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REPLY

TO

MR. BOSANQUET'S OBSERVATIONS

ON THE

REPORT OF THE BULLION COMMITTEE.

Price 4*s.*

T. DAVISON, Lombard-street,
Whitefriars, London.

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PRACTICAL OBSERVATIONS

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REPORT

OF

THE BULLION COMMITTEE.

BY

DAVID RICARDO.

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CHAPTER I.

Preliminary Observations.—Mr. Bosanquet's Objections to the Conclusions of the Bullion Committee briefly stated.

THE question concerning the depreciation of our currency has lately assumed peculiar interest, and has excited a degree of attention in the public mind which promises the most happy results. To the Bullion Committee we are already most particularly indebted, for a more just exposition of the true principles which should regulate the currency of nations, than has before appeared in any authoritative shape, in this or any other country. It could not, however, be expected that a reform, so important as that which the Committee recommend, could be effected without calling forth the warmest opposition, dictated by the erroneous principles of some, and by the interested views of others. Hitherto this opposition has been attended with the best effects; it has tended to prove more

fully

fully the correctness of the principles laid down by the Committee; it has called forth new champions in the field of argument; and discussion has daily produced new converts to the cause of truth. Of all the attacks on the report of the Committee, however, that of Mr. Bosanquet has appeared to me the most formidable. He has not, as his predecessors have done, confined himself to declamation alone; and though he disclaims all reasoning and argument, he has brought forward, what he thought were irrefragable proofs of the discordance of the theory with former practice. It is these proofs which I propose to examine, and am confident that it will be from a deficiency of ability in me, and not from any fault in the principles themselves, if I do not shew that they are wholly unfounded. Mr. Bosanquet commences, by availing himself of the vulgar charge, which has lately been so often countenanced, and in places too high, against theorists. He cautions the public against listening to their speculations before they have submitted them to the test of fact; and he kindly undertakes to be their guide in the examination. If this country had hitherto carried on trade by barter, and it were, for the first time, going to establish a system by which the intervention of money should facilitate the operations

of trade, there might be some foundation for calling the principles which might be offered to public attention wholly theoretical; because, however clearly dictated by the experience of the past, their practical effects would not have been witnessed. But, when the principles of a currency, long established, are well understood; when the laws which regulate the variations of the rate of exchange between countries have been known and observed for centuries, can that system be called wholly theoretical which appeals to those principles, and is willing to submit to the test of those laws?

To such an examination the report of the Committee is now submitted, and the public is called upon to believe that a theory which its adversary allows to be unassailable by reasoning and argument, is to be battered down by an appeal to facts. We are told, "that boldly as the principle is asserted, *and strongly as reason appears to sanction it*, that it is not generally true, and is at variance with fact." This is the test to which I have long wished to see this important question brought. I have long wished that those who refused their assent to principles which experience has appeared to sanction, would either state their own theory as to the cause of the present appearances in the state of our currency, or that they would point out those facts which they considered at variance with that which, from the firmest conviction, I have espoused.

To Mr. Bosanquet, then, I feel considerably obliged. If, as I trust, I shall be able to obviate his objections; to prove them wholly untenable; to convince him that *his* statements are at variance with fact; that for his supposed proofs he is indebted to the wrong application of a principle, and not to any deficiency in the principle itself:—I shall confidently expect that he will abjure his errors, and become the foremost of our defenders.

Mr. Bosanquet has thus stated the principal positions of the Committee, to which he is induced to object:

1st, " That the variations of the exchange with foreign countries can never, for any considerable time, exceed the expense of transporting and insuring the precious metals from one country to the other.

2d, " That the price of Gold Bullion can never exceed the mint price, unless the currency in which it is paid, is depreciated below the value of gold.

3d, " That, so far as any inference is to be drawn from Custom-house returns of exports and

and imports, the state of the exchanges ought to be peculiarly favourable.

4th, " That the Bank, during the restriction, possesses exclusively the power of limiting the circulation of Bank notes.

5th, " That the circulation of country bank-notes depends upon, and is proportionate to, the issues from the Bank.

Lastly, " That the paper currency is now excessive, and depreciated in comparison with gold, and that the high price of Bullion and low rates of exchange are the consequences as well as the sign of such depreciation."

These principles being in all essential points the same as those which I have avowed, and on which Mr. Bosanquet has attacked me, to avoid the necessity of speaking at one time of the opinion of the Bullion Committee, and at another of my own, I shall, in the future pages of this work, consider them as the principles of the Bullion Committee only, and shall take occasion to mention any shade of difference that may occur between theirs and mine.

CHAP.

CHAPTER II.

Mr. Bosanquet's alleged Facts, drawn from the History of the State of Exchange, considered.

SECT. I.—*Exchange with Hamburgh.*

THE first position controverted is, " That the variations of the exchange with foreign countries can never, for any length of time, exceed the expense of transmitting and insuring the precious metals from one country to the other."

Can this be called a theoretical opinion, now brought forward for the first time? Has it not been sanctioned by the writings of Hume and Smith? and has it not been undisputed even by practical men?

Mr. ———, in his evidence before the Bullion Committee, observes, " that the extent to which the exchange can fall is the charge of transporting Bullion, together with an adequate profit to the risk the transporting such specie is liable to."

Mr. A.

Mr. A. Goldsmid " never recollected the exchange to have differed more from par than 5 per cent. before the suspension of cash payments."

Mr. Grefulhe stated, " that since he had been in business he recollected no period prior to the suspension of the cash payments by the Bank, when the exchange was considerably below par."

The same opinions were given by many practical men before the Lords Committee in 1797.

But in opposition to all these opinions, Mr. Bosanquet has facts which he boldly thinks will prove the unsoundness of the doctrine. " In the years 1764 to 1768," he observes, " prior to the recoinage, when the imperfect state of the coins occasioned gold to be 2 to 3 per cent. above the mint price, the exchange with Paris was 8 to 9 per cent. against London,—at the same time the exchange with Hamburgh was, during the whole period, 2 to 6 per cent. in favour of London; here appears, then, a profit of 12 to 14 per cent. for the expense, in time of peace, of paying the debt to Paris with gold from Hamburgh, which must have exceeded the fact by at least 8 or 10 per cent.; and it is worthy of remark, that the average exchange with Hamburgh, for the years 1766 and 1767, of of 5 per cent. in favour of London, added to the 2 per cent. the price of gold above the mint price constituted a premium of 7 per cent. on the importation of gold into England, or, deducting $1\frac{1}{2}$ per cent. for expenses in time of peace, a net profit of 5 per cent, yet the exchange was not rectified thereby. Again, in 1775, 6, and 7, after the recoinage, we find the exchange on Paris 5, 6, 7, and 8 per cent. against London in time of peace, when half the amount would have conveyed gold to Paris, and one-fourth have paid the debts of Paris at Amsterdam.

"In the years 1781, 2, and 3, being years of war, the exchange was constantly from 7 to 9 per cent. in favour of Paris; and, during this period, gold was the common circulation of this country; and the Bank was compelled to provide it for the public at the mint price. It has been already shewn how little effect the precious metals produced towards equalising the exchange with Hamburgh during the years 1797 and 1798; and another instance may be adduced in the years 1804 and 1805, when the Paris exchange varied from 7 to 9 per cent. in favour of London.

"In every case here cited, the fluctuations of the exchanges greatly exceeded the expense of conveying

conveying gold from one country to the other, and to a much greater degree in most of them than in the present instance; the circumstances of the times were, it will readily be admitted, more favourable to intercourse on those occasions than they now are, and the state of metallic circulation afforded facilities not now experienced here. Yet, under all these disadvantages, the principle assumed by the Committee was not operative, and cannot therefore be admitted as a solid foundation for the superstructure of excess and depreciation attempted to be raised upon it."

If the facts had been as here stated by Mr. Bosanquet, I should have found it difficult to reconcile them with my theory. That theory takes for granted, that whenever enormous profits can be made in any particular trade, a sufficient number of capitalists will be induced to engage in it, who will, by their competition, reduce the profits to the general rate of mercantile gains. It assumes that in the trade of exchange does this principle more especially operate; it not being confined to English merchants alone; but being perfectly understood, and profitably followed, by the exchange and bullion merchants of Holland, France, and Hamburgh; and competition in this trade

trade being well known to be carried to its greatest height. Does Mr. Bosanquet suppose that a theory which rests on so firm a basis of experience as this can be shaken by one or two solitary facts not perfectly known to us? Even should no explanation of them be attempted, they might safely be left to produce their natural effects on the public mind.

But before the reasoning of the Committee can be proved defective by Mr. Bosanquet's facts, we must examine the source from whence those supposed facts are derived.

"Mr. Bosanquet tells us that there is annexed to Mr. Mushet's pamphlet a table, shewing, 1st, the rate of exchange with Hamburgh and Paris for 50 years past, and how much it has been, in each instance, above or below par.

2d, "The price of gold in London, and a comparison of this price with the English standard or mint price.

3d, "The amount of Bank notes in circulation, and the rate of their assumed depreciation, by a comparison with the price of gold."

Now the accuracy of these tables must be admitted or proved before the conclusions, which result from the inspection of them, can command assent;—but so far from this being the case,

case, their accuracy is disowned by Mr. Mushet himself, who, in the second edition of his pamphlet, acknowledged the false principle upon which his first tables were calculated, and has given us a new and amended set.

