

TITLE: THE CURRENCY SCHOOL AND THE BANKING SCHOOL – WHO GOT IT RIGHT?**ANNA ZIMMERMAN****LECTURER, BSC ECONOMICS, GSM LONDON****Email: anna.zimmerman@gsmlondon.ac.uk****ABSTRACT:**

The Currency and Banking School dispute is usually regarded by historians of economic thought as representative of divergent views on the nature and role of money and banking within society. However, there is more to be said of the dispute that is of interest. Because contextual disparities, and methodological and motivational issues remain largely neglected in the discussion, many important similarities and differences between the two schools are usually glossed over, whilst the broader cultural context of a transformation in the discipline of political economy itself is generally ignored. By exploring this wider context a more nuanced appreciation of the two sides in the dispute can be achieved, although with such a revisionist approach the luxury of simplistic notions of 'right' and 'wrong' is necessarily relinquished, and the similarities between the two schools become more salient.

The Currency School and the Banking School – who got it right?

'History' wrote one great historian, 'can even be considered... as a study of the present' (Braudel, 1980, pp. 64). This is particularly apt when applied to historians of economic thought. Underfunded and sparse in number compared to their more prosperous economist colleagues, they feel obliged to concentrate their scholarly resources on periods with apparent modern relevance, meaning that 'received theory dominates the writing of the history of economic thought' (Skaggs, 1999, pp. 386). The dispute in the 1830s and 40s between the Currency and Banking Schools is one such period, given that the issues it epitomises - the function of a central bank, the cause of inflation - continue to reverberate. Many of the arguments have changed remarkably little, reminding us that 'the dead horses of economic theory have a habit of suddenly springing back to life' (Selgin, 1989, pp. 489). Nonetheless there is the danger that familiarity can blind us to the very real cultural differences between the past and the present. Thus any extra energy expended on flogging the dead horses anew may well be better spent exploring these contextual discrepancies. Important issues of methodology, motivation and normative framework are neglected in the academic discussion, which largely focuses on the declared minutiae of policy debate (typical of standard accounts is Daugherty, 1942; 1944). This discussion will reverse the normal order of things, placing methodological, contextual and motivational matters to the fore, and noting the issues that both schools *failed* to consider as well as those they did, in recognition that all these are crucial when evaluating the worth of the different arguments. It will be seen that the luxury of a definitive verdict on the merits of the respective Schools is really a function of oversimplification; a wider reconnaissance exposes a greater degree of homogeneity than is commonly supposed.

The norm of evaluating a policy stance according to its retrospectively determined 'accuracy' denotes a hermeneutic instrumentalism that focuses on the ends of the policy process rather than the means by which the policy was chosen. Some economists have even sought to make a virtue of such methodological imprecision, asserting that the best test of a theory is predictive rather than suppositional accuracy (Friedman, 1953; Hausman, 1989). The privileging of ends over means is in keeping with the general neglect of the scope and methodology of the discipline in modern economics faculties. Given that scope and methodology determine the content of the discipline and the kind of questions that are asked, this is unfortunate, but particularly so as the Currency/Banking School dispute is arguably the first example of a prominent political dispute where the methodology of modern economics – the deductive method – triumphed emphatically over more pragmatic approaches. This was in the context of a distinct reformulation of political economy that occurred in the later decades of the 1700s and early 1800s. Several conflicting methodological trends were coalescing within the period, with the remnants of a more eclectic approach that favoured multiple determining factors and principles and at least an attempt at empirical accuracy, opposing what Schumpeter called the 'Ricardian vice' of formulating streamlined laws on the basis of minimal direct evidence (Poovey, 1998; 2008; Schumpeter, 1954). This 'vice' was the apogee of a slowly evolving trend. The sciences of wealth and society had long grappled with the problem of constructing proper theory. For much of the eighteenth century,

