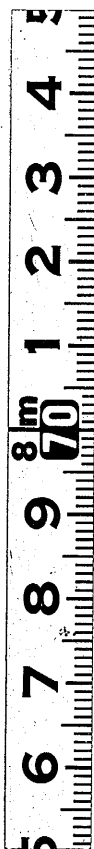


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AN

ADDRESS

TO

THE RIGHT HON. ROBERT PEEL,

LATE CHAIRMAN

TO THE

COMMITTEE ON THE CURRENCY.

BY

THOMAS SMITH, *Accountant,*

AUTHOR OF AN ESSAY ON THE THEORY OF MONEY AND EXCHANGE.

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1819.

AN

ADDRESS,

&c. &c.

SIR,

AFTER the very particular notice with which you were pleased to distinguish me, it may appear extremely ungrateful in me to presume to find fault with you: but I must be excused saying, that on so serious and important a subject, an attempt at wit was rather ill-timed and indecorous, and that selecting for the object of it a man, who conceiving his opinions of consequence to his country, (although he may be mistaken,) had sacrificed both his time and his money in making them public, was not consistent with that urbanity of conduct and politeness of manner, for which the Right Honourable ROBERT PEEL is so justly celebrated, as I had experienced, when I had the honour of being before the Committee on the

W. Marchant, Printer, Ingram-Court, Fenchurch-Street.

Currency. I am at the same time perfectly convinced, that he must have completely overlooked the possible consequences of holding up to the ridicule of the public, a man who lives by the public, and who, by such a measure, might be seriously injured in the opinion of that public; for who would employ, in the laborious drudgery of an accountant, a person who was reported by such authority to have spent his time in weaving wild and absurd theories of money.

I have a still more serious complaint to make, however, which is, that the quotation you have been pleased to give is incorrect, in so far as that only part of a sentence was given, and the concluding part, which explained the first, was left out. You are reported to have said, that when asked what the pound was, I replied, it was difficult to explain, but that there was no gentleman in England who did not know what it was. Now, Sir, what I did say, as taken from the Evidence, was: "Though it is difficult to explain, yet it is perfectly apparent to every one who hears it; whenever the term, pound sterling, is made use of, every one knows what it means; *but no man will ever, when he hears the term, think of inquiring what the price of Gold is, before he determines what the value of it is:*" and I added, that the pound was the assumed quantity or scale by which the value of all things was ascertained, and by which the Coins, employed as measures,

were regulated, exactly similar to what has taken place in regard to weighing and measuring. A pound weight and a foot rule being employed to weigh and to measure commodities only according to an assumed scale, which at first was quite arbitrary and imaginary, there being no such thing yet discovered in nature, as a fixed standard of weight or measure, although these are both real attributes of matter; whereas, value is completely an artificial one, and therefore it is not surprising that it can only be measured by an artificial scale. It is now above ten years since I first published this Theory, and the extraordinary, various, and sudden changes, which have taken place in the Currency of this country during that period, have on every occasion shown its correctness. Anxious that it should be fully investigated, when the Committees on the Currency were appointed, I took the liberty of addressing a circular to each of the members, briefly stating the heads, and soliciting an examination of it. Afterwards, when I understood Mr. Ricardo was to be examined before the Lords' Committee, I again addressed the Chairman of that Committee on the subject; but no notice whatever was taken of these communications. How far their Lordships fulfilled their duty to their country in declining to hear evidence tendered them on so important a subject, however humble and obscure the tenderer might be, I shall leave the public to determine.

I had not the honour of being called before the Committee where you presided, until the very conclusion of their labours, when their minds must have been made up; and although I was received with all that politeness to be expected from the gentlemen of whom it was composed, yet I was evidently heard with impatience, and was cut short in the exposition of my theory: whereas, had a few leading questions been put to me, I was prepared to give proofs of its accuracy, and its application to and coincidence with the different changes that have taken place in the monetary system of this country. It has thus never had a fair and impartial examination: whether it be deserving thereof time will show; it is before the public, and they generally judge correctly, although sometimes slowly.* With them I shall leave it, and at present confine myself to some observations on the theories which you have been pleased to act upon; I say theories, because there appear to be two separate and distinct ones, upon which the adopted Plan is founded.

The first theory is that of Mr. Locke, with whom you have contrasted me. You state that he had made a great many metaphysical inquiries on the subject; but that he had, at last, concluded, that the only standard was a *definite* quan-

* It is rather in its favour, that of five Replies that have appeared to the Letter from Oxford, all should more or less be of the same tendency, three of them most decidedly.

tity of *Gold Bullion*. Here, I believe, you are inaccurate; for Mr. Locke asserted, that *Silver Bullion* was the standard, and that Gold was not fit to be so. His preposition was, "that one ounce of Silver Bullion was, at all times, equal to another ounce of equal fineness, under whatever form it might be." Mr. Locke, from his pursuits, could have had little opportunity of being practically acquainted with this subject; but having got a great character as a metaphysician, his opinion was then adopted. Subsequent inquirers have shown that he was mistaken in some of his metaphysics; and that he was still more so in his Bullion notions, will appear at least probable, when it is stated, that the axiom, upon which he founds his theory, however true it may be in abstract reasoning, will be found utterly disproved by practice. Although, metaphysically speaking, there can be no difference betwixt one ounce of Silver or Gold Bullion and another of the same fineness, yet the gradations in value introduced by barter, have become so nice and minute, that the smallest variation in the form of the metal subjects it to a different valuation. This is obvious in regard to Silver, if its value, per ounce, as bar Silver, Spanish dollar, or English coins, be taken into consideration. It is still more to be seen in Gold, for there you will find five forms; exportable bars, non-exportable bars, Spanish coins, Portugal coins, and