The following notice accompanied the second edition of Mr. Mushet's pamphlet: "In the first edition of this work I stated the par of exchange with Hamburgh at 33 schillings and 8 grotes, and at that considered it as a fixed par; from the best information which I have been able to obtain upon 'Change since, 34.11¼ are 13
considered as the par, and in the present edition I have stated it as such. *I have also corrected the mistake of considering the par to be fixed;* because gold being the standard of the money of England, and silver in Hamburgh, there can be no fixed par between those two countries; it will be subject to all the variations which take place in the relative value of gold and silver. For example, if 34 schillings 11 grotes and ¼ of Hamburgh currency be equal in value to a pound sterling, or $\frac{20}{21}$ of a guinea, when silver is 5*s.* 2*d.* per oz., they can no longer be so when silver falls to 5*s.* 1*d.* or 5*s.* per oz., because a pound sterling in gold being then worth more silver, is also worth more Hamburgh currency.

"To find the real par, therefore, we must ascertain

certain what was the relative value of gold and silver when the par was fixed at $34.11\frac{1}{4}$, and what is the relative value at the time we wish to calculate it.

"For example, if the price of standard gold was *3l.* *17s.* *10½d.* per oz. and silver *5s.* *2d.* an ounce of gold would then be worth 15.07 ounces of silver, being the mint proportions; 20 of our standard shillings would then contain as much pure silver as 34 schillings 11 grotes and $\frac{1}{4}$; but if the ounce of gold was *3l.* *17s.* *10½d.*, and silver *5s.* (which it was on the 2d January, 1798) the ounce of gold would then be worth 15.57 ounces of silver. If *1l.* sterling at par, therefore, be worth 15.07 ounces of silver, then at 15.57 it would be at 3 per cent. premium; and 3 per cent. premium on $34.11\frac{1}{4}$ is 1 schilling 1 grote and $\frac{9}{10}$, so that the par, when gold is to silver as 15.57 to 1, will be 36 schillings 1 grote and $\frac{1}{10}$.

"The above calculation will be more easily made by stating as follows:

As $15.07 : 34.11\frac{1}{4} :: 15.57 : 36\frac{1}{10}$."

As it is universally admitted, that gold is the standard measure of value in this country, and that silver performs the same office at Hamburgh, it is evident that no tables can be correct which assume a fixed invariable par. The true

true par must vary with every variation in the relative value of the two metals.

There are some objections, however, which I have yet to offer against the perfect accuracy of Mr. Mushet's present tables.

In the first place, he has taken the par of silver against silver too low; he has calculated on the information which he had received, that 20 standard shillings in silver contained as much of that pure metal as thirty-four schillings and $11\frac{1}{4}$ grotes; but it appears by Dr. Kelly's table (Bullion Rep. page 207), that by actual assay, as well as by computation, 20 shillings are of equal value with 35 schillings and 1 grote. This difference amounts to little more than $\frac{3}{8}$ per cent.; and I have only noticed it because I think it highly desirable that we should be able, at all times, to ascertain the true par.

7/11.

Secondly, Mr. Mushet has calculated the degree in which the exchange was above or below par by a reference to the prices which he has quoted from Lloyd's list. Now, invariably have those prices been for bills at $2\frac{1}{2}$ usances, and as the par of exchange is computed from a comparison of the actual value of the coins of the two countries, payable at the same time in both, and not in one of them at the end of $2\frac{1}{2}$ months, an allowance for interest must be made for

for this period, which will amount to about 1 per cent.*

A deduction of $1\frac{3}{8}$ per cent. must therefore be made from the column for the favourable exchange to England in Mr. Mushet's tables.

There are also, in all calculations on the true par of exchange, other sources of error, some of which will be presently noticed; so that it is not possible to ascertain with perfect accuracy, unless all those facts were before us, the actual difference which at any time existed between a remittance by bullion, and by the purchase of a bill.

To Mr. Mushet's amended tables, thus corrected, I am willing to submit the truth of the principle now disputed. It will then appear, that at no period since 1760 has the exchange with Hamburgh been more in favour of England than 7 per cent., with one exception only; and the reader will not be surprised that there should have been such an exception, when he

* By Mr. —— evidence to the Bullion Committee (Appendix, page 74), it appears that the course of exchange from Hamburgh to London in ordinary times differs 1 Flemish schilling from the course of London to Hamburgh, to compensate the $2\frac{1}{2}$ usances and commission allowed on bills both ways; when the difficulties of communication existed to the greatest extent the difference of exchange was full 2s. Flemish.

learns

learns that it was in the memorable year of 1797, just after the suspension of cash payments at the Bank. At this period the currency of this country was reduced particularly low; the amount of bank notes in circulation being less than it had been for ten years preceding. That, under such circumstances, the exchange should have become favourable to England, and, consequently, that there should have been large importations of bullion, is entirely conformable with the principle of the Bullion Committee, and confirms the efficacy of the remedy which they have proposed. A great circulation of paper, and a too abundant currency, are stated by them to be the causes of the present nominally low exchange, and they confidently predict, that a reduction of its quantity will, as in the year 1797, raise the exchange, and by that means render the importation of bullion profitable. That this favourable exchange did, in the year 1797, produce an immense importation of gold can, by indirect evidence, be amply proved. The amount of foreign gold coined in his Majesty's mint was,

In the year	1795	in value	£255,721	11	8
	1796	. .	72,179	14	11
	1797	. .	2,486,410	6	0
	1798	. .	2,718,425	9	0
	1799	. .	271,846	12	8

But,

But, it will be asked, how do those who contend that the exchanges of a country cannot, for any length of time, be either highly favourable, or highly unfavourable, account for the exchange with Hamburgh being permanently in favour of England for two or three years?

This was the case, Mr. Bosanquet observes, during the years 1797 and 1798, and he affirms that the precious metals produced little effect in equalising the exchange. It appears by Mr. Mushet's amended tables (always corrected by the $1\frac{3}{8}$ per cent.) that, during those years, the exchange was favourable to England, and fluctuated from 5.6 to 4.3 per cent. But the principle I understand to be this, that no country can, for any length of time, have the exchange highly favourable or highly unfavourable, because it supposes either such an increase on the one hand in her stock of money and bullion, or on the other such a diminution in that stock, as would destroy that equilibrium in the value of the currencies of countries which they naturally have a tendency to find.

The assertion is true when applied to the exchanges in general of any country, but is false if the rate of her exchange with one country only be considered. It is possible that her exchange with one particular country may be permanently unfavourable, in consequence of a continued demand for bullion, but this by no means proves that her stock of coin and bullion is decreasing, unless her exchange should be also unfavourable with other countries. She may be importing from the north the bullion which she is exporting to the south—she may be collecting it from countries where it is relatively abundant, for countries where it is relatively scarce, or where, from some particular causes, it is in particular demand; but it by no means follows, as an undeniable consequence, that her own stock of money shall be reduced below its natural level. Spain, for example, who is the great importer of bullion from America, can never have an unfavourable exchange with her colonies; and as she must distribute the bullion she receives amongst the different nations of the world, she can seldom have a favourable exchange with the countries with which she trades.*

Applying then these principles to the state of our exchange with Hamburgh, in 1797 and 1798, we shall observe, that it was not in consequence

* Mr. Huskisson has commented with great ability upon the few transactions, few comparatively, which take place in bullion, and has observed, that those transactions are principally confined to the distribution of the produces of the mines to the different countries where gold and silver are in use.

sequence of what is usually termed a balance of trade that the exchange was permanently favourable to England; it was not because Hamburgh had contracted a debt to us for the balance of commodities which she had imported, that she was necessitated to pay us in gold and silver bullion, but because she could advantageously export bullion in the same way as any other commodity, in consequence of an unusual demand for that article in England. This demand proceeded from two causes: First, from the unusually low amount of our currency; secondly, from the exportation of silver to Asia by the East India Company.

In consequence of the first of these causes, and of the immense amount of guineas which at that period had been withdrawn from circulation, for the purpose of hoarding, by timid people, we have already seen that the foreign gold coined into guineas, during those years, amounted to no less a sum than 5,200,000*l.* Here then was a demand for gold unprecedented in the history of the Mint, and of itself abundantly sufficient to account both for the high exchange, and the length of time which it continued. It is a practical illustration of the truth of a most satisfactory theory.

To this however must be added, the demand for

for silver bullion in consequence of the exportation of the East India Company. It appears, by the account delivered to the Bullion Committee, (No. 9.) that the whole amount of foreign silver coin, exported by the Company on their own account, as well as on account of private persons, amounted

In the year	1795 . to .	151,795 ounces
	1796 . . .	290,777
	1797 . . .	962,880
	1798 . .	3,565,691
	1799 . . .	7,287,327.

From this time the exportation of silver to the East Indies was considerably reduced, and has now almost wholly ceased. Thus then it appears, that a high exchange was followed by an unusually great importation of bullion, and that when that demand ceased the exchange regained its natural level. On a further inspection of the table, it will appear, that in proportion as the amount of Bank notes increased, the exchange became depressed, and was in 1801 more than 11 per cent. against England; and at the same time the price of gold bullion rose to 4*l.* 6*s.* —more than 10 per cent above the mint price*.