given the paltry amount of actual knowledge, the Baconian ideal of the inductive method of theory formation was frequently combined with simple conjecture. This ‘conjectural history’ approach to theory (the term comes from Dugald Stewart, Adam Smith’s interpreter) melded limited empirical content with a priori principles derived from assumptions about human nature and divine will. The most famous of the conjectural historians, Smith, preferred the elegance of internal systemic consistency to empirical accuracy, and homogeneity to diversity. This proved to be the harbinger of a radical shift away from the more inductive and eclectic approach of Smith’s antecedents (Poovey, 1998). Ricardo’s method was the apotheosis of Smith’s; all superfluous causal influences on economic phenomena were stripped away to leave a structure of axioms determined through introspection (Poovey, 1998). Clearly these would not be universally prevalent, but sufficiently reliable as heuristics to inspire confidence (Hausman, 1989). Ricardo himself was famously scornful of inductive methods of theorising: ‘men who are all for fact and nothing for theory . . . can hardly ever sift their facts’ (Ricardo, quoted in de Marchi, 1970: 258).

The subsequent durability of this deductive method within the discipline helps to explain the comforting familiarity of Currency School ideas to those acquainted with the modern mainstream. The Currency School espoused a streamlined view of the workings of an economy characterised by ‘glorious coherence, by the mathematical certainty of its central postulates... which promised to explain so much’ (Hilton, 1979, pp.591). Like Smith, the School regarded free trade as the lodestar of policy formation; all other policies should be sublimated to it (Hudson, 2009). By the 1830s this shibboleth had been generally accepted by the majority of the political class meaning that a stable exchange rate was a priority (Grampp, 1976). The Currency School put their faith in the quantity theory of money and the ‘price-specie flow’ mechanism as the theoretical pathway to price stability, which they believed would ensure exchange rate stability. These ideas were not new. The quantity theory of money, the belief that changes in the money supply would directly and proportionately reflect in price changes, had been formulated as far back as the sixteenth century with the inflationary influx of New World silver into Europe (Fischer, 1996, Hudson, 2015). The ‘price-specie flow’ mechanism postulated that rising prices would discourage exports and increase imports, triggering an efflux of specie which would ultimately ‘correct’ the originating price rise. This idea is generally – and correctly - associated with Hume, but whereas he is anachronistically assumed to adopt a monolithic approach to the mechanism, he followed the majority of his contemporaries, men like Josiah Tucker, James Steuart and Richard Cantillon, in believing that a ‘two phase’ view of quantity theory was more accurate. This acknowledged that under normal eighteenth century conditions of high unemployment and money shortages, the initial impact of an increased money supply would be to enable a higher level of output and employment. Prices would only tend to rise when employment levels were higher. In all, the quantity theory was regarded as a special case under unfavourable circumstances rather than an automatic mechanism without exception (Hudson, 2009; Vickers, 1959). Eighteenth century economists conducted a lively debate on the conditions under which the money supply could increase before prices would rise, and similarly to what extent and under what conditions prices could rise before resulting in a efflux of specie (Hudson, 2009).

However as Schumpeter noted, by 1800 much of this knowledge had been lost through neglect, ‘an interesting example of how the advance of economics has been and is being impaired by those

recurrent losses of previous accumulations of knowledge' (Schumpeter, 1954, pp.706). The progressive narrowing of the debate, set in train by Smith and continued by Ricardo and his acolytes, can be traced via the Bullionists of the early 1800s through to the Currency School, with each successive exposition of the quantity theory and price-specie flow mechanism more exiguous in scope and dogmatic in tone (Fetter and Gregory, 1973). This entailed the expulsion of numerous factors from the debate: questions of productivity, sectoral and product differences, elasticity of demand and supply, wages, migration, employment and skill levels, all relegated to being 'exogenous' factors of little import. Crucially, the notion that money itself was purely a 'veil' and had no role in driving the fundamental elements of an economy became prevalent (Graeber, 2011; Hudson, 2009; Ingham, 2004)