English coins; all bearing a different comparative value, and occasionally changing that value, not only as to the scale of value, but in comparison to one another, exportable bar gold having been frequently of higher value in exchange than non-exportable of the same fineness: Spanish coins, although worse than Portugal ones, have sold 3s. to 4s. per ounce higher; and the whole have been, and are this moment, higher than the rates appointed by law for English coins to pass at. I am perfectly aware that I shall be told, that this has been owing to a demand for one of these articles in preference to another; that the balance of trade or payments being against the country, Gold under one of these forms has been sought as a remittance in preference, which has raised its value, &c. &c. But, in reply, I say, that this is begging the question, or rather doing away with it altogether. Mr. Locke asserted, that one ounce of metal *was, at all times*, equal to another of equal fineness, under whatever form it might be; and you repeat the assertion, without any reservation or exception whatever; there is no saving clause, the expression is *at all times*. I say, this may sound very well theoretically, but let us see how it turns out practically. Upon examination, I find that there are actually no two forms under which Gold is to be found, that agree at all times in value; every one of them has, at times, a different value from the others: nay,

the English guinea, which, it is asserted, passes in circulation at exactly the value of the Gold in it, will upon examination be found not to have done so during the greater part of the last hundred years. In that time, it has sometimes been a little more valuable than bullion, but in general considerably less so. You might, therefore, as well tell me, that although two and two *always* made four, yet owing to particular causes they sometimes made five, and sometimes made only three, as to assert that one ounce of metal is always equal to another, under *whatever* form it may be, although, from particular causes, metal, under one or other form, is sometimes higher and sometimes lower. And yet this is the ground-work upon which is founded the theory "that Gold Bullion is the standard of value, and that the value of all things is estimated thereby." You have declared yourself a convert to this opinion, and have been pleased to ridicule my ideas of an imaginary standard or scale of value; *although it is impossible for you to make any comparison betwixt commodities and Gold, without making use of that very scale, the idea of which you deride, and the existence of which you deny.* You assert Gold Bullion to be the standard of value, and at the same time talk of the price of Gold *rising or falling*, and tell us that it was £4:3 per ounce, and is only £4:1, &c. I am aware that this has been attempted to be explained by the assertion,

that it is caused by the depreciation of Bank-notes. In reply to this, I shall beg leave to quote what I have formerly said on that head. "I can easily conceive that the term pound may have been, and may still be employed, as synonymous to a quarter of an ounce of Gold, or any other fixed and established quantity: in this there is no difficulty whatever. But when I find you afterwards stating that the ounce of Gold, which had been only £4, was now £4:4, or £4:10, or £4:14, I must confess I feel myself staggered and at a loss; and the more I ruminate the worse I become. How an article can, at one time, be equal to itself, and at another unequal? How its variations can be measured by a thing which *invariably* represents a certain proportion of itself, are propositions which I cannot conceive nor understand.—But there appears to me to be a complete contradiction in the assertion. You say that Gold is the measure of value; that the term pound sterling is merely a denomination for a certain quantity of Gold; you allow, I believe, that this term is made use of in this country to account with generally; and you also allow that a Bank-note for one pound passes in current use for that amount, that is to say, it is always taken for one pound: if so, where can be the depreciation, or how can it be proved? Either the term pound sterling must

represent various quantities of Gold, according to the different changes in price, or there can be no depreciation of Bank-notes. If the pound sterling represents a certain, that is to say, I presume, a fixed quantity of Gold, and the Bank-note represents and passes for one pound sterling, then certainly the Bank-note must always represent the same fixed quantity of Gold.*

The second theory is, that the high and low value of Gold Bullion is *entirely* owing to the quantity of Bank-notes in circulation; and that the Bank have it *at all times* in their power to raise or lower the price of Gold, by lessening or increasing the quantity of notes in circulation. This is taken up by the Committees as so incontrovertible, that the Plan proposed by them, and now adopted by Parliament, is completely founded upon it. It might, therefore, have been expected, that, before committing themselves so far, they would have been at particular pains and trouble in ascertaining the correctness of this theory; in providing proofs for the satisfaction of Parliament and the country, to show that this effect had always taken place in former times, and consequently, might be expected to do so in future; that the price of Gold was

* "The Bullion Question Discussed; or, An Address to the Editors of the Edinburgh Review."—Richardson.

never altered by any other circumstances, and, therefore, that this remedy might always safely be applied without any danger of mistake, or its having a contrary effect to the one expected. It would be a mockery in me, Sir, to ask you whether this had been done in the Committee to which you belonged. Every one who gives a cursory glance over the Evidence before that Committee, will immediately be convinced of the contrary. So far from direct and positive proof having been given of the truth of this assertion, the most direct and positive proof of the reverse appears in every page in which it is mentioned. The replies to the very pertinent questions with which you commenced the examination of the author of the Plan, appear perfectly conclusive on the subject.