It

* Lord King satisfactorily accounted for the long duration of an exchange favourable to this country with Hamburgh,

It must be confessed, that from September 1766 to September 1767, the exchange continued permanently in favour of England from 7.4 to 6.8 per cent.; and from that period to September 1768 it continued generally favourable above 3 per cent.; but what circumstances in the situation of Europe might then have made it profitable for England to become the agent in collecting bullion

burgh, from the circumstance of the demands of the India Company for silver bullion for their settlements in the East. Mr. Blake comments in his late publication upon what he calls "the erroneous opinions" entertained by Lord King on this subject; and observes, "that the exportation of bullion is affected like that of any other commodity, when there is such a difference in its real prices, at any two places, as will afford a profit on its transit; an occurrence that will frequently take place with an exchange at par." An occurrence, I should say, which can never take place, with an exchange at par. Who would send bullion from Hamburgh to London at an expence of 4 or 5 per cent, whilst the exchange was at par, when by means of a bill he could obtain the same amount of bullion in London free from all charges?

I am happy that an opinion similar to that which I have expressed is also entertained by Mr. Bosanquet, page 12. "In the event of an unfavourable balance of payments, the depression of the exchange must necessarily attain this limit (the expences of conveying and insuring the precious metals from one country to the other) before the balance can be adjusted by the exportation of gold."

from

from Hamburgh for some other country, it is not now material to enquire. Of this I am fully assured, that, if all the circumstances were fairly before us, it might be satisfactorily explained.

But whether explained or not explained, it proves nothing in favour of Mr. Bosanquet's theory (for theory Mr. B. has just as much as the Committee);—it only proves that the precious metals might continue to be imported from one quarter while they were exported to another; which the theory of the Committee not only allows but requires. To prove any thing in favour of Mr. B.'s theory, it must be proved that the precious metals came in permanently in greater proportion than they went out; not from one place only, but from all places taken together.

The following considerations go a certain way in accounting for the phenomena which have misled Mr. Bosanquet: the tables of Mr. Mushet are calculated on a comparison of the relative value of silver with bar gold. Now bar gold is generally 2 or 3*s.* per ounce worse in price than gold in coin; and, therefore, if the gold imported be intended for re-exportation, the true par will differ from 2 to 3 per cent, according

as

as the calculation is made by reference to coined or to bar gold *.

When money is wanted for our own circulation I do not object to the calculation of the true par of exchange being made, on a comparison of the relative value of the silver of the foreign country with the value of standard gold bars in this; but in that case there must be added to the amount of expences attending the transportation of the silver, the interest which the purchaser of gold will lose, during the detention of the gold in the Mint whilst coining into money. The natural destination of a great part of all the bar gold is to some of the Mints of Europe, as it is in the state of coin only that

* Mr. Mushet's calculations take for granted, that the relative value of gold and silver was the same in both countries, and that the gold and silver were of the same description, viz. in bars. But it is chiefly by the value of gold in coin that a foreigner determines whether he shall export gold to this country, or make a remittance by bill, and the price of gold in coin in England must necessarily enter into his calculation. On a reference to the Appendix of the Bullion Report, No. 6, it will appear that the transactions in gold with the continent are mostly confined to gold in coin. For 15 months, ending in March 1810, the whole amount of sales of bar gold, by private dealers, transacted through the Bullion Office at the Bank, did not exceed in value 60,867*l.*, whilst the sales of gold in coin during the same period amounted to 683,067*l.*

gold

gold can be made productive of interest to the owner. In comparing, therefore, the value of the currency of one country with the value of bullion in another, we must not leave out of our consideration the trifling superior value which coin bears above bullion in the importing country. Thus, if a merchant in Hamburgh were indebted 1*l.* sterling to a merchant in England, and should export to England as much silver as would purchase the quantity of gold contained in 1*l.*, he would not be able to discharge his debt till the gold were manufactured into coin. In addition, then, to his other expences, the interest which he would have to pay to his creditor till the coin was returned to him would enter into his calculation at the time that he was making a comparison of the advantages which would attend either the purchase of a bill, or the remittance of bullion.

This loss of interest the Bullion Committee have estimated at one per cent.

If these principles are correct, there must be deducted from the favourable Hamburgh exchanges of Mr. Mushet's tables 1 per cent. more than we have already stated when the bullion is wanted for our own coin, and from 2 to 3 per cent. when it is required for re-exportation. It is also necessary to observe, that the relative value

lue of gold to silver is constantly varying in all countries, though always tending in all to an equality of value; and that the test of our currency being depreciated is more certainly proved by the high market price of bullion than by the low exchanges*.

SECTION II.

Exchange with Paris.

Having thus examined the objections made by Mr. Bosanquet to the conclusions of the Committee, as far as the exchanges with Hamburgh are concerned, I shall now proceed to consider the circumstances which appear to him to be at variance with the principle I am defending, in the account of the exchanges between this country and Paris.

In the consideration of the par of exchange with Hamburgh, the principle on which it is calculated is easy and simple, not so that with Paris.

* I have read in a small French tract, "Sur L'Institution des Principales Banques de L'Europe," that on one occasion the Bank of Hamburgh was obliged to suspend its payments in consequence of having made too great advances on gold bullion. I have in vain endeavoured to find out in what year this occurred. It is evident that a circumstance of this sort must have had some influence on the exchange,—and it is not impossible that it might have happened in the years 1766—7.

The

The difficulty proceeds from this—that France as well as England has two metals, gold and silver, in circulation, both of which are legal tender in all payments.

In my former publication I endeavoured to explain the principles which appeared to me to fix the standard measure of value in a country where silver and gold are both in circulation, and both a legal tender.

Lord Liverpool supposed, that when gold became the standard measure of value in this country, it arose from some capricious preference of the people to gold; but it can, I think, be clearly proved that it was caused entirely from the circumstance of the market value of silver relatively to gold having become greater than the Mint proportions. This principle is not only most fully admitted, but also most ably illustrated by his lordship.

The Mint will coin an ounce of gold into 3*l.* 17*s.* 10½*d.* of gold money, and they will also coin 15.07 ounces of silver into the same amount of silver money. What is it, then, that determines the Bank or any individual to carry an ounce of gold in preference to 15.07 ounces of silver to the Mint to be coined, as they are both by law equally useful to discharge a debt to the amount of 3*l.* 17*s.* 10½*d.*? No other consideration but

their

their interest. If 15.07 ounces of silver can be purchased for less than an ounce of gold, silver will be coined; and if an ounce of gold can be procured for less than 15.07 ounces of silver, gold will be taken to the Mint for that purpose.

In the first case silver will become the measure of value, in the second, gold.

Now as the relative market value of these metals is subject to constant variation, gold or silver may alternately become the standard measure of value. Since the recoinage of silver, in the reign of King William, gold has almost uniformly been of less value than 15.07 ounces of silver, and consequently gold has, since that period, been the standard of value in this country. In the year 1798 the coinage of silver was altogether prohibited by law. Whilst that law remains in force gold must necessarily be the standard measure, whatever may be the variations in the relative value of the two metals *.

Whichever

63

* The Bullion Committee, as well as Mr. Huskisson, consider gold as the standard measure of value, in consequence of the 39th of the king, which declares that silver shall not be a legal tender for sums exceeding 25*l.* except by weight at the rate of 5*s.* 2*d.* per ounce. But this law would not have prevented the coinage of silver when under its mint price, and, therefore, under its mint relative value to gold. In 1798, for example, when the price of silver was 5*s.* per ounce,

Whichever metal is the standard measure of value, it will also regulate the par of exchange with foreign countries, because it will be in that metal, or in paper currency representing that metal, that bills will be paid.

In France there are also two metals in circulation, and both legal tender to any amount. The relative value of gold to silver in the coins of France, previously to the Revolution, was as 15 to 1 (Bullion Report, No. 59.), and is now $15\frac{1}{2}$ to 1;—but we are informed by a letter of Mr. Grefulhe to the Bullion Committee (No. 56.), that in 1785 an alteration had been made in the number of louis which were coined from a marc of gold, that number having been increased from 30 to 32. Previously to 1785, therefore, gold must have been valued in the French Mint somewhere about 14 to 1. For the same reasons that the standard of value was subject to change from gold to silver, and from silver to gold in England, it would also be subject to do so in France. When the relative value of gold to silver was under 14 to 1, gold would have become the standard measure of value in

ounce, and the relative market value of silver to gold as 1 to 15.57, and when therefore silver could be profitably coined, the new silver fresh from the Mint would have been a legal tender to any amount.

France,

France, and consequently the rate of exchange with England would have been estimated by a comparison of the gold coins of the two countries. When above 14 and under 15.07 to 1, gold would have been the standard in England, and silver in France, and the exchange rated accordingly. The par would then have been fixed by a comparison of the gold of England with the silver of France. And when the relative value was above 15.07 to 1, silver would have been the standard in both countries. The exchange would then have been rated in silver. But after 1785, when the Mint valuation of the metals was altered in France, and became nearly the same as that of England, the par of exchange would have been reckoned either in gold or in silver in both countries.