The Currency School did adapt their theory to accommodate the paper element of the currency, acknowledged as an indispensable addition to the money supply, but they believed that a mixed currency system would need to ensure that changes in the gold reserves should be matched by commensurate changes in the paper currency, just as gold flows in or out of the country under a fully metallic currency would, they believe, immediately result in a symmetrical change in the circulation. Any rise in the price level or fall in the gold reserves were symptomatic of inappropriately high note issues, with the potential to exacerbate inflationary tendencies in the economy which would ultimately destabilise the exchange rate. This analysis inspired the central tenet of the 1844 Bank Charter Act. The Bank of England was charged with guaranteeing full convertibility to gold for notes in circulation, covered by a 100% reserve, except for up to £14,000,000 in notes secure by government bonds. The Banking School position is usually posited as a contrast to the Currency School, as if they had little in common. It is certainly correct that the former had a greater faith in the discretion of banks to issue as many notes as they wanted without endangering convertibility. The leading representatives of the school, Thomas Tooke and John Fullarton, promoted their 'principle of the reflux'; bank-notes would never clog up the market by their superfluity, for if loans or discounts were advanced on proper banking securities, the removal of notes from circulation would equal their influx, leaving the circulation unaltered. This meant that there could never be a surplus of circulating notes, as these were a function of endogenously determined demand. However, underlying these well-aided differences of focus there was an increasing *methodological* similarity between the two schools; the Banking School had been seduced by the same predilection to condense and simplify as the Currency School. The 'real bills doctrine' that formed the theoretical foundation of their position – the idea that credit could never be inflationary when it was backed by productive activity - rivalled the quantity theory both in longevity, and the progressively doctrinaire stance of its supporters. Whereas the anti-Bullionists (antecedents of the Banking School) had acknowledged that excessive credit could fuel price increases, by the 1840s the Banking School position had hardened to exclude any inflationary possibility. Malthus had noted the rigidity of the debate in the 1830s - and the contrast with the pragmatism of his forebears – as 'the desire to simplify [which] has occasioned an unwillingness to acknowledge the operation of more causes than one in the production of particular effects..' (Malthus, quoted in Hudson, 2009, pp. 289). This was equally applicable to the debate in the 1840s, indicating that when it came to methodological issues, there was increasingly little to choose between the Schools.

The fractious nature of the debate contrasted with the low possibility of certainty, given the paucity of concrete evidence. Historians believe that prices in the 1700 and 1800s were indeed steadily rising, but due to a higher fertility rate triggering a population rise, causing both demand pull and cost push inflation. The rise in the demand for money, so contentious to the Currency School, resulted from these pressures, meaning that monetary factors *responded to* rather than caused the inflationary trend (Fischer, 1996). What is rarely discussed is why both schools agreed that the control of inflation was a higher priority than, for example, boosting employment, when inflation rates were typically far lower than in the modern era, whilst unemployment was generally far higher. Unemployment in some professions was as high as 70-80% during cyclical downturns, but even during the panics of the Napoleonic Wars inflation rates were trifling compared to many of the inflations of modern history (Crosby, 1976; Fischer, 1996). Contemporaries certainly were not ignorant of the problems involved with stable or falling prices; they understood that deflation was a distributional tool that favoured creditors over debtors and financiers over industrialists, with such arguments frequently appeared in contemporary popular pamphlets and speeches (Grampp, 1976; for the debate in an American context, see Hegeland, 2012; for the classic exposition of the problem, see Keynes, 1923). Nonetheless both Schools regarded perfect price stability as the proper order of things, an instance of what Fischer calls an absence of 'inflationary psychology' (Fisher, 1996, pp. 127). Thus in this important area of policy prioritisation, again, there was little to choose between the two Schools.