“Do you conceive that the paper currency of this country is now excessive, and depreciated in comparison with Gold; and that the high prices of Bullion and low rate of exchange are the consequences, as well as the sign of that depreciation?—Yes, I do.

“The following is an extract from a publication of yours: *Why will not the Bank try the experiment, by a reduction in the amount of their notes of two or three millions, for the short period of three months? If no effects were produced on the price of Bullion and the foreign exchanges, then might their friends boast that*

the principles of the Bullion Committee were the wild dreams of speculative theorists. Do you still adhere to the opinion expressed in that extract?—Yes, I do.

“From July to December, 1817, the average amount of Bank of England notes in circulation, appears to have been £29,210,000; from July to December, 1818, the amount appears to have been £26,487,000. In the latter period, the price of Gold was higher than in the former, and the exchanges were more unfavourable to this country, so that the reduction in the issues, though carried to the extent of £3,000,000, produced no effect upon the exchange and the price of Gold. How do you reconcile these facts with the theory?—When I gave the opinion that has been stated, *it was on the supposition, that no commercial causes were at that time to operate on the price of Bullion or on the exchange, being firmly convinced, that a reduction in the amount of notes, under these circumstances, would raise their value to any point which might be desired. I am fully aware that there are other causes, beside the quantity of Bank-notes, which operate upon the exchanges; BUT I AM QUITE SURE, THAT, FROM WHATEVER CAUSE A BAD EXCHANGE ARISES, IT MAY BE CORRECTED BY A REDUCTION IN THE AMOUNT OF THE CURRENCY.*”

After Mr. Ricardo's first assertion being so completely repelled, it is rather surprising that he should have ventured to repeat it in the bold manner he has done; and it is still more extraordinary that the Committees should have paid any attention to him, far less have adopted his Plan, without his having brought forward the smallest proof in support of it, or to show that it was any thing more than *the wild dream of a speculative theorist*. If he had been aware of the counter-acting effects of commercial causes on his theory, then he should have stated it with that reserve; if he was not, then he has been writing and talking on a subject, with the details and bearings of which he was unacquainted. At all events, after the admission, which he makes in these replies, the Committees were bound to have called for stronger evidence of the correctness of the theory, before they ventured to adopt it, or to recommend a plan of which it is the foundation. You, Sir, had a much stronger evidence before you against it than the one you were pleased to quote. Upon examining the table which I had the honour of presenting to the Committee, it will be seen, that, in the first three months of the year 1814, the average number of Bank-notes in circulation was twenty-five millions, and the price of Gold Bullion was £5:8; while in August, September, and October, of the same year, the amount of Bank-notes was about twenty-eight

millions, and the price of Gold was £4:6. According to Mr. R.'s theory, when Gold was at £5:8 per ounce, Bank-notes were depreciated about 40 per cent.; an increase of their issue one million would raise this 4 per cent.; therefore, an increase of three millions should have been 12 per cent.; but, instead of rising 12 per cent. in value, the Gold, it appears, fell 20 per cent. thus making 32 per cent. which, added to the 40 per cent. makes 72 per cent. difference between Mr. R.'s theory and real practice. What dependence can rationally be placed on a theory, the aberrations of which are to such an extent in the course of one year? is it not, indeed, a convincing proof that the theory has no real foundation? And this may farther be confirmed by the fact, that, from all the documents laid before them, the Committee could only pick out one period in which the issue of notes and the price of Gold appear to coincide with the theory: that was the last six months of 1817, when the number of Bank-notes in circulation had increased three millions, and the price of Gold rose 1s. 6d. per ounce. But, in the following half year, the number of notes fell two millions, while the price of Gold rose 1s. 6d. to 2s.; and it continued as high during the next half year, although the notes fell other two millions. Mr. Ricardo, himself, has been obliged to go back to the year 1782; the events in which *he thinks* were an instance of

the truth of his opinion. I feel myself, therefore, justified in asserting, that there is not only a total want of proof in favour of this doctrine, but an overwhelming series of proofs against it.

A Plan upon such an uncertain, if not *unsound* foundation, ought to have had very great and decided advantages before it had been recommended by the Committees or adopted by Parliament. There are three essential requisites it should, at least, have been possessed of. It should have been conformable, not only to the general principles of circulation, but to those particular ones by which the Bank of England has been conducted: it should have had, at least, the appearance of being of equal advantage to all parts of the community: and it should have been not only perfectly safe, but easy in its application. A slight examination of your Plan will serve, I think, to show that it is completely deficient in all three.