I have already observed that, to compare the amount of deviation of the exchange from par with the expences of transmitting the precious metals from one country to the other is not sufficient to prove that such trade would be profitable, we must also consider what the price of bullion is in the country to which it is transmitted, or the amount of expence which would be incurred in procuring the bullion to be coined into money. In this country no seignorage is charged. If an ounce of gold or silver is carried

to

to the Mint, an ounce of coined money is returned. The only inconvenience therefore that an importer of bullion can experience in receiving bullion from abroad, instead of the money of England, is the delay during its detention at the Mint, and which the Bullion Committee have valued at 1 per cent. One per cent. appears, therefore, to be the natural value of English coin above bullion, provided the coin be not debased, and the currency be not excessive. But in France the seignorage, according to Dr. Smith, amounted to no less than 8 per cent., besides the loss of interest during its detention at the Mint. And we have his authority too, that no sensible inconvenience resulted from it*. An ounce of gold or silver coin was in France, therefore, of more value by 8 per cent. than an ounce of gold or silver bullion. It results from these facts that no bullion could have been imported into France, unless there was not only a

* Since writing the above I have seen an extract from a Moniteur of the year 1803, by which it appears that the seignorage in France was

In 1726	on gold	$7\frac{9}{16}$ per c.	on silver	$7\frac{4}{11}$
1729	-	$5\frac{3}{16}$	- - -	$5\frac{7}{16}$
1755	-	$4\frac{1}{16}$	- - -	$3\frac{10}{11}$
1771	-	$1\frac{4}{7}$	- - -	$2\frac{7}{9}$
1785	-	$2\frac{9}{17}$	- - -	—

And was fixed in 1803 at $\frac{1}{3}$ per c. for gold, and $1\frac{1}{2}$ for silver.

profit

profit equal to the expences attending its importation, but a further profit of 8 per cent., the par of exchange being calculated not on the value which the coin actually passed for in currency, but on its intrinsic value as bullion *.

To make this appear more evident, let us suppose that the exchange with London was, as Mr. Bosanquet informs us, 8 per cent. in favour of France, in the year 1767, and that at the same time it was 6 per cent. in favour of London with Hamburgh, and that the expences of sending gold from Hamburgh to Paris were no more than 1½ per cent. Will it not be cheaper, he asks, by 12½ per cent. to pay the debt at Paris, by sending the gold from Hamburgh †, than by remitting a bill? I answer, No; because, when the gold arrives at Paris, it must

* It is only whilst the currency of France was kept at its proper level that the price of gold could continue 8 per cent. under the Mint price, in the same manner as the price of gold would and did continue under the Mint price of England. The currency of England was rather above its level when gold was *3l. 17s. 6d.*, as *4d.* an ounce is not sufficient compensation for the delay of the Mint. It follows therefore that the principle here contended for can only have its full force whilst the currency is not excessive.

† As silver is the currency of Hamburgh, it would be silver, and not gold, which an English creditor would be entitled to send from Hamburgh to Paris.

either be coined into money, or sold as bullion. If it be coined into money, 8 per cent. must be paid to the Mint; if it be sold as bullion, it will sell at 8 per cent. under the Mint price*. The profit then, if all the other calculations be correct, will be reduced from 12½ to 4½ per cent. But

* "In France, a duty of 8 per cent. is deducted for the coinage, which not only defrays the expence of it, but affords a small revenue to the government. In England, as the coinage costs nothing, the current coin can never be much more valuable than the quantity of bullion which it actually contains. In France, the workmanship, as you pay for it, adds to the value, in the same manner as to that of wrought plate. A sum of French money, therefore, containing a certain weight of pure silver is more valuable than a sum of English money containing an equal weight of pure silver, and must require more bullion, or other commodities, to purchase it. Though the current coin of the two countries, therefore, were equally near the standards of their respective Mints, a sum of English money could not well purchase a sum of French money, containing an equal number of ounces of pure silver, nor, consequently, a bill upon France for such a sum. If for such a bill no more additional money was paid than what was sufficient to compensate the expence of French coinage, the real exchange might be at par between the two countries, their debts and credits might mutually compensate one another, while the computed exchange was considerably in favour of France. If less than this was paid, the real exchange might be in favour of England, while the computed was in favour of France."—*Wealth of Nations*, Chap. iii. Book iv.

they are not correct, being subject to further deductions from the causes already stated.

Keeping these principles in view, it will, I believe, appear, that the exchange with Paris was in favour of England during a great portion of the four years, from 1764 to 1768, and at all the other periods mentioned by Mr. Bosanquet.

I cannot help here observing, that it must excite astonishment, that a British merchant should seriously believe it possible, that, in time of peace, a net profit, after paying all expences, of from $10\frac{1}{2}$ to $12\frac{1}{2}$ per cent. should have been made by the exportation of gold from Hamburgh to Paris during four years;—a profit, which, from the quick returns, would have enabled any person engaging in such undertakings to have cleared more than 100 per cent. per ann. on the capital employed; and that too in a trade, the slightest fluctuations of which are watched by a class of men proverbial for their shrewdness, and in which competition is carried to the greatest extent. For any man to compare the account of the Hamburgh exchange, and of the Parisian, and not to see that the accounts were incorrect, that the facts could not be as so stated, is very like a man who is all for fact and nothing for theory. Such men can hardly ever sift their facts. They are credulous, and

and necessarily so, because they have no standard of reference. Those two sets of supposed facts, those in the Hamburgh exchange on the one hand, and those in the Parisian on the other, are absolutely inconsistent, and disprove one another. That facts such as these should be brought forward to invalidate a theory, the reasonableness of which is allowed, is a melancholy proof of the power of prejudice over very enlightened minds.

SECTION III.

Supposed Fact of a Premium on English Currency in America—favourable Exchange with Sweden.

The next point on which I wish to make a few observations, is that first mentioned by Mr. Grefulhe, and now brought forward by Mr. Bosanquet. I allude to the premium which it is asserted was given in America, in hard dollars, for the depreciated currency of England. I have examined this fact with the greatest attention, and to me it appears evident; first, that the price which was called a premium of 9 per cent. given for a bill upon England *was really a discount* of $3\frac{1}{4}$ per cent.; and secondly, that at that price it was a cheaper remittance than

than if the dollars with which the bill was bought had been exported.

The par of exchange with America is reckoned in dollars; the par is called 4*s.* 6*d.* sterling for a dollar, consequently, 444.4 dollars ought to contain as much pure silver as 100*l.* sterling. But this is not the fact. An American dollar, according to the mint regulation of America, ought to weigh 17 dwt. 8 grains, and is 8½ grains worse than English standard silver; consequently, the value of an American dollar in our standard silver is 4*s.* 3¾*d.* According to this value, 463.7 dollars is the true par for 100*l.* of our English silver currency; but we are comparing the dollars of America with the pound sterling of England, which is gold, therefore, the true par for 100*l.* sterling at the relative value of dollars and gold in May 1809, the period alluded to, was 500 dollars. Now for a bill of 100*l.* on London, bought with dollars in America at the highest exchange that year, viz. 109, no more was paid than 484 dollars; it was therefore purchased at 3¼ per cent. under the real par *.

It

* The weight of the American dollar in circulation is not more, according to Mr. Williams's evidence, than 17 dwt. 6 gr., which would make the true par somewhat lower than 4*s.* 3½*d.*; and, according to Ede's book of Coins, the American

It should be recollected that the embargo laws were at that time most strictly enforced; that captains of packets were obliged, before they were permitted to proceed on their voyage, to swear that they had no specie on board; and on one occasion one of these captains was obliged to re-land the specie which he had smuggled on board his vessel. At the same time the rate of insurance was immoderately high, and a premium of 8 per cent. was paid on a few ships which broke the embargo, the underwriters being guaranteed too from the loss which would have attended their seizure by the American government. Now 8 per cent. insurance, besides commission, freight, and other expences, together with 3¼ per cent., the actual discount of the bill bought, would, perhaps, not be much under the discount which then existed on our paper currency; so that our depreciated paper was not bought at a premium for hard dollars, but was bought at a discount, and at its actual value.

But we are told the exchange with Sweden is favourable to England, and that the currency of Sweden is regulated in a manner precisely simi-

rican dollar is 11 grains worse than standard, and contains no more pure silver than 4*s.* 2¼*d.* of English standard silver coin.

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lar to ours, the Bank not issuing specie whenever the exchange becomes unfavourable. There is no doubt a perfect agreement in the two cases, and for that reason they are followed by similar effects, and the depreciation of both currencies requires the same remedy. This remedy is a diminution in the amount of the circulating medium, either by the exportation of the coins, or by a reduction of Bank paper. If the exchange with Sweden is, as stated, 24 per cent. in favour of London, it proves only that the excess of paper currency not convertible into specie is, in Sweden, proportionably greater than in England *.

* Before however it can be admitted that the exchange with Sweden is 24 per cent. in favour of London, we must be informed whether both gold and silver be legal tender in Sweden, and, if so, at what relative value those metals are rated in the Swedish Mint. I suspect that a part of this favourable exchange may be accounted for by the rise in the relative value of gold to silver.

SECTION IV.

A Statement, concerning the Par of Exchange, by the Bullion Committee, examined.

Having now considered every fact, or supposed fact, advanced by Mr. Bosanquet on the subject of the exchange, with a view to prove that the principle which the Committee have avowed, namely, that the variations in the exchange with foreign countries can never exceed for any length of time the expence of transporting and insuring the precious metals; having proved the conclusion to which the writer would lead us to be unsupported by his facts, of which not one is, as I think, at variance with the principle of the Committee; I must beg leave to point out an error in the report itself, an error on which Mr. Bosanquet founds his opinion, that all remedy may safely be delayed.