This desire for stable prices was so powerful that it trumped any consideration of their actual merit; indeed it is possible that the relative greater instability in prices made contemporaries even more determined to stabilise them, particularly as these were intellectually linked with a possible threat to trade. Again, the contrast between the eighteenth century economists and their intellectual descendents is marked, with the latter abandoning the concentration on what Vickers called 'theories of employment' in favour of a preoccupation with free trade and inflation (Vickers, 1959, pp. 26). This did not mean that the Currency School's views on inflation were wholly incorrect. Certainly the cost push inflation noted above owed something to less fertile land being pressed into service causing diminishing returns, as Ricardo had deduced. However Ricardo and his Currency School followers believed that any discrepancies in empirical authenticity would not disprove whatever had been established by introspection, precluding any open-minded appraisal of reality. Kynaston (1994) notes Ricardo's failure to even visit the industrial Midlands or North, but Ricardo would not have considered this an impediment to comprehension, a view shared by modern economists who do not question the rationality of the deductive approach when empirical research discredits a theory (Hausman, 1989; Lawson, 2003). In the case of both Schools, it was this imperviousness to the complications of reality that was problematic, rather than any *specific* argument that was made.

Just as the deductive epistemological approach shaped the debate on the money supply and inflation, both schools were hampered by a faulty ontology of money itself. Whereas ancient governments had spent fiat money into existence and used taxes to legitimate it and dampen inflationary forces, by the 1800s this history had been forgotten and comprehension of money had regressed (Graeber, 2011; Hudson, 2012; Ingham, 2004; Skaggs, 1998; Wray, 1999). Instead of appreciating money, paper or metallic, as having no intrinsic value separate from the *productive*

capacity of the community, both schools were still inclined to regard money as a commodity (particularly the Currency School). The clearest expression of this view was the attachment to the Gold Standard. Gold was commonly regarded as the truest form of money, but this was an instance of 'a longing for the pristine, the innocent', that generated a 'myth of originating purity' - in this case a mythical idea of what constitutes 'pure' money (Hacking, 2002, pp. 7). Gold and silver were not 'natural money', and certainly not remotely widespread even in the 1800s, when most people in England would have made do with a hodge-podge of local credit arrangements and coins were remarkably rare (Graeber, 2011). Nonetheless metallic money had become 'part of the apparatus of conservatism' (Keynes, 1930, pp. 100) and by the 1840s neither school questioned that it was logically necessary to have some commodity 'cover' money, so that its purchasing power was dependent on that of the commodity. The Banking school were closer to modern ideas about credit, given their more relaxed attitude to credit issuance, a greater likelihood to recognise the active role of credit in promoting activity in the economy and the conventional assumption that they recognised that deposits were also forms of money, although Wu (1939) disputes this view, pointing out that, with convertibility, both notes and deposits were probably regarded as mere representations of gold and therefore non-money. Although it is a mistake to suppose that all Currency school protagonists were unaware of the potential use of deposits to avoid regulations, they failed to include provisions in the 1844 Act to limit deposit growth, which ultimately undermined its efficacy. Here, again, the differences between the two Schools are over-estimated by the standard literature which fails to mention the generic regression in comprehension that had occurred by this period.

