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individual spending, *we waste (or worse than waste) something like a third.*" "Government expenditure is, in fact, far more wisely done than the average of private expenditure. There is no getting away from the inference that a progressive transfer of more and more of the national income from individual to collective channels would result in a positive improvement in the character of the nation's total expenditure."

This remarkable contrast of the individual and the Governmental economy, to the disadvantage of the former, suggests some reflections on the conclusions to be drawn. As neither poor nor rich are exempt from the verdict of "the economists," it seems that something more than the Procrustean taxation of the wealthy is required. One-third of the average income must be redeemed from "waste or worse than waste." Even then there is no guarantee that the remainder will be properly used. Nothing but collective wisdom can secure an approach to wise spending. In fact, all income must be socialised. Some foolish people will continue to think that there is waste and worse than waste in Governmental expenditure. They will also feel that individual outlay does, on the whole, contribute more to the advantage of the users and of society than the same funds (assuming them to continue) distributed by Governmental authority. They might also believe that they are supported by the judgment of the economists.

C. F. BASTABLE

Von der Diskontpolitik zur Herrschaft über den Geldmarkt. By Prof. Dr. JOHANN PLENGE. (Berlin : Julius Springer, 1913. Pp. xxvi + 431. M. 12.50.)

THE title of this bulky volume is somewhat misleading, for only a small proportion of the book deals with the difficult and important problem indicated on the title-page. Much the larger part consists of a very acute and outspoken criticism of the policy of the Reichsbank during the last twenty years, and especially of certain proposals of reform put forward in 1912 on behalf of the Reichsbank through the medium of one of its directors, Herr v. Lumm.

There has been latterly a growing feeling in the German business world as a whole, and even amongst bankers themselves, that the present state of the German banking system is unsatisfactory, and that there is urgent need for reform. The great pressure felt at the quarterly settlement days has been exciting

alarm, while the Morocco Crisis of August, 1911, accompanied as it was by the withdrawal of French deposits and by a panic which raged for some days on the Stock Exchange and money market, provided a foretaste of what the financial effects of a European war might be. The result was an outburst of criticism of German banking institutions other than the Reichsbank, which found its most authoritative exposition in the series of articles published in 1912 in the *Bankarchiv* by Herr v. Lumm. It was, perhaps, hardly to be expected that Herr v. Lumm, who was writing in a semi-official capacity as representative of the Reichsbank, should direct criticism at the policy of that institution itself, but it is very remarkable that, amidst the general chorus of approval which greeted his articles on the part both of the financial Press and of bankers themselves, hardly a voice was raised to call attention to the Reichsbank, and to ask whether it was entirely free from blame. It is the chief merit of Prof. Plenge's work that in it, besides the criticisms of the reforms proposed by Herr v. Lumm, the whole policy of the Reichsbank, which has been so widely regarded in Germany as infallible, is weighed in the balance, and, in Prof. Plenge's opinion, found wanting. Indeed, he says himself that the chief claim which he makes for his book is that in it he has "destroyed the Legend of the Reichsbank." By a careful analysis of the returns of the Reichsbank, he shows that the ratio of the metallic reserves to the note issue has declined steadily since the early 'nineties of the last century, while the liabilities, in extraordinary times of war or panic, have within the same period enormously increased. This state of affairs has been mainly brought about by a mistaken theory, which has been held by those responsible for its discount policy, as to the proper functions of the Central Bank in the modern state. There can be no doubt that in the early days of modern Germany the great need was for capital, and that that overshadowed every other function of the Reichsbank. Thus largely from historical reasons it seems to have been held as axiomatic by the directors of the Reichsbank that their first duty was to provide industry with low discount rates. But the position of the Reichsbank has changed very much since the 'seventies. The great Credit Banks control a far larger amount of credit than it does, while the *permanent* level of the discount rate is obviously not dependent on the policy of any bank. Great pressure has always been put on the Reichsbank to lower its discount rate as soon as possible, and it is owing to its submissiveness to such demands that the present position has

arisen. The function of the central bank in the modern industrial state which is really of fundamental importance is that of being the "bank of banks." It is this primary duty which Prof. Plenge considers the Reichsbank to have neglected, with the result that its sensitiveness with regard to any increase in the claims upon it is altogether excessive. The chief aim of Herr v. Lumm's proposals in the *Bankarchiv* was towards the strengthening of the reserves of the Credit Banks. Prof. Plenge rightly maintains that while this might lessen the monetary stringency at the quarterly settlement days, yet in general, and above all in time of war or other crisis, what is of far more vital importance is the strength of the reserves of the central bank. The crux of the problem is how the central bank can best accumulate the necessary specie reserves, and the solution advocated by Prof. Plenge is that large quantities of notes of small denomination should be issued rapidly, and by this means the circulation drained of gold. This is cheaper than buying gold from abroad, while obviously gold is wanted, not in circulation where paper will do just as well, but in some central place. Once the reserves had been brought up to their proper amount, they should be maintained there by a more careful discount policy directed, not to keeping the discount rate as low as possible, but to protecting the gold reserve.