" Thus, then," says Mr. Bosanquet, " it appears that, on a full admission of all the principles adopted by the Committee, and of their application to the present case, the foreign exchanges were at the time when the report was presented,

presented, and for three months prior thereto, about 2 per cent. below the natural limit of depression."

"It will probably be thought that the question, as a practical question of national importance, is altogether at rest.—That there is no necessity, at least, for the adoption of hasty remedies, even though the correctness of the general reasoning of the Committee should, on full enquiry, be conceded."

When the exchange is admitted to be exceedingly depressed, we are told that to oblige the Bank to pay in specie would be attended with the most dangerous consequences; that we must wait till the exchange becomes more favourable; and when it is supposed to have risen within 2 per cent. of its natural limit, then we are again desired to pause, because it is no longer a question of national importance. By this mode of reasoning, a motive may be found for refusing *ad infinitum* to renew the payments of the Bank. I confidently hope that no such fallacious reasoning will be listened to; that we shall at last open our eyes to the dangers that beset us,—that we shall examine coolly and decide manfully.

The principle upon which Mr. Mushet's amended tables are constructed has been most fully

fully admitted, and most correctly and concisely stated in the Report (page 10).

"If one country uses gold for its principal measure of value, and another uses silver, the par between those countries cannot be estimated for any particular period, without taking into account the relative value of gold and silver at that particular period."

The Committee have, moreover, in their endeavours to find out the real par between this country and Hamburgh, kept this principle constantly in view, as will appear from the questions put to Mr. ———, (Report, page 73). Mr. ——— also fully admitted the principle, and yet, when he was requested to "state in what manner he applied those general ideas to the statement of the par of exchange as between England and Hamburgh," he answered, "taking gold at the coinage price of *3l.* 17*s.* 10$\frac{1}{2}$*d.*, and taking it at Hamburgh at what we call its par, which is 96 stivers banco for a ducat, and further reducing 55 ounces of standard gold as being equal to 459 ducats, it produces a par of exchange of 34*s.* 3$\frac{1}{2}$*g.* Flemish for a pound sterling: a ducat contains at the rate of 23$\frac{1}{2}$ carats fine."

Now here is not one word said about the relative value of gold to silver in the market, and

and the only information which is obtained from this answer is, that 34*s*. 3½*g*. Flemish, in gold coin, is equal to a pound sterling of gold;—and this calculation agrees within ½ grote with that of Dr. Kelly (Rep. No. 59). If the purchaser of a bill in London for 34*s*. 3*g*. could obtain at Hamburgh 34*s*. 3*g*. in gold currency, that might truly be called the par, but he can only obtain 34*s*. 3*g*. in silver, which is not worth by 8 per cent. as much as 34*s*. 3*g*. in gold coin. The question proposed by the Committee was, in effect, What amount of Hamburgh currency contains the same quantity of pure silver as can be purchased by a pound sterling in gold?

At the period when the report was made, the answer would have been 37*s*. 3*g*. Flemish; 37*s*. 3*g*. therefore was then the true par of exchange. If the Committee had calculated according to this par, instead of 34*s*. 3*g*., they would not have reported that the exchange with Hamburgh was not more unfavourable to England than 9 per cent., but nearly 17 per cent.; and Mr. Bosanquet would not have had an opportunity for observing, that, admitting the reasoning of the Committee, the evil was not of sufficient magnitude to make any immediate interference necessary.

CHAP.

CHAPTER III.

Mr. Bosanquet's alleged Facts, in supposed Refutation of the Conclusion that a Rise in the Market Price of Bullion above the Mint Price proves a Depreciation of the Currency, considered.

SECTION I.

That the Negation of the above Conclusion implies the Impossibility of melting or exporting English Coin—an Impossibility contended for by Nobody.

THE next proposition of the Committee, the justness of which Mr. Bosanquet disputes, he has thus stated: "That the price of gold bullion can never exceed the Mint price, unless the currency in which it is paid is depreciated below the value of gold." But this is not exactly the principle of the Committee. Their principle, when fairly stated, is, not that gold as a commodity may not rise above its value as coin, but that it cannot continue so, because the convertibility of coin into bullion would soon equalize their value. The words of the Committee are these; "Your Committee are of opinion that, in the sound and natural state of the British currency, the foundation of which is gold, no increased demand for gold from other parts of the world, however great, or from whatever

ever causes arising, can have the effect of producing here, *for a considerable period of time*, a material rise in the market price of gold." Nothing appears to me to be wanting to make this a self-evident proposition but the admission, that the law, which forbids the conversion of gold coin into gold bullion, cannot be successfully executed.

I should have expected, therefore, that any one who denied its truth would have contended that the law was fully efficient for the purposes for which it was enacted; and that he would have brought forward authorities to justify this view which he had taken of it. But authorities for such an opinion would have been difficult to have been found. From the days of Locke till the present time I have nowhere seen the fact disputed. It is by all writers indiscriminately allowed, that no penalties can prevent the coin from being melted when its value as bullion becomes superior to its value as coin.

Locke calls the law which forbids the melting and exporting coin, "a law to hedge in the cuckoo." Smith observes, "that no precautions of government can prevent it." On this subject too we have the authority of practical men:

The Bank Directors, in the year 1795, when the price of gold rose to *4l. 3s.* or *4l. 4s.* per ounce,

ounce, after acquainting Mr. Pitt with that fact, observe, "our guineas being to be purchased at *3l.* 17*s.* 10½*d.* per ounce, clearly demonstrates the grounds of our fears; it being only necessary to state those facts to the Chancellor of the Exchequer." Now, what were those fears, but that there would be a run upon them for gold coin, for the purpose of melting it into bullion? Mr. Newland, too, when asked (by the Committee of the Lords, 1797,) "If there were now to be a new coinage, do you think a great deal would be melted down and privately exported?" Answered, "That depends entirely upon the price of bullion." In the same Committee Mr. Newland was also asked, "Is it more difficult to prevent false coining, or to prevent the melting down or exporting, when it is for their advantage to export it?"—Answer. "I am at a loss to guess how you can prevent either."

These are but a few of the opinions which might be brought forward in support of the fact of the coin being melted into bullion whenever the price of bullion rises above the price of coin. I shall conclude, however, with the opinion of Mr. Bosanquet himself. Speaking of the Committee, he observes, "They say nothing about the price of bullion, which is expected, doubtless, to return when the Bank shall have sufficiently

ciently controuled the exchange; although Mr. Locke and many other writers have clearly demonstrated that the coins of any country can only be retained within it when the general balance of trade and payments is not unfavourable." Now, under the circumstances supposed of a low exchange, what should take our coins from us but their superior value as bullion? Who would export coins if bullion could be bought at its Mint price? It is their superior value as bullion, therefore, that is the cause of their being melted and exported.

But the Committee have not been satisfied with simply stating a position which is almost self-evident; they have appealed to facts, and distinctly assert, that for a period of 24 years, since the recoinage, gold bullion in standard bars had not been at a higher price than 3*l.* 17*s.* 10½*d.* per ounce, with the exception of one year, beginning in May 1783 and ending in May 1784, when the price was 3*l.* 18*s.* per ounce. We are indeed informed by a letter from the Bank Directors to Mr. Pitt in October 1795, and it is on that authority reported by the Committee, that gold bullion was then as high as 4*l.* 3*s.* or 4*l.* 4*s.* per ounce; and it was stated by Mr. Newland to the Lords' Committee in 1797, that the Bank had been frequently obliged to buy gold higher than

than the Mint price; and upon one occasion gave as much for a small quantity, which their agent procured in Portugal, as 4*l.* 8*s.* *

* It appears that it was in 1795, and most probably in October, that the Bank gave 4*l.* 8*s.* for gold, as stated by Mr. Newland. On being asked concerning the time by the Lords' Committee, he answered, "I believe it was about two years since the Bank gave about 4*l.* 8*s.* per ounce for gold; it was but a small quantity, it was soon stopt on account of its price. The Bank at that time thought it expedient to obtain gold from Portugal, which their agent could not do at a less price than 4*l.* 8*s.*"

Mr. Newland was speaking on the 28th March, 1797.

It is a case by no means improbable that the Bank may frequently have bought foreign gold above the Mint price, at the same time that they could have obtained gold in bars, not exportable, at a comparatively cheaper price. They might flatter themselves that, by not purchasing English gold, they would lessen the temptation to melt the guineas: at the same time their diminished stock required them to replenish their coffers. This opinion is very much confirmed by an examination of the account in the Appendix of the Bullion Report, No. 19, where it appears, that from 1797 to 1810 the amount in value of gold coined at his Majesty's Mint was 8,960,113,11*l.*, of which only 2,296,056 was coined from English gold, the remainder, 7,044,282 was coined from foreign gold. It appears too that since 1804, 1,402,542*l.* has been coined from foreign gold, and not one guinea from British gold. During the whole of this period the price of foreign gold in the market exceeded the price of English gold. Is it not probable, therefore, that the Bank, who are the only importers of gold into the Mint, have been guided by some such policy as I have supposed?

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These are the only facts on which Mr. Bosanquet relies for overturning the principle in question. Prices not known to the public; not recorded in any list; given too by a corporation not remarkable for the good management of their concerns, are to be deemed the fair market price; and such exceptions as these are to overturn opinions grounded on a just theory, sanctioned by practical men, and confirmed by experience.