Another monetary issue to which neither School (nor subsequent historians) gave much thought was the most *productive* use of credit. Whereas the Banking school made a strong distinction between credit generated for 'real' rather than 'fictitious' bills, the latter being bills that did not fund any genuine economic activity, in practice 'real' bills were predominantly issued to bridge the time gap between production and sale, or between ploughing and harvesting. There was no theoretical distinction for funding entirely new productive potential. Using bank credit to fund such ventures is now thought to have been more common than was once supposed, but its provision was spasmodic and geographically patchy (Cottrell, 1980). With the exception of the railways, London had little interest in funding the new provincial industries, and preferred the lucrative foreign trade (Cameron, 1982; Kynaston, 1994). The provisions in the Act that attempted to prohibit the note issues of provincial banks revealed the general indifference in the Bank towards local economic development (Ziegler, 1990). This inattention to credit *usage* was common to both schools. It may seem anachronistic to impart blame for this failure of imagination, its significance enhanced by the eventual loss of Britain's industrial hegemony to Germany, a nation which deliberately channelled funding into manufacturing. However the relative insouciance in England towards the most productive use of credit and the plight of budding local industries contrasted strongly with Scotland where banks played a very significant role in fostering industry (Cameron, 1982) and also with the contemporary foreign theorists (such as Carey, Saint-Simon, Hamilton, List and Chevalier, and slightly later Macleod and Roscher) who advocated actively fostering new industries (Flick, 1930; Gide and Rist, 1948; Hegeland, 2012; Hirst, 1909; Hudson, 2015; Rist, 1949; Skaggs, 1998).

It is clear that resistance to, or ignorance of, alternative contemporary ideas did limit the scope of the debate, but historians must be wary of condemning the past for its lack of hindsight. The inappropriate imposition of modern norms is a 'Whiggish' perspective of history, interpreting the past teleologically rather than on its own terms (Boettke et al, 2013; Butterfield,1931). It is therefore only valid to criticise the two schools for their intellectual failings in the context of their times, rather than for not adopting the 'correct' view with regards to industrial, trade or monetary policy. Whiggish history is a particular danger when evaluating attitudes towards the Bank of England and its 'correct' role (Hamilton and Parker, 2016). Historians are inclined to favour the Banking School perspective that the Bank should be a moderating force within the economy – a prototype 'lender of last resort' – as this is akin to its modern function. The Currency School preference, conversely, was to tie the hands of the Bank and prevent any discretionary role, this being the logical corollary of tightly tethering the note issue to gold. Neither adopted the more extreme view of the 'Free Bankers' opposed to the very existence of a central bank, although there was a successful instance of relatively free banking across the border in Scotland (Schwartz, 2008; White, 1995). The key difference between the two schools was the degree to which they subscribed to a mechanistic view of the economy and a passive role for money. The Currency School position made sense if one accepted the quantity theory of money and the price-specie flow mechanism as the sole driver of exchange rates and inflation, but with a role for other variables an emasculated Bank was less appropriate. The Banking School view was that a lack of flexibility would lead to periodic credit contractions, and that public knowledge of the lack of discretionary power and inability to act as lender of last resort might in itself inadvertently trigger panics (Hilton, 1977). Their latter arguments were seemingly confirmed by the three instances of the suspension of the Act after its passage, when it became clear that more credit was essential.

The Banking School's fear of credit contraction was partly due to their sensitivity to the potential problem of 'hoarding' – taking gold out of active circulation which would amount to a hazardous credit crunch. In effect this would be a change in the velocity of money, a variable of the quantity theory of money that was considered to be constant in the normal use of the theory. Assuming, as the Currency School did, that the velocity of money was constant meant that any change in the total supply of money would have a proportionate impact on prices (Viner, 1937). Essentially this argument concerned whether an economy could be relied upon to circulate resources smoothly and efficiently, without help from some extraneous agency. Unsurprisingly, circulatory images were the dominant motifs for evaluating the money markets at this time. Economists in recent decades have drawn attention to the methodological usage of metaphors in shaping debate (Bronk, 2009; Hausman, 1989; Klamer and Leonard, 1994; McCloskey, 1983; 1990, Mirowski, 1994). The habitual, conscious use of overt metaphors persists because their very vagueness makes them powerful; by engaging the emotions and imagination, they have a potency far beyond 'rational' argument. Despite the self-perception of the deductive political economists as 'scientific', metaphors were important in shaping the banking debate. This was doubly significant, as the ambiguity about the best method of circulation – 'natural' or 'mechanical' - reflected the contemporary doubt as to whether the economy should be run with minimal state interference (the Currency School position), or driven by state intervention (invoked by those members of the Banking School who advocated a more interventionist Bank of England). It is impossible to

quantify the extent of the influence of such tropes in driving opinion, but they demonstrate that the banking debate was as much about marshalling all available creative resources as it was about 'science'. These metaphors certainly remained popular for decades and only faded from usage towards the end of the century when the notion of an interventionist role for the Bank of England had become less contentious (Alborn, 1994).