Instead of proposing any arrangements for providing specie, in order to enable the Bank to resume cash payments, and to give specie for their Notes, so as to preserve the circulating medium of the country unimpaired, it commences by recommending to Government to repay ten millions of the debt they owe to the Bank, and thus to take that amount of Bank-notes out of circulation, without replacing it by any other medium whatever. No doubt if Government can

by any means scrape together ten millions of Bank-notes, they can send them to the Bank, who will cancel them, and thus the debt will be discharged, and the matter so far settled in regard to Government and the Bank. How the country is to go on with such a diminution of its circulating medium, appears to have been beneath the consideration of the Committees. Instead of paying any attention thereto, the next step proposed is, that the Bank shall further diminish their circulation, by giving in exchange for their Notes, what!—specie for the convenience of the public?—no; Bullion for the convenience of the exchange-dealer and exporter. And, to crown the whole as a climax, a recommendation is given to repeal the laws prohibiting the exportation of specie, thereby depriving the public of the chance of having the benefit of the few guineas and sovereigns yet remaining in the country, to supply the place of the Bank-notes to be withdrawn. This appears to me to be a particularly extraordinary step. It has generally been supposed that Coins are issued for the convenience of the people in the country, for the regulation of their internal traffic; and as the Government of this country never have charged any seignorage, and, therefore, have been at all the expense of making these Coins, it has always been thought proper to prohibit their exportation. On the Continent it used to be the same: in France, in former times,

exportation of Coin was severely punished. The French government, however, having lessened the quantity of metal in their Coins, while they retained their denomination, and added a small seignorage; they conceived it unnecessary to continue the prohibition, and have, therefore, taken it off. In order to imitate them, the Committees have recommended the same measure; but they have forgot to recommend any alteration in the Coins, and the consequence is, they will now completely disappear. The Committees must have been aware of this, for they had before them in evidence that the sovereigns had disappeared as fast as issued, and that five millions of them had gone to assist the French government in their new coinage. The only benefit, therefore, of this measure may be, to enable that government to finish its coinage upon easier terms than it otherwise could have done. All these arrangements appear directly contrary to the established principles of circulation; and they are most completely so to those by which the Bank of England and all well-regulated banks are conducted.

The advantage to be derived from banks consists in the introduction of a cheap medium of circulation in place of an expensive one; but for which it may, at all times, be exchanged, both passing on the same footing. This was the mode in which the Bank of England carried on business for 100 years after its establishment; and a

proper return to which I certainly do conceive to be most desirable, although you have been pleased to impute to me very different views. You state, that in my opinion, "the indefinite suspension of cash payments was an expedient and desirable measure;" but you omit to give my reasons for thinking so, which were, "that I conceived it impossible to get the quantity of Gold that would be required for a return to cash payments; and if it could be got, I did not see how the country could, at present, pay for it."

As for more than twenty years past the circulation of this country has been carried on almost exclusively with Bank-notes, previous to withdrawing these from circulation, or even restricting their amount, it is absolutely and essentially necessary, not merely to the prosperity of the country, but to its very existence as a nation, that another circulating medium be ready to be introduced in their place. The labours of the Committees ought, therefore, to have been particularly directed to this point. If a specie circulation be desirable in this country, then they should have examined where and how that specie was to be procured; not have left it to chance, or to the Bank of England. The very great advantages to be derived from a well regulated and abundant circulating medium is now so well known and appreciated, that all the nations in Europe are busily employed in putting their currencies on a

proper footing, and in reclaiming them from the disarranged state they had fallen into during the war. France, Holland, Austria, Prussia, Russia, and Denmark, are all engaged in this. These countries have banks; but these banks not enjoying the same confidence and credit the banks in this country do, the governments have found it necessary to have new coinages; they, however, have set about making these coinages themselves, *instead of obliging their banks to furnish these Coins, or to find the Gold to make them.* These facts were before the Committees, and it appears rather extraordinary that it never occurred to them to inquire whether it was not the duty of the Government to furnish the specie necessary, as had always been the case in former times; it having been usual, indeed, to state it to be the prerogative of the Crown to do so. I think if the Committees had coolly and dispassionately examined the mode in which Bank of England Notes are invariably issued, and the causes which had led to the very great increase of their issue, all which was in evidence before them, they would not have deemed it necessary, or proper, or just, to have advised any alteration in the practice, by subjecting the Bank to the trouble, inconvenience, and expense, of providing that specie. Upon this point a great deal of misrepresentation has been circulated. It has been boldly asserted, that ever since the restriction,

the Bank having the power of issuing Notes at discretion, the Directors had taken an undue advantage of that power, and therefore it was necessary to have a check upon them; and that these Notes remained in circulation without a possibility of their being withdrawn. An examination of the evidence will show the fallacy of these assertions, and the real causes of the extended issue of Notes. The Bank of England are not a trading company, purchasing commodities, giving their Notes for them, and then sheltering themselves from payment of these Notes under the Restriction-Act. The Bank never give their Notes; they only *lend* them upon securities deposited with them, and which securities remain in their possession until the period of their redemption, when the Notes are returned, and they are given up. These securities are divided into two, private and public; that is to say, into advances made to private individuals upon bills of exchange or inland bills, and advances made to Government upon loans or Exchequer-bills. For five years previous to the restriction, the amount of the advances to Government appears to have been equal, or nearly equal to the amount of Bank-notes in circulation; the advances to individuals must, therefore, have been confined to what floating capital the Bank might have. Since the restriction it has continued the same; the advances to Government have very nearly kept

