The world's monetary problems two memoranda

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THE WOODEN WING

FRONTISPIECE
THE WORLD'S MONETARY PROBLEMS

TWO MEMORANDA

BY

GUSTAV CASSEL

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FOREWORD

The two memoranda here printed were originally written on invitation of the League of Nations, the first for the International Financial Conference in Brussels in 1920 (originally published in Vol. V. of the Proceedings of the Conference and now reprinted by permission of the League), the second for the Financial Committee of the League of Nations for their meeting in September, 1921 (not hitherto published in any form). The two memoranda are so intimately connected with one another that it has been thought desirable that they should appear together in book-form. It is also hoped that this publication may give a wider circle the opportunity to study the nature of the present monetary difficulties and of the means for restoring sound conditions which I have tried to expound in recent years.

GUSTAV CASSEL.

Djursholm, Sweden.

October, 1921.
THE WORLD'S MONETARY PROBLEMS

FIRST MEMORANDUM

I

THE FUNDAMENTAL FACTS OF THE MONETARY SITUATION

The most conspicuous features of the economic changes which have taken place during the war and since are: an enormous increase in the supply of money, a decrease in the supply of commodities, and an enormous rise in prices.

Before entering upon an analysis of these changes, their causes and their mutual relations, some attention should be given to an investigation of their nature and of the ways of measuring them.

As to the increase in the supply of money, we have then first to observe that the gold standard which, before the war, formed the common basis of most monetary units and kept them in nearly fixed relations to one another has, in most countries, been given up and replaced by paper money without any definite relation either to gold or to the paper money of other countries. The new paper standards are, therefore, quite independent of one another and the increase
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in the supply of money is a fact which must be considered separately in each separate currency.

In regard to the supply of money, we have to give special attention to those means of payments which are recognised as "legal tender," and which, therefore, always must be taken as payment. The supply of such money has obviously a fundamental influence on the total supply of means of payment. This money is either metallic coins, notes of the central banks or paper money issued by other institutions. To them may be added notes of private banks, paper money issued by local bodies and similar material means of payment which, though not having the character of legal tender, are actually circulating at the side of such money. The total sum of these material means of payment which is at any time in the hands of the public (i.e., outside the issuing institutions) is the "circulation" of the country.

There has been, since the beginning of the war, an enormous increase of this circulation in every country, but the rate of this increase has been very different in different countries.

In addition to this increase of circulation a more or less proportionate increase of bank deposits, used as means of payment, has taken place.

The circulation itself has, in most countries, altered its composition. Gold coins have nearly completely been drawn out of the circulation in all countries. In many countries the same is the case with token coins of silver and sometimes even with those of copper or nickel. In some countries the circulation of silver coins has been increased by silver coins pouring in from countries with the same monetary unit. This is, e.g., the case in Sweden, where Danish silver coins