That this role would become generally accepted was far from evident in the 1840s. Championing the need for 'mechanical circulation' - that the Bank of England should act counter-cyclically, to mitigate the impact of hoarding and panics - the Banking School position had lost credibility by the late 1830s. There was a widespread belief that the Bank had exacerbated problems through untimely credit expansion (Hilton, 1977). An 1840 pamphlet by Bailey anticipated Milton Friedman's argument that, given the paltry amount of reliable information, discretionary policy would always prove unsatisfactory (White, 1995). Those Bank directors and politicians with painful memories of the disappointment that convertibility alone was sufficient to prevent crises, and the recriminations that followed panics, understandably wanted to escape from the political firing line by shedding responsibility for future intervention (Horsefield, 1944). Overall, the Currency School should not be blamed for failing to predict the future role of the Bank, particularly as the dispute over what exactly a central bank should be - or even if it should exist at all - continues to the present day. In this respect it is inappropriate to say whether either School was 'right', as this is essentially a matter of personal preference for degrees of central intervention.

The Bank's evident desire to reap all the benefits of its monopoly status, without any commensurate responsibilities, was possibly more amenable to a definitive negative judgement. Although note-issuing power was stripped from the Bank, the 1844 Act showed little interest in limiting its commercial dominance vis-a-vis other banks. The Bank was split into two departments: an issue department responsible for notes, and a commercial department whose sole aim was private gain through discounting bills and funding securities. As noted above, the Bank did not consider that it had any responsibility to facilitate provincial growth (Cameron, 1982). Although some regional branches had been established after the 1826 crisis, their purpose was to spread Bank of England bank notes, and when their monopoly was secured by the passage of the 1844 Act which aimed to strip the provincial banks of their note-issuing capacity, the Bank effectively turned its back once again on the provinces (Ziegler, 1990). The Bank was first established as a self-interested, profit-driven entity focused on the needs of the government and the capital's merchants (Hamilton and Parker, 2016) and the idea that it was indisputably charged with acting in the national interest was not formally stated until Bagehot's Doctrine. It probably cannot be blamed for preferring this view of itself in the wake of the discomfiting controversy it engendered in the early 1800s.

The Bank's evolution has been largely contingent on happenstance rather than any concerted plan. From its origins, confusion abounded about the nature and role of this shape-shifting entity. The name 'Bank of England' was an instance of the performative power of language; it implied that the Bank was concerned with the interests of the entire nation, but a more accurate name might have been the Bank of London (Hamilton and Parker, 2016). This is merely one example of how non-rational factors shape opinion. This matters because evaluating whether one party or

other was 'right' requires understanding *why* a certain argument was supported as well as the argument itself. The popular notion of policy-generation is of a careful sifting of cogently reasoned arguments, but scholars are more likely to have an emotional preference, which they then attempt to rationalise (Toulmin, 1958). In general too little attention is paid to the vitally important non-technical features of the debate which determined these emotional preferences (Hilton, 1993). Whilst historical accounts present the altercation as a clash of rational, technically-derived approaches to monetary management, it is worth remembering that, far from being a genuine intellectual contest, the various commissions and committees were designed to *prevent* the airing of divergent views, with most of the participants having made up their minds before participating (Hilton, 1977; 1979, Molyneux, 2004). Some non-technical determinants might be derided as historical trivia, but they nonetheless had a role to play in shaping the debate. One example would be the part played by racism and prejudice in influencing public opinion about Ricardian political economy – derided by Cobbett as 'the Scotch feelosofy' (Grampp, 1976). Anti-Scottish prejudice may help explain non-trivial phenomena, such as the failure of the English to learn from the example of the highly successful Scottish banking system (Cameron, 1982; White, 1995).