The activities of the Stock Exchange have always been regarded with a more unfavourable eye by the State in Germany than in most other countries, so it is not surprising that many of the recent proposals for reform have aimed at penalising the Stock Exchange by hindering the free flow of capital to it. Even Prof. Plenge has not freed himself entirely from the prevailing views of his countrymen. He exposes, it is true, the vulgar error that the capital which is lent by the banks to the Stock Exchange is permanently retained by the latter and is lost to the rest of the community. The Stock Exchange is, of course, merely an intermediary organ between leaders of capital and the industrial demand for capital, its main function being to create a market for shares and increase the fluidity of capital. But he goes on to say that, nevertheless, a large amount of capital is permanently "swallowed up" by the Stock Exchange; for when the speculative gains resulting from a rise or fall in the value of securities are consumed by their fortunate possessors, national capital is turned into income. "What the stock speculator devours as income works as a corresponding diminution in the national savings which have already been laid aside" (p. 177).

But surely it is a grave error to consider this a net loss of national capital, for what happens is that a very great deal of capital passes through the Stock Exchange during the course of the year, and on this a sufficient toll is levied to maintain the economic function of speculation, which Prof. Plenge expressly admits to be beneficial. On the average, speculation, like every other permanent form of economic activity, yields an income, but this is required to call forth the activity, and is not of the nature of a net diminution of the national capital. In order to show that there was a real maldirection of economic resources, it would be necessary to prove that the income derived from speculation was greater than the worth of the services rendered to the community, or greater than was required to call for these services, and, moreover, that this excess was spent and not saved. Prof. Plenge has made no attempt to prove this. It is surprising that, after the ten years' experience of the German Stock Exchange Law, Prof. Plenge can propose that the rate of interest on capital lent by the banks to the Stock Exchange should be artificially raised, in order to discourage speculation with borrowed capital. It is difficult to foretell the incidence of such a tax, but that it would rest on those who were intended to bear it, is in the highest degree improbable.

A long chapter is devoted to the vitally important financial problems which would confront Germany were she engaged in a great European war. The works of Stroell and Riesser have hitherto been the standard books on this subject, but in certain respects they are out of date, and Prof. Plenge makes many stimulating criticisms on some of their conclusions, and develops some important points which are not sufficiently considered in them. It has become almost a commonplace to say that the country whose finances are in the strongest position is the most likely to come victorious out of a long war, and Prof. Plenge emphasises the enormous strain which the outbreak of war, combined as it may well be with internal panic, throws on the banking institutions of the country, and especially on the central bank. The central bank should be amply prepared for any such emergencies, and should be so strong that public confidence in it would never be lost. It is interesting to note that the writer considers the moratorium an indispensable part of the financial equipment, even of a developed country such as Germany, in the event of a long war. According to him, it is the intention of the German Government, on the outbreak of war, to transfer the famous war treasure kept in the Juliusthurm to

the vaults of the Reichsbank, and to issue against this notes to the extent of three times its value, which is at present the legal maximum of notes to reserves under the German Bank Act. He makes a forcible protest against the existing proposal to issue special war notes (*Kriegskassenscheine*), on the ground that paper money which differs in design and name from ordinary banknotes, and which has been issued to meet a special emergency, is much more likely to come under suspicion and to fall to a discount relatively to ordinary banknotes, than if the issue of the latter had simply been extended.

Prof. Plenge has dealt in a masterly fashion with a number of the most intricate problems of finance and banking; while the admirable lucidity of his German and the clearness with which he presents his ideas should earn him the gratitude of all readers of his book.

C. W. GUILLEBAUD

The Credit System. By W. G. LANGWORTHY TAYLOR. (New York : The Macmillan Co. 1913. Pp. x + 417.)

IF it is impossible to argue with any sympathy on a difference of taste, it is scarcely more easy to give a patient and unprejudiced reading to an exposition of a different point of view. This is especially true when, as in this work of Prof. Taylor's, the point of view is applied, not to extend a theory to include new facts, but to re-explain matter with which one is already familiar.

The value of Prof. Taylor's book must rest upon that of his point of view, upon its superiority in simplicity and comprehensiveness to the theory of credit which now holds the field. As the scope of the book is wide, it is not possible to examine the fitness of its theory in its many particular applications; it will be better to take one of its more general chapters; that on "The Utility of Credit" will serve the purpose.

"Prices," says Prof. Taylor, "have two chief functions; one is that, with respect to particular goods, they indicate the rate at which the latter are estimated, compared with one another. The second is that they sum up the outlook of the community at large with respect to prosperity. Only as a third and minor case can it be said that they are interesting with relation to a standard of value."

This statement is somewhat open to criticism. In an industrial system which depends upon individual producers and not upon any central co-ordinating authority, one of the first requisites must be some means of indicating the nature and volume of consumers'