pace with the increase of issues, so that the accommodation to the public can only have increased as the floating capital of the Bank increased. This will be seen by a Table attached hereto, wherein is given the average number of Bank-notes in circulation, at two different periods in each year, from 1792 to 1819, and opposite thereto the advances to Government for the same periods. It is, therefore, evident that the increase in the issue of Bank-notes has not been owing to the increase of accommodation to the mercantile world, nor to the cupidity of the Directors in pushing their Notes into circulation, *but to the demands of Government for advances*; and this is completely proved by the fact, that the restriction did not originate with the Bank, but with Government, who imposed it to prevent the necessity of their re-paying the Bank, which they were then unable to do. If the Table be examined, it will be found, that during the years 1795 and 1796, the advances were considerably more than the Notes in circulation; and it is recorded, that during that period, the Bank Directors made no less than twenty-nine remonstrances to Government on the subject, and were, at last, silenced by the Privy Council issuing the Restriction-Proclamation, without their concurrence or consent. This fact is, however, so little known, that it is generally asserted that the Restriction was imposed at the earnest solicitation of the Bank, and

that they have contrived to have it continued ever since, against the wish both of Government and the country. On the contrary, an examination of the Table and of the Evidence before the Committee will show, that Government, taking advantage of the Restriction, have continued pressing the Bank for more and more advances, and that the issue of Bank-notes has only been increased from time to time as the Directors found it necessary and proper to accede to those demands. Those advances were made by them upon the express understanding that they should be repaid before the Restriction was withdrawn. The difficulty, therefore, of the Bank returning to cash payments does not rest with them, but with Government. If Government can repay those advances, the Bank may resume cash payments immediately, without any preparation. Had the issue of Bank-notes been always confined to what may be called their legitimate business—that of advancing upon bills of exchange or inland bills, and on Bullion lodged with them, there never would have been any occasion for the Restriction; they might have continued to pay in Gold; for, in that case, as their circulation would not have exceeded 8 to 10 millions, and the obligations upon which they had made advances would be daily falling due, whatever Gold they issued would have been returned to them in payment thereof. But when it is considered, that for the last ten years they

have been under what may be called a perpetual advance to Government of above 20 millions; and for ten years before that one of above 15; (for however the securities varied, the balance advanced never did;) and for which advances they held no available securities, it must be evident that they never could have, with any safety, recommended cash payments; nor can they now, unless these advances are repaid. Even with the re-payment proposed of 10 millions, there will still remain above 10 millions due to them, against which they only hold a floating capital of five millions; and they, therefore, will be liable to be called upon for five millions of Gold above all that their capital or means can enable them to supply.

This explanation of the formation of the Bank of England, and of the mode in which its notes are issued and are withdrawn from circulation, may be sufficient to convince every one, that it is not incumbent on the Bank to find Coin to give in exchange for their Notes, and that to oblige them to do so, will only be deranging the system, without being of the smallest benefit to the country, or giving a single guinea to the permanent circulation. As the Bank hold securities for all the Notes they have issued, should they give Guineas for the Notes, when these securities become due, there being no Notes in circulation against them, they must be paid for in Guineas; and thus

the Guineas will return to the Bank. The only exception to this will be, Government not repaying them; and, should this be the case, and the Bank be obliged to pay in Gold, not having funds for that purpose, they must inevitably suspend their payments.

If those objections hold good against obliging the Bank to provide specie to pay in, they must bear still stronger against their finding Bullion for that purpose. Indeed, the idea of paying in Bullion appears a very extraordinary one, and it is assuredly most novel in the science of Political Economy and of Banking; there certainly can no instance be shown of a Bank issuing Notes subject to such a measure. It is possible that it may be told, that the Bank of Amsterdam did deliver Bullion; but, in the first place, the Bank of Amsterdam never issued Notes; and, in the second place, that Bank never delivered Bullion, unless they had previously received it; they were merely a Bank of deposit, and had the Bank of England received Bullion when they issued their Notes, they would, doubtless, be perfectly ready to return it for them whenever demanded. But when they only receive for their Notes other pieces of paper or parchment, to insist upon their finding either Coin or Bullion to give for them appears to be neither justice nor equity. If any exchange is required, the fair mode would be to direct the Bank to give to every one applying

Exchequer bills or bills of exchange in return for their Notes. The complete impolicy of the measure will appear, when it is considered that, should the Bank give specie for their Notes, it is probable that that specie may be available when the securities they hold become due. But Bullion will only be required for exportation, and, therefore, the Notes being cancelled, there will remain no means of retiring the securities they hold, and thus individuals will be put to the utmost distress and inconvenience in discharging their obligations.

In the second place, I can see no possible advantage this Plan can be to any but the foreign merchant, the dealer in bills of exchange, or the contractor for foreign loans. These people may be benefited by having Gold Bullion at all times at command at a fixed price, but no other person in the country will ever require it; and I cannot see why the nation in general should be put to inconvenience and loss for the accommodation of these parties.