Is there any evidence that these prices continued even for a week? If we consult the price list, we shall find, that in July of that year 1795, the price of gold is quoted *3l.* 17*s.* 6*d.*; in December it is again quoted *3l.* 17*s.* 6*d.*, and in the intervening four months no price is marked. Does Mr. Bosanquet think it possible that such a price as 4*l.* 4*s.* for gold could have continued, whilst it was to be obtained, by melting the coin, at *3l.* 17*s.* 10½*d.*? Has he so good an opinion of the self-denial and virtues of all classes of the community? If he has, why are they not now to be trusted? What is the plea urged for not paying in specie? That at the present exchange, and present price of gold, it would be advantageous to export and melt the coin, so that there would be danger that every guinea would leave the country. But when you tell us, that bullion has no connection with coin, "that

"that there is no point of contact between English and foreign gold," there can be no danger of any one's being particularly desirous to possess coin, as, for the mere purposes of circulation, Bank notes are equally, if not more, convenient.

"*If*," says Mr. Bosanquet, "the demand for foreign gold was at any time very great, and the melting and exportation of guineas, however abundant, by any means effectually prevented, foreign gold might rise to double its price in English gold, and yet the intrinsic value of guineas remain undiminished."

I might apply to this *if* of Mr. Bosanquet the observation which he has made on the same word, when used by the Committee, *your, if, is, a great peace-maker*. But the above is not our case; the law cannot be effectually enforced. The remark, therefore, is of no use in the question before us.

If the law, however, could be effectually enforced, it would be attended with the most cruel injustice. Why should not the holder of an ounce of gold in coin have the same advantages from the increase in the value of his property, as the holder of an ounce of uncoined gold? From the mere circumstance of its having had a stamp put on it, is he to be made to suffer all the inconveniences from the *fall* in the value of his gold, in consequence of the opening of new mines,

mines, or from any other circumstances? and derive none of the benefits which may result from a *rise* in its value? This injustice to individuals would not be compensated by the slightest advantages to the community; as the exportation of the coin, were it freely permitted, would always cease when the value of our currency had risen to its true bullion value, and that is precisely the value at which the currencies of all countries are permanently fixed.

Such, in spite of the law, was the value of our currency till the Bank restriction bill, and for some time after. There it would inevitably fix itself again, if that most impolitic act were repealed. Increase the value of your currency to its proper level, and you are sure to retain it. No policy can be worse than forcibly detaining a million, for example, to perform those offices, to which 800,000*l.* are fully adequate.

SECTION II.

Consequences which would follow on the Supposition that the Currencies of other Countries (exclusive of England) were diminished or increased one half.

Let us suppose that the circulation of all countries were carried on by the precious metals only, and that the proportion which England possessed were one million; let us further suppose, that, at once, half of the currencies

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cies of all countries, excepting that of England, were suddenly annihilated, would it be possible for England to continue to retain the million which she before possessed? Would not her currency become relatively excessive compared with that of other countries? If a quarter of wheat, for example, had been both in France and England of the same value as an ounce of coined gold, would not half an ounce now purchase it in France, whilst in England it continued of the same value as one ounce*? Could we by any laws, under such circumstances, prevent wheat or some other commodity (for all would be equally affected) from being imported into England, and gold coin from being exported? If we could, and the exportation of

* That commodities would rise or fall in price, in proportion to the increase or diminution of money, I assume as a fact which is incontrovertible.—Mr. Bosanquet in his admission of the effects on prices from the discovery of a mine shews, that he has no such doubts on this subject as the governor of the Bank, who, when asked by the Committee, "Do you conceive that a very considerable reduction of the amount of the circulating medium would not tend in any degree to increase its relative value compared with commodities, and that a considerable increase of it would have no tendency whatever to augment the price of commodities in exchange for such circulating medium?"—Answered, "It is a subject on which such a variety of opinions are entertained, I do not feel myself competent to give a decided answer."

bullion

bullion were free, gold might rise 100 per cent.; and for the same reason, if 35 Flemish schillings in Hamburgh had before been of equal value with a pound sterling, 17½ schillings would now attain that value. If the currency of England only had been doubled, the effects would have been precisely the same.

Suppose again the case reversed, and that all other currencies remained as before, while half of that of England was retrenched. If the coinage of money at the Mint was on the present footing, would not the prices of commodities be so reduced here that their cheapness would invite foreign purchasers, and would not this continue till the relative proportions in the different currencies were restored?

If such would be the effects of a diminution of money below its natural level, and that such would be the consequences the most celebrated writers on political economy are agreed, how can it be justly contended that the increase or diminution of money has nothing to do either with the foreign exchanges, or with the price of bullion?

Now a paper circulation, not convertible into specie, differs in its effects in no respect from a metallic currency, with the law against exportation strictly executed.

Supposing then the first case to occur whilst our

our circulation consisted wholly of paper, would not the exchanges fall, and the price of bullion rise in the manner which I have been representing; and would not our currency be depreciated, because it was no longer of the same value in the markets of the world as the bullion which it professed to represent? The fact of depreciation could not be denied, however the Bank Directors might assure the public that they never discounted but good bills for bonâ fide transactions; however they might assert that they never forced a note into circulation; that the quantity of money was no more than it had always been, and was only adequate to the wants of commerce, which had increased and not diminished*; that the price of gold, which was here at twice its mint value, was equally high, or higher, abroad, as might be proved by sending an ounce of

* The Bank could not on their own principles then urge that most erroneous opinion, that the rate of interest would be affected in the money market if their issues were excessive, and would therefore cause their notes to return to them, because in the case here supposed the actual amount of the money of the world being greatly diminished, they must contend that the rate of interest would generally rise, and they might therefore increase their issues. If after the able exposition of Dr. Smith any further argument were necessary to prove that the rate of interest is governed wholly by the relation of the amount of capital with the means of employing it, and is entirely independent of the abundance or scarcity of the circulating medium, this illustration would, I think, afford it.

of bullion to Hamburgh, and having the produce remitted by bill payable in London in bank-notes; and that the increase or diminution of their notes could not possibly either affect the exchange or the price of bullion. All this, except the last, might be true, and yet would any man refuse his assent to the fact of the currency being depreciated? Could the symptoms which I have been enumerating proceed from any other cause but a relative excess in our currency? Could our currency be restored to its bullion value by any other means than by a reduction in its quantity, which should raise it to the value of the currencies of other countries; or by the increase of the precious metals, which should lower the value of theirs to the level of ours?

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 exchange, then might their friends boast that the principles of the Bullion Committee were the wild dreams of speculative theorists.

SECTION

SECTION III.

The trifling Rise in the Price of Gold on the Continent, owing solely to a Variation in the Relation of Silver to Gold.

But the price of gold, we are told, has risen on the continent even more than it has here, because when it was *4l.* 12*s.* in this country, *4l.* 17*s.* might be procured for it at Hamburgh, a difference of $5\frac{1}{2}$ per cent. This is so often repeated, and is so wholly fallacious, that it may be proper to give it particular consideration.

When an ounce of gold was to be bought in this country at *3l.* 17*s.* $10\frac{1}{2}d$, and the relative value of gold was to silver as 15.07 to 1, it would have sold on the continent for nearly the same as here, or *3l.* 17*s.* $10\frac{1}{2}$ in silver coin. In Hamburgh, for example, we should have received in payment of an ounce of gold 136 Flemish schillings and 7 grotes, that quantity of silver containing an equal quantity of pure metal, as *3l.* 17*s.* $10\frac{1}{2}d.$ in our standard silver coin.

Gold has since that period risen in this country 18 per cent, and is now at *4l.* 12*s.* per ounce, and it is said that the *4l.* 12*s.* with which it is paid for is not depreciated. Now as gold has risen $5\frac{1}{2}$ more abroad than it has here, it must

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be there $23\frac{1}{2}$ per cent higher than when it was sold for 136*s.* 7*g.*, and we therefore should be led to expect that we should now obtain for it at Hamburgh 167 Flemish schillings; but what is the fact? this ounce of gold, which we are told we sell at Hamburgh for 4*l.* 17*s.*, actually produces no more than 140 schillings 8 grotes, an advance only of 3 per cent.; and for this the seller is indebted to the rise in the relative value of gold to silver, which from 15.07 to 1 is now about 16 to 1. It is true, that when the ounce of gold was sold at Hamburgh at 3*l.* 17*s.* $10\frac{1}{2}$*d.* or for its equivalent, 136 schillings 7 grotes, the currency of England was not depreciated; that sum, therefore, could only purchase a bill payable in London in Bank notes for 3*l.* 17*s.* $10\frac{1}{2}$*d.*; but the currency of England being now depreciated, and being estimated on the Hamburgh exchange at 28 or 29 Flemish schillings, instead of 37, the true value of a pound sterling, 140 schillings 8 grotes, or 3 per cent. more than 136*s.* 7*g.* will now purchase a bill payable in London in Bank notes for 4*l.* 17*s.*; so that gold has not risen more than 3 per cent. in Hamburgh, but the currency of England, on a comparison with the currency of Hamburgh, has fallen $23\frac{1}{2}$ per cent.

