

the Banks of France and Germany has largely increased—a fact of much importance when money markets are so closely associated, and when transmission is so easy and rapid. It is perfectly true that, as we work with little cash in hand, our market is more sensitive and more affected by slight movements of bullion than are the great markets abroad, where cash is so largely used and retained. Slight changes in the reserve act quickly here, because they soon affect the expectations or fears of borrowers and lenders. But it is difficult to believe that these changes have just the same effect now as they would have in times when the Banks of France and Berlin were scantily supplied with gold.

Mr. Giffen argues that if the reserve is not kept up here values must decline, and, if necessary, rates of discount must be raised in order to secure the decline. Again, he says that, as increase of population and wealth demands more cash for the transaction of business, if fresh supplies of cash do not come to us in ordinary course, rates of discount must rise and values fall. But, recently, values have fallen without any serious advance in the rate of discount, with, in fact, a low average rate of discount. The old machinery does not work, for on several occasions the Bank has failed to raise the rate of discount, even when disposed to do so. It may be said that rates have not risen, because other causes have produced a fall of values which has brought about an “adjustment.” If that be so, it seems to follow that other causes have been more powerful in causing changes of price than any changes affecting supplies of money. But it would be more correct to say that the supply of cash outside the central Bank has been so great, that permanent advance of rates of discount was impossible. The peculiarity of the money market in recent years has been that, with a very moderate reserve, we have often had very low rates of discount—a condition of things which would not of itself tend to lower values; but values have fallen. It is hard to see how it can be said that want of cash for any purpose has led to the fall in such cases.\*

\* Generally speaking, the rate of discount depends, not on abundance of gold or silver, but on the organisation of credit, so that we see