In the last place, so far from being either safe or easy in its application, there appears a great doubt whether it can be applied at all. Before the Bank can procure the quantity of Gold they will require to commence with, the exchanges must go against the country, and the price of Gold get up considerably. Indeed, the inconsistencies of the Plan are very great; the Bank are enjoined to

restrict the issue of their Notes, *in order to lower the price of Gold*, and, at the same time, they are directed to be prepared to give Bullion for their Notes: how can they be prepared but by buying Bullion, and how can they pay for Bullion but by fresh issues of Notes?—thus the one of these advices is completely contradicted by the other. In addition to this, it has been recommended to them to be cautious in restricting their Notes, for fear of hurting the trade of the country, while, at the same time, they are imperatively told they must at all times restrict their issues until the price of Gold be at the Mint-rate. Now, when it is considered that the only part of their issue which they have it in their power to restrict, is the accommodation given to the mercantile interest, which does not exceed £5 to 6 millions; these two directions will appear very incompatible. From the instance quoted by the Committee, it will be seen, that a diminution of three millions had not the effect of lowering the price of Gold; it is possible, therefore, that the whole of the accommodation to individuals may be cut off without attaining that object. Another inconsistency has just taken place. While writing this, I find the first Lord of the Treasury stating, that he had proposed to have a loan of thirty millions, and that he had applied to the Bank to know whether they would make the usual advances upon it; that is to say, that,

after the contractors had advanced 40 per cent. of the loan, the Bank should advance the remainder, or 60 per cent. making 18 millions; but, suppose it to be only on $\frac{2}{3}$, that would be 12 millions; thus at once throwing into circulation a larger sum than is proposed to be repaid them by Government; and this advance will be positive, whereas the re-payments by Government, if we are to judge of what is to come by what has passed, will be very dubious indeed. The Bank Directors, with that propriety and firmness they have uniformly shown on this trying occasion, declined having any thing to do with this loan, and the Ministry were *obliged* to have recourse to a measure they should have adopted long ago, and confine their loan to 12 millions.*

The Committees ought to have fully investigated all the possible bearings of such a Plan, before they recommended it to Parliament. Admitting that the theory is perfectly correct, and

* The terms on which this small loan is taken, are a commencement of the benefits to be derived from this new Plan. Last year the Premier contracted for a loan of 33 millions, at 79 per cent. After a twelvemonth's peace he contracts for a loan of 12 millions at 69 per cent. The difference to the country is an addition of debt of nearly 2 millions on this small loan only, being an annual charge of £60,000. Had the loan been 30 millions, as proposed, it would probably have been 2 to 3 per cent. lower; but even at the same rate, the difference would have been 5 millions, and £150,000 of annual charge.

that the Plan will have the effects expected, still, should any change in the political situation or trade of this country occur, to counteract these effects, the inconvenience and distress it will be liable to suffer may be great, and far beyond the utmost advantages that can be gained. On the contrary, should it turn out, as I firmly believe it will, that the theory is *visionary* and the Plan *negatory*, the consequences will be dreadful. The Committees have, therefore, taken an awful responsibility upon themselves, in recommending such a measure without having more completely investigated and examined it.

Had they coolly and dispassionately compared the evidence and the documents laid before them, I think they must have seen the real cause of all the difficulty, and the only true obstacle to the Bank immediately resuming cash-payments, which is, most undoubtedly, *the debt due by Government to the Bank*; and this would have led to the proper remedy, which is, without doubt, the payment of that debt. Were that accomplished, the Bank might pay in specie whenever they pleased. The payment of this debt does not appear to me to be, by any means, so difficult a measure as has been supposed, provided it is properly set about. Certainly, if Government attempt to pay this debt, or even the half of it, without giving the public any circulating medium in its stead, they will find it

almost, if not altogether impossible to be effected. But let them give another medium, and it will be very easy. If it be advantageous for the country to have Gold coins for a circulating medium, it is certainly the duty at all times of Government to provide them. And I conceive it to be more particularly their duty on the present occasion, because the Bank extended their issues entirely at the request and for the accommodation of Government, who, by means of that extension, were enabled to send the guineas out of the country to pay their armies and continental subsidies. As the public reaped the advantages gained by exporting the guineas, they ought to be at the expense of bringing them back, instead of saddling the Bank with it. The Plan, therefore, that in my humble opinion ought to have been recommended by the Committees should have been, that Government should provide 20 millions in specie with which to repay the Bank, and thus enable that body to give specie for the same quantity of their Notes to be taken entirely out of circulation.

If I understand rightly the financial arrangements just now making, Government are to repay the Bank 10 millions out of the loan they are negotiating: had they, therefore, added 10 millions more to the loan, and, instead of paying it immediately to the Bank, employed the whole in purchasing Gold Bullion; and, after turning that

Bullion into guineas or sovereigns, given these to the Bank, with directions to retire a similar amount of their Notes from circulation, the business would have been accomplished, and in a business-like manner. The obliging the Bank to find the Gold is the most awkward and round-about mode possible. The Bank have no funds to pay for Gold to give for their Notes. They may retire to the extent of their floating capital, which appears to be about five millions, and which I presume is principally vested in Bullion; but beyond that they cannot go one single step, *because the securities lodged with them against their Notes in circulation are not available for that purpose*: they can only do it by a fresh issue of Notes, thus increasing, for a time, the evil complained of; and with this Gold they can only, at the very utmost, retire those fresh issued Notes; indeed, they may not be able to do even that, for it is very probable that they may be obliged to pay more for the Gold than they receive, in which case, they will issue more Notes than they will be able to retire, and thus add to the evil, instead of diminishing it. But, allowing that the Bank had it in their power to give Gold for every one of their Notes in circulation, yet that would not be of the smallest avail in giving the country a specie circulation, because, should the securities they hold ever be redeemed, the whole of the Gold thus put

