

THE MECHANISM OF  
EXCHANGE

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# THE MECHANISM OF EXCHANGE

A HANDBOOK OF ECONOMICS  
(CURRENCY, BANKING AND TRADE)

BY

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## PREFACE TO THE THIRD EDITION

AS a result of the War, Economics has come into its own. Its reputation of a generation ago as the dismal science had for many years before the War been gradually giving place to a fuller appreciation of its value as the science of everyday life; but its practical importance never came home to the man in the street, and especially

### ADDENDUM

**An inset has been added to the last chapter,  
dealing with the Currency and Bank Notes  
Act, 1928**

our business and manufacturing interests were so widespread that every one was affected, even although he never touched foreign business at all. Our internal monetary and financial system was involved in the breakdown of the foreign exchanges, so that the trouble was brought home to every one in the most direct way—through his pocket. The natural result was a striking revival of interest in economic problems; and questions of currency, banking, and trade naturally attracted the greatest attention, because they were the first to be affected by the convulsion. Business men of all kinds, finding their business paralysed by the breakdown of the

## PREFACE TO THE THIRD EDITION

AS a result of the War, Economics has come into its own. Its reputation of a generation ago as the dismal science had for many years before the War been gradually giving place to a fuller appreciation of its value as the science of everyday life; but its practical importance never came home to the man in the street, and especially the business man, as it did during the War. The reason is very simple. The War struck at the very roots of our whole business and financial system by its devastating effects on our foreign trade, and therefore upon all the complicated financial machinery which has grown up round international trade. Even before the actual declaration of war that system had, for the time being, almost completely broken down; and the disturbing effects upon our business and manufacturing interests were so widespread that every one was affected, even although he never touched foreign business at all. Our internal monetary and financial system was involved in the breakdown of the foreign exchanges, so that the trouble was brought home to every one in the most direct way—through his pocket. The natural result was a striking revival of interest in economic problems; and questions of currency, banking, and trade naturally attracted the greatest attention, because they were the first to be affected by the convulsion. Business men of all kinds, finding their business paralysed by the breakdown of the

usual monetary and financial facilities, wanted to know why, and they found that the answer lay with the economists.

This newly realized importance of their subject is naturally gratifying to economists who have always believed in their science, but it imposes a corresponding obligation upon them. The teaching of the subject must now be brought up to date, by showing how the experience of the War has confirmed or modified the accepted doctrines of Economics, or affected the form of their presentation. It is of course impossible to do so with any hope of finality. Even after eight years of 'peace' we are hardly within sight of the time when the whole position of our monetary system may be re-stated in terms of what has happened to it during and still more since the War. It is not yet possible to regard the system as having reached a static condition of affairs, or to describe it in less than three tenses. This book must therefore still describe at least two entirely different things: (*a*) the pre-war system of currency and credit, and (*b*) what happened to that system during and after the War. As to the first, the book remains pretty well as it was written. The second part was begun in the second edition by an additional chapter on the further effects of the War; but in this edition that with other new matter has been as far as possible fitted into its proper place in the original text. To this has been added a description of what happened after the War, up to the resumption of the Gold Standard. This has of necessity been very severely condensed, but it is so essential that some account of these momentous years should be included

that the writer has preferred to risk the dangers of undue compression.

The real difficulty still remains, namely, to imagine what is going to be the final state of affairs to which we shall ultimately return. That is of course a matter of acute controversy in many respects, and all that can be done is to suggest certain possible lines of development. It is certain that the old pre-war system will never be restored in its entirety. But in the meantime we must have something to go on with, and it seems to the writer that the time has come when an attempt must be made to gather up the threads of our experience during these dreadful years, and see if possible whither they are leading us.

In preparing this book, as in *The Science of Prices*, the writer has attempted to carry out his long-cherished ideas of how Economics ought to be studied by the elementary student, or by the business man who wants to understand how economic problems affect him in his business. Economics is the science of everyday life, and its study must be a constant application of theories to actual conditions. It must above all things be a living science, enabling the student to see his own everyday life through economic spectacles, to realize that he is 'living' economics all the time. To do so he must be taught not only the accepted theories on the subject, but also how and where to get the facts, how to handle these facts, and how to appreciate them rightly. With this view a certain amount of statistical information on the problems dealt with in the book has been collected in an Appendix, with in every case the source of the

information. In this edition the Statistical Appendix has been brought down to date as far as possible, and in most cases this has involved cutting out a great many of the figures for intermediate dates. Statistics which were given weekly in the original edition can now only be given monthly or quarterly, owing to lack of space.

The first two diagrams given in previous editions have now grown so large that it is impossible to reduce them to the size of a text-book page. A new diagram of price movements and banking and credit statistics since 1914 has been substituted for that given in former editions which covered the history of these movements back to the earliest dates available.

At the end of each chapter references are given to the particular chapters of any book which the writer has used, or to other books which the student should find useful for further reading in conjunction with the chapter. In this way it has been hoped to avoid the necessity of frequent references throughout the text, which are worse than useless to the class of readers the writer has in view.

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*May, 1927.*



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