In further proof of the truth of my assertion, that

that it is not gold which has risen 16 or 18 per cent. in the general market of the world, but that it is the paper currency in which the price of gold is estimated in England, which alone has fallen; I will subjoin an account of the lowest prices of gold in Hamburgh, Holland, and England, in the year 1804, and the highest prices in each of those countries in the year 1810, by which we shall be enabled to ascertain the actual rise in the price of gold measured in the currencies of each. This account was furnished to the Bullion Committee by Mr. Grefulhe, and is numbered 56.

	lowest price.	highest price.	
Hamburgh	1804—$97\frac{3}{8}$	1810—101	being a rise of $3\frac{3}{4}$ per cent.
Holland	1804—$392\frac{1}{4}$	1810—$406\frac{7}{16}$	$3\frac{5}{8}$
England	1804—4*l.*	1810—4*l.* 13*s.*	16

Now in Hamburgh and in Holland, where the currency is silver, gold may not rise 3 per cent. only, but 30 per cent., without its being any proof of the depreciation of the currency; it proves only an improvement in the relative value of gold to silver. But in England, where the price of gold is estimated in gold coin, or in Bank notes representing that coin, a rise of 1 per cent. cannot take place without its proving a cora corresponding *depression* * of the coin or paper. This observation is equally applicable to the fact mentioned by Mr. Bosanquet, and of which he himself seems aware, of gold having varied in Hamburgh no less than 8 per cent. within a period of two years.

As there is an acknowledged difference between the price of standard gold bars and the price of gold coin reduced to the English standard, arising out of the latter being a more marketable commodity on the continent †; I cannot admit the inferences which Mr. Bosanquet draws from the comparison of Mr. Grefulhe's paper (No. 58), with the paper No. 60, in the Report. It would be first necessary to ascertain whether the prices of gold, as quoted in these papers (and they do not quite agree), were for gold in coin, or for gold of any other description; and whether the prices of gold in this country at different periods were always for gold of the same quality.

Mr. Bosanquet observes, that "From the cal-

* This expression has been noticed by Mr. Bosanquet as extremely theoretical, but I consider it so exceedingly correct that I have taken the liberty of using it after the Committee.

† See note to page 22.

culation

culation furnished by Mr. Grefulhe to the Committee, it appears that in the spring of 1810 an ounce of gold of English standard weight was worth at Hamburgh 4*l.* 17*s.* sterling; the price being 101, and the exchange 29*s.*" The reader must recollect, that it is 4*l.* 17*s.* in Bank notes that is here meant, as I have already explained. But I cannot admit the perfect accuracy of this statement. The exporter of an ounce of gold purchased here at 4*l.* 12*s.* would at least have had to wait three months before he could have received the 4*l.* 17*s.* because after the gold is sold at Hamburgh the remittance is made by a bill at 2½ usances; so that allowing for interest for this period he would actually have obtained a profit of 4½ per cent. only; but as the expence of sending gold to Hamburgh is stated in evidence to be 7 per cent., a bill would at this time have been a cheaper remittance by 2½ per cent.

Now allowing that Mr. Bosanquet is perfectly accurate in his statement, that the price of gold was in this country at 4*l.* 12*s.* during the months of June, July, August, and September, 1809, as well as in the spring of 1810, and that in all these instances such price was given for gold of the same quality; his conclusion that in those months in the year 1809 a profit of 5½ per cent. could

could be made by the exportation of gold, over and above the expences, is not warranted by the fact. "If at 101 and 29, observes Mr. Bosanquet, there was a profit on the export of gold from hence to Hamburgh of $5\frac{1}{4}$ per cent.; it follows that at $104\frac{1}{2}$ (the prices in Hamburgh June, July, August and September, 1809), and 28*s.* there was a profit of $12\frac{1}{4}$ per cent.; or, deducting the expences of conveyance, that gold, if bought here at 4*l.* 12*s.* per ounce, was a cheaper remittance by $5\frac{1}{2}$ per cent. than a bill at the current exchange." As I have already shewn that when the exchange was 29, and the price of gold in Hamburgh 101, gold was a dearer remittance than by bill by $2\frac{3}{4}$ per cent.; it follows that at 28*s.* and $104\frac{1}{2}$, it was only cheaper by $4\frac{1}{4}$ per cent.

These facts prove that in June, July, August, and September, 1809, whilst the exchange was at Hamburgh 28*s.* and gold $104\frac{1}{2}$, the real exchange was in favour of Hamburgh; whilst in the spring of 1810 it was so much less favourable, that it would not cover the expences attending the importation of gold.

As for the rise of gold in Hamburgh with an invariable exchange, it is what would have been naturally expected if there had been a corresponding rise in the price of gold here. In proportion as the English currency becomes depreciated, as compared with gold, will it become worth fewer of the schillings of Hamburgh, unless a rise in the value of gold at Hamburgh should counteract the depreciation, by making a gold pound sterling more valuable.

The exchanges again would partake in all the variations in the value of a depreciated pound sterling, whilst the price of gold continued invariable at Hamburgh.

"It appears," says Mr. Bosanquet, "by the return from the Bullion-office at the Bank, No. 7 and 8 in the Appendix to the Report, that the total amount of gold bullion imported and deposited in the Bullion-office in 1809 amounted in value to only . . . £. 520,225
That during the same period, the quantity of gold delivered out of the Bullion-office amounted in value to . . . . £. 805,568
of which only 592*l.* was not exportable.

"The amount of the importation is therefore such as, when compared with the amount of exports and imports, and that of the circulating medium, to justify the assumption of comparative scarcity; and the excess of delivery beyond the importation is sufficient evidence of unusual demand."

The

The fact itself here insisted on would be of little importance in the question which we are now discussing; but it appears to me that Mr. Bosanquet is not warranted in his conclusions by the statements in the accounts to which he refers.

The excess of delivery beyond the importation is not any evidence of unusual demand, as it is accounted for by the following note to No. 7, from which the larger sum is extracted.

> " *Note.*—The above is the amount of gold which has passed the Bullion-office in the time above named, as sales and purchases by private dealers, but *which may have passed more than once* the Bullion-office, having no information generally from whence the seller procures his gold."

The importations stated in No. 8 are actually deposited by importers from abroad, and can only be received once. Besides this objection, these accounts were not fair subjects of comparison, No. 7 being made up to the 18th April, 1810; No. 8 to 30th March, 1810.

" The point of view in which these facts are important," continues Mr. Bosanquet, " is that which places the amount of gold imported or delivered in line of comparison with the amount of paper currency supposed to be depreciated on

on the evidence of the increased price of bullion. The advance of 12*s.* per oz. on the total quantity of gold delivered in one year, about 200,000 ounces, amounts to 120 or 130,000*l.*; and this is assumed as an unequivocal symptom of a depreciation of 12 or 13 per cent. on 30 or 40 millions of paper, the probable amount of our paper currency." " We may soon expect to be told that the value of Bank notes has increased, because the paper on which they are made is somewhat dearer than heretofore."

The value of a Bank note is ascertained, not by the number of transactions which may take place in the purchase or sale of gold, but by the actual comparative value of the note with the value of the coin for which it professes to be a substitute.

As it is allowed that a Government Bank might force a circulation of paper, *although our Bank cannot*, how would Mr. Bosanquet calculate the depreciation of such forced notes, but by a comparison of their value with the value of bullion? Would he think it necessary to enquire whether 100 ounces only had been the amount transacted in the year, or whether it had been a million? If gold be not a test by which to estimate depreciation, what is? Whilst it is a criminal offence to buy guineas at a premium, it does not seem probable that we can possess the only test which would satisfy these gentlemen, namely, two prices for commodities, a price in guineas, and another in Bank notes. They might, even in that case, contend, that it was the scarcity of gold abroad which had raised the value of the guinea.

SECTION IV.

Failure ascribed to Mr. Locke's Theory relative to the Recoinage in 1696.

It is correctly stated by Mr. Bosanquet that Mr. Locke's theory was similar to that now held. He did most certainly maintain that an ounce of silver in coin could not be less valuable than an ounce of siver bullion of the same standard. And the Committee now maintain that in the sound state of the British currency an ounce of gold bullion cannot, for any length of time, be of more value than 3*l.* 17*s.* 10½*d.*, or an ounce of gold coin: but neither of these opinions have been yet found incorrect. The effects expected from the recoinage in King William's reign failed of being realised, not because Mr. Locke's theory was followed, but because it was not followed. It did not fail, because

because he could not be convinced that "the value of silver bullion was become greater than the standard or mint price" (that being impossible if estimated in silver coin), but because his suggestions were not adopted.