into circulation will inevitably revert to them. It must, therefore, be evident that it is not the Bank who should find the Gold, but Government; and surely they will have little difficulty in doing it. If it be deemed possible for the Bank to procure it, it must certainly be more easy for Government, for they will have funds at command, which the others have not; and one of the gentlemen who gave evidence before them, offered to contract for the delivery of any quantity of Gold. Thus might a return to Cash payments be effected in a very simple manner, and there would only be two additional regulations required to complete the whole. Should Government, in giving this new coinage, follow the example of the continental powers, and increase the value of the Gold in them, and were the issues of the Bank of England limited to their legitimate purposes, advances to individuals on bills of exchange and inland bills, and to Government on credits of loans only, so as to confine their circulation to 12 or 15 millions, the monetary system of this country would be put upon a fair, stable, and sound foundation, and one worthy of so great a nation.

The errors into which the Committees have evidently fallen have been attributed to their formation, as being composed of members who had previously made up their minds on the subject, and had made their sentiments public. But

there appears to me to have been a greater fault in the formation of the Committee. You, Sir, are reported to have stated in the House, "that the Committees had discarded from their minds all party feeling, and had treated the subject as totally unconnected with party objects." This may be very true, as to what is commonly called party; there certainly was no difference upon the subject betwixt ministry and opposition, because on this occasion the ministry chose to join the opposition; but there was most assuredly a difference betwixt the Ministry and the Bank-Directors, whom, upon this occasion, the Ministry chose to desert; and as these Committees were appointed to inquire into the conduct of the Bank, which they could not possibly do properly without inquiring into the circumstances of the connection betwixt them and Government, had the Members of Administration had any regard for their country, or respect for their own characters, they would, one and all, have declined being on the Committees. Instead of this, however, they not only attended the Committees, but appeared in their places in Parliament, and spoke in favour of opinions and measures diametrically opposite to all that they had argued for and supported during upwards of twenty years. It is certainly said that "a wise man changes his opinions, a fool never." But surely the Ministers, Sir, had chosen a very inauspicious and a very sus-

picious time to change theirs, just when they had had a difference with the Directors of the Bank; for that such a circumstance had taken place appears evident from the correspondence before the Committees. If the opinions now professed by them be the real, correct, and just ones, then what can be said for their having supported, for above twenty years, the very reverse, merely because the Bank were thereby enabled to make them the advances they required?—If, on the contrary, their former opinions were really the correct ones, what can be thought of their conduct, in running the risk of throwing the country into distress and confusion, merely to be revenged of the Bank Directors for refusing to continue making advances? In either case they will find it difficult to get out of the dilemma. At all events, they ought to have paid their debt before they had attacked their creditors, more especially when they must have been aware that those creditors were prevented fulfilling their engagements solely by this debt not being discharged.

It is a pity that the Chancellor of the Exchequer when he spoke on this subject did it in so low a tone of voice as to prevent his speech being fully reported; but I hope and trust that he will amend this by printing it, in order to enable the public to compare his present opinions with his former ones, and to examine the strong reasons that have induced him to change his faith, by

printed documents, in place of trusting to inaccurate newspaper-reporters. These people have made him assert, that, out of fourteen witnesses, ten, including the Governor and Deputy-Governor of the Bank, were for this new measure. But the witnesses before your Committee amounted to twenty-four, not to fourteen; and it does not appear that in it these two gentlemen were asked a question upon this subject, and, therefore, no opportunity was afforded them to give *evidence* in its favour. Before the other Committee they were certainly questioned very closely on the measure; but their replies are any thing but evidence in its favour. One or two of these replies are very pointed:—The Governor says, “It is absolutely necessary that the Government should repay a large part of the debt owing to the Bank, and that such re-payment *should be secured by Act of Parliament.*” The Deputy Governor:—“Before I can fix on a period for the commencement of the operation, I must first *be certain* of the re-payment of Government to the Bank.” I think these gentlemen could not have declared in stronger language how little dependence was, in their opinion, to be placed on the promises and engagements of Ministers.

They also both declare, “the consequence must be a considerable rise in the price of Gold, but that they do not apprehend that, *at any rate,*

“ a considerable quantity could be bought at this time.”

I had intended to have taken some particular notice of the assertion, said to have been made by the Master of the Mint, that “ an Act of Parliament had been passed in 1773, fixing Gold “ as the standard of value,” and quoting Adam Smith on the subject; but really I have said so much on this head on former occasions, and showed that no such Act of Parliament was ever passed, that I think it better not to enter upon it again; but shall conclude this epistle with a few remarks on an observation said to have been made by the first Lord of the Treasury. That noble Lord is reported to have stated, “ That, should the circulating medium of this “ country be reduced from 50 to 30 millions, it “ would be of little or no consequence, as the “ value of *all articles* would just fall in proportion.” Now, I should beg leave to inquire of the noble Lord, whether he meant to include under *all articles* the few following items. In the first place, the dividends to stock-holders; if all other articles fell, these should do so too. In the second place, the civil list, the salaries of the ministers, officers of state, judges, &c. &c. and all holding employment under Government: in the next, the incomes of the clergy: and, in the last, the money paid to the poor; because, in that case it might reasonably be expected that those three

