On p. xiv he seems to imply that the prohibition of the melting of gold coin in this country took effect from the beginning of the war instead of only from December 5th, 1916.

But some of the foregoing criticisms are on questions rather of emphasis than of accuracy, which do not materially detract from the value of Professor Cannan's Introduction.

As to the reprint of the Report itself, a little more vigilance in the reading of the proofs would have been well spent. And if it was necessary to parade the correction of "scarcity" to "security" on p. 47, with all the trappings of square brackets, queries, italics, and a separate reference in the Introduction, could not the error of 12 oz. 3 dwts. for 12 oz. 13 dwts. on p. 31 have been corrected too? True, the former correction was made, and the latter was not, in the second edition of the Report. But it happens that both occur in passages quoted from the evidence, from which the correct readings can be obtained, and so all doubt removed.

R. G. HAWTREY

War-Time Financial Problems. By HARTLEY WITHERS. (London : John Murray. 1919. Pp. x + 306. 6s. net.)

MR. WITHERS must by this time be rather wearied of compliments on the lucidity of his style and the light and easy way in which he handles the dull and unattractive topics that he has selected for treatment. Many people seem to have forgotten that Bagehot and George Rae were quite as successful in relieving the monotony of monetary and financial questions by supplying