Others have noted the importance of religion in shaping the debate (particularly Hilton, 1993). Providentialism was pervasive in much contemporary writing, but there was a great difference between the optimistic providentialism of the conjectural historian Smith which has received some attention from economic historians (for example, Viner, 1966) and its darker counterpart in the retributionist views of Malthus, Chalmers and Paley (Poovey, 1996). Portraying the economy as a manifestation of divine will proved hugely influential in determining the popular reception of political economy, epitomised in the popularity of the Thomas Chalmers. Chalmers preached that panics were a manifestation of divine wrath, with the economy being static and cyclical rather than expanding. This implied that, as the Currency School believed, excessive credit could serve no useful purpose, and that the Bank should not intervene, but let panics run their course. Chalmers' popularity reminds us that there was no universal expectation of economic growth, a difference in perspective that some economic historians are guilty of overlooking. Hilton believes that these popular, evangelical views were ultimately more significant in fostering support for the Currency School than those of Ricardo and his followers, being more widespread amongst the financial, professional and urban classes, and powerful Tories such as Peel (Hilton, 1993). Whatever the correct attribution of influence between popular evangelicalism and secular political economy, this is a reminder that true understanding of any period requires the transcendence of artificially imposed disciplinary boundaries. In the spirit of this view, the economic historian Vickers preferred the term 'intellectual history' rather than the habitual 'history of economic thought' (Rima, 1990). This was a manifesto rather than mere pedantry, but one that remains controversial, given the rigidity of economics faculties, jealous of their self-declared superiority over the other social sciences.

This short excursion into the debate and its context reminds us that 'truth' or 'accuracy' or 'logic' are sociological processes (Toulmin, 1958) meaning that we must enter into the contemporary mentality to accurately evaluate the Schools. There can never be a neat division between cultural influences and economic theory, despite the modern preference for disciplinary amputation.

Unfortunately, the paucity of interdisciplinary work on the debate means that much of the scholarship is at best limited and at worst misleading, severely underestimating the myriad cultural inputs into policy formation. In particular, it is easy to mistake the enthusiasm in the 1800s for science and ‘system’ as proof of a secular modernity that presages our own, but ultimately this was a religious age, where intuition, regarded as the voice of God, was held in higher regard than reason (Houghton, 1957). Economists would do well to accept Vicker’s challenge to embrace the concept of ‘intellectual history’ and acknowledge the role played by a wide array of cultural forces in shaping the discipline, but given the habitual preference for aping the hard sciences they are congenitally reluctant to do so. As Skaggs (1999) noted, modern academics themselves are less ‘rational’ than they suppose, given that they habitually approach their research with emotional preferences which they prefer to ignore. Historical appraisal is reduced to evaluating the past in terms of its similarities to the present, in the worst tradition of Whiggishness. Thus contemporary economists tend to favour the Banking School purely because they have less in common with the Currency School. They also downplay the methodological context of the debate, which is indicative of a general lack of interest in such matters. Unfortunately the attempt to generate a narrative straitjacket of ‘right’ and ‘wrong’ so typical of accounts of the dispute means that important similarities between the two Schools are ignored; for all the attention focused on their differences they agreed as often as they disagreed, rendering binary judgements less appropriate. Ultimately, the dispute is notable not only for what was debated, but for what was neglected. It is hard to ignore the metropolitan insularity of the protagonists, uninterested in the key difference between funding new productive capacity, as opposed to trade in existing products, whilst contemporary theorists in Europe and the US explicitly addressed the need to industrialise and diversify their economies. A *longue durée* perspective on the debate might regard it as an instance of fiddling whilst the advantage of pioneering the industrial revolution was lost.

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