"THE TRUE CAUSE OF THE COMMERCIAL DIFFICULTY OF GREAT BRITAIN."

"Every now and then a man's mind is stretched by a new idea or sensation, and never shrinks back to its former dimensions. After looking at the Alps I felt that my mind had been stretched beyond the limits of its elasticity, and fitted so loosely into my old ideas of space that I had to spread these to fit it."

So wrote Oliver Wendell Holmes after his first visit to Switzerland, and a similar claim is made by the joint editors of Mr. C. B. Phipson's book entitled, "The True Cause of the Commercial Difficulties of Great Britain,"* in that he has given to the world nothing less than an epoch-making discovery worthy to be compared to the productions of Galileo or Darwin in its power of expanding our minds and changing our outlook. Mr. Phipson's discovery once understood immediately puts an end to the endless strife between Free Trader and Protectionist, not only furnishing complete and satisfying explanation of the cause of British trade stagnation, but also supplying the unique and undoubted cure. Truly these are great claims to make for the work of any man, and having completed the preface of the joint editors, in which they are made, we settled down with pleasurable eagerness to read Mr. Phipson's message to the world. The gravamen of Mr. Phipson's indictment is that Britain's imports of goods consistently exceed her exports of goods, and that with a gold currency common to all the leading nations of the world, she is driven to redress the deficiency by exporting gold. As, however, she does not produce gold, this export in no way helps to stimulate British industries, which, in consequence, are in a chronic state of stagnation. The gold standard, which is common to all the leading nations, is therefore the cause of this stagnation, and the cure is the abandonment of the gold "international" standard and the substitution of a purely "national" currency of no value outside this country such as Treasury notes. "Assume," it is said, "that the change has been made and that Germany, in the highly picturesque language of our Press, still contemplates unloading the contents of her warehouses upon us and flooding us with her goods. What of it? We presume the Germans will require payment for their goods. What form will the payment take? We have only goods and Treasury notes. Which will she have? If goods, the taking of them in exchange will not have harmed us one iota. She has done us good by stimulating our exports. If she does not want goods, but takes Treasury notes, what then? They are of no value to her until they come back here to purchase goods, and again this is a stimulation of exports. Deprived of her ability to withdraw gold as money, she would be deprived of her ability to do us any harm. Such is the claim.

By this simple change we would, without the use of Tariffs, secure true protection, for the Treasury notes being of no use in themselves and having to be sent back to England, goods would have to exchange for goods, and sellers to us would create buyers from us. At one and the same time, Britain would thus be in enjoyment of the blessings, both of Free Trade and Protection, and the lion lie down with the lamb amid peace and plenty for all. So the epoch-making discovery is out. It appears that all we have to do is to change our gold standard into a paper one, and good trade, high wages, and general prosperity will follow.

We agree with the writer that all truly great discoveries are simple, but that does not prevent us asking why the foreigner should take our paper at all if all he does with it is to return it to us again for the purchase of things? Why not purchase these same things straight away in exchange for goods without the tedious roundabout process of first taking paper? The result would be precisely the same; but throughout the book we find no answer to this very obvious query, and until it is answered we have no alternative than to dismiss the whole thing as devoid of meaning. Moreover, in this connection, at least, we are quite incapable of seeing that any harm can be done by the export of gold. It does not cause lessened employment, for before we can get the gold we must pay for it, and we pay for it in goods, the making of which provides employment. The writer seems to assume that gold is always flowing out of this country to make good "adverse balances" of trade. This cannot be so, for gold must flow in at least as quickly as it flows out, seeing that we do not produce it in Britain. Besides, in virtue of a beautiful economic (and therefore natural) law, gold cannot for long continue flowing in any one direction, for the flowing of gold, say from Britain to America, causes a restricted currency in the former and an inflated currency in the latter. This results in the prices of commodities falling in Britain and rising in America, with a corresponding inducement for America to purchase goods in Britain and for gold to flow back.

Mr. Phipson is no longer with us, but until answers are given to these quite elementary objections we may be forgiven if we continue to be sceptical as to the reality of the great discovery his editors claim on his behalf. W. R. L

* George Allen & Unwin. 2s. 6d.

CORRESPONDENCE

MONEY AND THE CAUSES OF INCREASED PRICES

Sir,—I have come to the conclusion that Mr. Madsen is correct in substance and in fact, that a not inconsiderable portion of the increased prices is due to the issue of Treasury notes. To be strictly correct, I should say that the issue of Treasury notes is a proximate factor; the cause forcing this or some other expedient being the restrictions due to a war on the present scale.

What I have, therefore, called irrelevant may be explained, and more justly explained, as an attempt on his part to anticipate arguments, and to suggest or state the conclusions following from these arguments. This question of prices involves a consideration of the idea of money value and nothing else. The statement of Mill and others that if all of us suddenly became possessed of double the quantity of money, *i.e.*, general purchasing power—presumably, by necromancy—prices would be doubled, although at the same time the rate of exchange between different goods and services would remain the same, supplies the correct view point.

Commodity money, such as gold and silver, naturally adjusts itself to the requirements of exchange by passing from monetary to all uses, and *vice versa*, or by transference from one country to another. Token or paper money, that is, our silver and copper money (not of intrinsic value) and our bank notes, are maintained at par with the commodity standard, gold in our country, by restricting the quantity, limiting their amount as legal tender, and making convertible into gold. These are the methods generally applied.

Before the war, there were circulating in Great Britain 78 millions of gold coins and 45 millions of bank notes, 29 million Bank of England, 16 millions issued by other banks. If the notes had been over-issued the gold would have passed out of our currency, according to the law known as "Gresham's Law," that "bad money displaces good money," or, as it should properly be put, "money of a lesser intrinsic value displaces money of a greater intrinsic value." This is a simple deduction from the fundamental law of Political Economy, that "men seek to gratify their desires with the least exertion." The medium of lower value serving the purpose of exchange, displaces the medium of higher values. If a debt of £1 can be discharged for 19s. 9d., no one will give a pound.