

THE THEORY OF THE FOREIGN EXCHANGES

Published @ 2017 Trieste Publishing Pty Ltd

ISBN 9780649358250

The theory of the foreign exchanges by George J. Goschen

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Edited by Trieste Publishing Pty Ltd.
Cover @ 2017

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GEORGE J. GOSCHEN

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BY
THE RIGHT HON. GEORGE J. GOSCHEN, M.P.



ELEVENTH EDITION.

LONDON :
EFFINGHAM WILSON, ROYAL EXCHANGE.
1883.

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PREFACE

TO THE

THIRD EDITION.

THE few weeks which have elapsed since the publication of the second edition have again proved the rapidity with which the situation of the "Foreign Exchanges" may be reversed, and the difficulty of selecting durable illustrations. In the preface to the second edition, allusion was made to the fact that the Russian Exchange, so long an example of unlimited fluctuations, had been brought almost to par. Since then a severe fall has again taken place. So, in the former edition, the rapid fall in the price of gold in America furnished the opportunity for comment and examination. But there also a turn has taken place, and to-day it would be necessary rather to seek an explanation of the rise than of the fall. It is scarcely the province of a theoretical treatise

to keep pace with each new combination of facts. An author may be considered bound to watch the progress of events, as a constant test of the accuracy of his principles, but it is hardly possible, nor is it necessary, perpetually to adopt new illustrations. It has, therefore, been deemed unnecessary to make any further alterations in the present edition.

PREFACE
TO THE
SECOND EDITION.

THE history of the Foreign Exchanges for the last two years is a history of revolutions. The movements which have occurred in many quarters have been almost unexampled in rapidity and extent. Countries which formerly supplied illustrations of particular phenomena in the Foreign Exchanges, may now be cited as instances of perfectly opposite combinations. The various causes which have been stated in the following work as determining the course of the Foreign Exchanges have been at work with more than usual intensity, and the new combinations which events have presented have afforded many opportunities of testing the correctness and sufficiency of the principles advanced. The exchanges of those countries which, two years ago, were selected as exemplifying the results of a depreciated currency or excessive indebtedness, might now, on the contrary, be cited as instances of rapid recovery. The Austrian Exchange has recovered fully 30 per cent. The

Russian rouble has approached the par value of gold. In America, on the other hand, the very opposite has occurred. The American Exchanges, which in the former edition were shown to move within certain limits—determined by the cost of bullion shipments and by the intermediate value of money—have since afforded the most notorious examples in recent days of unlimited and indeterminable fluctuation. An inquiry into the theory of the Foreign Exchanges can scarcely keep pace with the tide of events. However interesting a review of the events themselves might have been, it could not conveniently be introduced into a treatise which aimed chiefly at the statement of a theory, and dealt with contemporary fact only as illustrating general causes. The new matter which, in this respect, has been introduced into the second edition, is confined to the consideration of the American Exchanges. It would not have been compatible with the general course of the argument to treat so complicated a question exhaustively or historically. The monetary situation of America has been so extraordinary, the difficulty of acquiring accurate knowledge on it is so great, the changes to which it is subject are so rapid, that an exhaustive inquiry into the actual facts would have assumed the proportions of a

separate work. Thus any controversy which may arise on that portion of the present treatise which deals with the American Exchanges, should turn rather on the correctness of the mode of interpretation on a common ground of fact, than on the absolute correctness of the facts themselves. The latter have been stated as carefully as possible, and every precaution against error has been taken. If, nevertheless, any uncertainty should be felt with regard to the description of particular circumstances, it must not be allowed to place in doubt the scientific certainty of the theory itself.

The other important alterations which have been made in the second edition are to be found in those chapters which discuss the question of so-called "Unfavourable Exchanges," and the "Adverse Balance of Trade," and which examines the possibility of "correcting" such a situation by means of a high rate of interest. With regard to the exact force of the term "Unfavourable Exchanges" and "Adverse Balance of Trade," as they are still used in monetary treatises, not as characterising any situation which from the general point of view of the prosperity of any country is really unfavourable, but simply as denoting a certain set of circumstances which bankers and merchants persist in