courses to the country, taxes, tithes, and poor rates, might be proportionably lowered, and then the reduction of the circulating medium would be of little or no consequence. But should this not take place, I should wish to ask the landholder how he can expect his tenant is to continue paying heavy rents, and all those taxes, tithes, and poor rates, undiminished, while he is to receive for his produce only three-fifths of the present prices? that is to say, instead of getting 80s. for his wheat, he will be paid 48s. I should ask the manufacturer, if he thinks he can reduce the wages of his workmen still lower, or if he will be able to pay them, unreduced taxes, and increased poor rates, upon being paid for his manufactured goods only three-fifths of the present prices? I should ask the foreign merchant, whether he thinks it will be advantageous to import goods into the country for which he will have to pay the old prices abroad, but only receive here three-fifths of former prices? &c. &c.

Before concluding, Sir, I beg leave to offer my feeble tribute of praise to the Earl of Lauderdale and Mr. Tierney, for the manly independent manner they declared their sentiments upon this occasion. Although they had frequently expressed their dissatisfaction at the conduct of the Bank and its connexion with Government, yet their intimate acquaintance with the subject enabled them to see that the measure was not founded on

just and proper grounds, or supported by proof; and, therefore, in an upright and honourable manner, they avowed their dissent to it, and their conviction of its inefficacy and dangerous tendency.

I remain, with great respect,

SIR,

Your most obedient

and most humble Servant,

THOMAS SMITH.

Statement of the Amount of Bank-notes in Circulation at Two different Periods in each Year, from 1792 to 1819, and of the Advances by the Bank to Government at the same Periods.

Dates.	Amount of Bank-notes in Circulation at each Period.	Amount of the Advances to Government at each Period.	Dates.	Amount of Bank-notes in Circulation at each Period.	Amount of the Advances to Government at each Period.
1792. Feb. 25.	11,149,809	10,968,306	1806. Feb. 25.	17,148,446	14,663,339
Aug. 25.	11,006,969	11,684,484	Aug. 26.	19,072,893	14,445,339
1793. Feb. 26.	11,423,381	10,529,828	1807. Feb. 26.	17,205,341	13,763,539
Aug. 26.	10,838,214	11,851,388	Aug. 26.	20,034,112	13,665,339
1794. Feb. 26.	10,697,924	10,816,867	1808. Feb. 26.	18,593,054	14,364,939
Aug. 26.	10,628,220	8,757,806	Aug. 26.	17,365,266	15,677,539
1795. Feb. 26.	13,539,163	13,118,013	1809. Feb. 25.	18,014,677	15,400,139
Aug. 26.	11,458,382	13,460,144	Aug. 26.	19,357,241	16,009,339
1796. Feb. 26.	10,909,694	12,717,239	1810. Feb. 26.	20,429,281	15,017,839
Aug. 26.	9,531,335	10,454,614	Aug. 25.	24,446,175	17,689,739
1797. Feb. 25.	8,601,964	10,181,862	1811. Feb. 26.	23,384,833	18,068,439
Aug. 26.	10,563,216	7,145,134	Aug. 26.	23,793,115	22,696,239
1798. Feb. 26.	12,850,085	9,807,814	1812. Feb. 26.	22,998,197	22,551,739
Aug. 25.	12,191,025	9,444,976	Aug. 26.	23,482,910	21,957,639
1799. Feb. 26.	12,636,145	10,082,739	1813. Feb. 26.	23,307,471	25,893,939
Aug. 26.	13,259,873	8,986,439	Aug. 26.	24,024,869	25,731,239
1800. Feb. 25.	15,236,676	13,201,639	1814. Feb. 26.	25,095,415	24,484,039
Aug. 26.	14,735,378	12,899,239	Aug. 26.	28,979,876	35,814,539
1801. Feb. 26.	16,577,514	15,289,439	1815. Feb. 25.	26,673,370	28,032,739
Aug. 26.	14,970,321	11,948,539	Aug. 26.	27,024,869	24,955,839
1802. Feb. 26.	15,458,876	14,284,239	1816. Feb. 26.	25,680,069	19,865,039
Aug. 26.	16,887,113	13,552,339	Aug. 26.	27,075,854	27,222,845
1803. Feb. 26.	15,576,932	9,559,939	1817. Feb. 26.	27,058,578	26,373,570
Aug. 26.	17,035,959	13,635,239	Aug. 26.	30,099,908	28,300,200
1804. Feb. 25.	17,577,352	14,715,239	1818. Feb. 26.	28,279,043	28,035,523
Aug. 25.	17,323,994	15,304,439	Aug. 26.	26,602,837	28,087,865
1805. Feb. 26.	17,234,466	17,202,739	1819. Feb. 11.	25,947,637	23,028,820
Aug. 26.	16,296,178	11,745,339			

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AND

THE RIGHT HON. HERRIET WEBB

LATE CHAIRMAN

COMMITTEE OF THE CONFERENCE

**MARCHANT, Printer,
Ingram-Court, Fenchurch-Street.**

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REPORT

OF THE CONFERENCE HELD AT THE SOCIETY'S HEADQUARTERS, 11, BEDFORD SQUARE, LONDON, W.1, ON THE 15TH AND 16TH MARCH 1955

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