It was proposed by Mr. Locke that silver coin should be the only fixed legal standard of currency, and that guineas should pass current in all payments at their bullion value. Under such a system, a guinea would have partaken of all the variations in the relative value of gold and silver; it might at one time have been worth 20 shillings, and at another 25; but contrary to Mr. Locke's principle, the value of the guinea was first fixed at 22 shillings, and afterwards at 21 shillings and sixpence, whilst its value as bullion was considerably below it*. At the same time the silver coin, for the very reason that gold was rated too high, passed in currency at a value less than its bullion value. It was to be expected, therefore, that the gold coin would be retained, and that the silver coin 26

* It may be said, that although guineas were by law prohibited from passing at more than 21*s.* 6*d.*, they were not declared a legal tender till 1717; and, therefore, that no creditor was obliged to accept of them in discharge of a debt at that rate. But if Government received them in the payment of taxes at such value, the effects would be nearly the same as if they had by act of Parliament been made a legal tender.

would

would disappear from circulation. If the value of the guinea in currency had been lowered to its true market value in silver, the exportation of the silver coin would immediately have ceased, and, in fact, this was the remedy which was at last adopted. The matter being referred to Sir I. Newton in 1717, then master of the Mint, he reported "the principal cause of the exportation of the silver coin was, that a guinea, which then passed for 21*s.* 6*d.*, was generally worth no more than 20*s.* 8*d.*, according to the relative value of gold to silver at the market, though its value occasionally varied." "He then suggested, that 6*d.* should be taken off from the value of the guinea, in order to diminish the temptation to export and melt down the silver coin, acknowledging, however, that 10*d.* or 12*d.* ought to be taken from the guinea, in order that gold might bear the same proportion with silver money in England, which it ought to do by the course of trade and exchange in Europe*." The same effects would have followed without the intervention of Government, if the relative value of gold and silver in the market had so varied as to have made them agree with the Mint proportions.

Lord Liverpool, in speaking of the recoinage

* Lord Liverpool's letter to the King.

in

in 1696, is of a very different opinion from Mr. Bosanquet;—so far from considering that measure as having "subjected the nation to disappointment and inconvenience, under which we still labour, and to an unprofitable expence of nearly three millions sterling," he observes, "that great as this charge was, the losses which the Government as well as the people of this kingdom continued daily to suffer till the recoinage was completed, justified almost any expence which might be incurred for their relief."

Mr. Bosanquet is not quite correct in saying, page 34, that the price of silver has never been under the Mint price since the recoinage in the reign of King William. On a reference to Mr. Mushet's tables, it appears that it was as low as 5*s.* 1*d.* in 1793 and 1794, and in 1798 it fell to 5*s.*, which was the occasion of the law for prohibiting the coinage of silver which I have already noticed*.

* Since this was sent to the press I have seen the second edition of Mr. Bosanquet's work, in which this inaccuracy is corrected.

CHAP.

CHAPTER IV.

Mr. Bosanquet's Objections to the Statement, that the Balance of Payments has been in Favour of Great Britain, examined.

HAVING considered all those points deemed so important by Mr. Bosanquet in contradiction of the opinion of the Committee, "that it is by a comparison of the market and Mint value of bullion, that the fact of the depreciation of the currency can be estimated;" and having, I trust, made it evident that there is no other test singly, by which we are enabled to judge of the sound or unsound state of our paper currency, I shall proceed to the consideration of the next disputed position of the Bullion Committee; namely, "That so far as any inference is to be drawn from Custom House returns of exports and imports, the state of the exchanges ought to be peculiarly favourable."

Mr. Bosanquet has been at the trouble of consulting numerous documents to prove that the

the Committee have not only committed an error to the amount of 7,500,000*l.* in their estimate of the balance of exports, but other errors to a still greater amount; and that, in fact, so far from their opinion being well founded, that the state of the exchange ought to have been favourable to this country during the past year, the actual amount of the balance of payments to the continent had been unusually great.

As I am desirous only of defending the principles of the Committee, and as these facts are by no means essential to those principles, I shall not enter into any examination of the correctness either of the statements of the Committee, or of those of Mr. Bosanquet, but will at once concede to him the facts, difficult as he would find it to prove all of them, for which he contends.

That the balance of payments has been against this country cannot, I conceive, admit of dispute. The state of the real exchange sufficiently proves it, as that infallibly indicates from which country bullion is passing. It would, however, have been of some satisfaction to those who are desirous of clearly understanding this difficult subject, if Mr. Bosanquet had acquainted us with the means which we possessed of paying the very large unfavourable balance for which he contends. Does he imagine

gine that it has actually been discharged with our own hoard of gold? Do we usually keep unemployed such a large amount of bullion that we can afford to pay such balances year after year?

As we have no mines of our own, if we do not actually possess it, we must purchase it from foreign countries; but Bank notes will be useless for such purpose. If the price of gold in Bank notes be 4*l.* per ounce, or 10*l.* per ounce, we shall not obtain the slightest addition to our quantity of bullion, as it can only be procured by the exportation of goods. If we obtain it from America, for example, it is with goods we must purchase it. In that case, on a view of the whole trade of the country, we have discharged a debt in Europe by the exportation of goods to some other part of the world, and the balance of payments, however large it may be, must ultimately be paid by the produce of the labour of the people of this country. Bills of exchange never discharge a debt from one country to another; they enable a creditor of England to receive, at the place where he is resident, a sum of money from a debtor to England; they effect a transfer of a debt, but do not discharge it. That a demand for gold (if it could be allowed that our creditor would accept nothing but gold) might occasion a rise in its value no one denies. If, therefore, goods had become exceedingly cheap, it would have been the natural effect of such a cause. But how is any rise in its price in Bank notes to procure it, even if we suppose it hoarded in England?

The seller is not to be deluded with an increase of nominal value; it will be to him of little importance whether he sells his gold at 3*l.* 17*s.* $10\frac{1}{2}$*d*, or at 4*l.* 12*s.* per ounce, provided either of those sums will procure him the commodities for which he intends ultimately to exchange his gold. If then Bank notes to the amount of 3*l.* 17*s.* $10\frac{1}{2}$*d.* be rendered of equal value in procuring the commodities which he seeks to purchase, with 4*l.* 12*s.*, as much gold will be procured at one price as at the other. Now can it be denied, that by reducing the amount of Bank notes their value will be increased? If so, how can the reduction of Bank notes prevent us from obtaining the same amount of gold both at home and abroad to discharge our foreign debt, as we now obtain by a nominal and fictitious price?

"At a moment," says Mr. Bosanquet, "when we were *compelled* to receive corn, even from our enemy, without the slightest stipulation in favour

vour of our own manufacturer, and to pay neutrals for bringing it, Mr. Ricardo tells us, that the export of bullion and merchandize, in payment of the corn we may import, resolves itself entirely into a question of interest, and that, if we give corn in exchange for goods, it must be from choice, not necessity. Whilst providing against famine, he tells us, that we should not import more goods than we export, unless we had a redundancy of currency."

Mr. Bosanquet speaks as if the nation collectively, as one body, imported corn and exported gold, and that it was compelled by hunger so to do, not reflecting that the importation of corn, even under the case supposed, is the act of individuals, and governed by the same motives as all other branches of trade. What is the degree of *compulsion* which is employed to make us receive corn from our enemy? I suppose no other than the want of that commodity which makes it an advantageous article of import; but if it be a voluntary, as it most certainly is, and not a compulsory bargain between the two nations, I do still maintain that gold would not, even if famine raged amongst us, be given to France in exchange for corn, unless the exportation of gold was attended with advantage to the exporter, unless he could sell corn in England

land for more gold than he was obliged to give for the purchase of it.

Would Mr. Bosanquet, would any merchant he knows, import corn for gold on any other terms? If no importer would, how could the corn be introduced into the country, unless gold or some other commodity were cheaper here? As far as those two commodities are concerned, do not these transactions as certainly indicate that gold is dearer in France, as that corn is dearer in England?

Seeing nothing in Mr. Bosanquet's statement to induce me to change my opinion, I must continue to think that it is interest, and interest alone, which determines the exportation of gold, in the same manner as it regulates the exportation of all other commodities. Mr. Bosanquet would have done well, before he had deemed this opinion so extravagant, to have used something like argument to prove it so; and he would not have hurt his cause, if, even in the year 1810, he had explained his reason for supporting a principle advanced by Mr. Thornton in 1802, the correctness of which was questioned in 1809.

Bullion will not be exported unless we have previously imported it for such purpose, or unless from some circumstances in our internal circulation it it has been rendered cheap and less useful to us. If Milan decrees, embargoes, non-intercourse acts, &c. affect the exportation of commodities, they also affect their importation, as no country can long continue to buy unless it can also sell; and least of all England, who by the abundance of her paper has driven from her circulation every vestige of the precious metals.

"If the currency be depreciated below the value of gold," Mr. Bosanquet tells us, "it is so positively, not relatively, and all exchanges must equally feel the influence of the depreciation." (Page 20.) Most true; and therefore if Mr. Bosanquet could have shewn that with *any one country in the world,* whose currency is not debased nor depreciated, the exchange had been favourable to England, he would have successfully controverted the opinion of the Committee.

Some able writers on this subject have lately taken, I think, a mistaken view of the exportation of money, and of the effects produced on the price of bullion by an increase of currency through paper circulation.

Mr. Blake observes, "All writers upon the subject of political economy that I have met with, seem to be persuaded that when the rate of exchange has deviated from par beyond the expences of the transit of bullion, bullion will immediately pass; and the error has arisen from not sufficiently distinguishing the effects of a *real* and a *nominal* exchange;" and many pages are employed in proving, that on every addition to the paper circulation, even when a great part of the currency consists of the precious metals, the price of bullion will be raised in the same proportion as other commodities; and as the foreign exchange will be nominally depressed in the same degree, no advantage will arise from the exportation of bullion. The same opinion is maintained by Mr. Huskisson, page 27.

"If the circulation of a country were supplied partly by gold and partly by paper, and the amount of that circulation were doubled by an augmentation of that paper, the effect upon prices at home would be the same as in the former case," (a rise in the price of commodities). "But gold not becoming by this augmentation of currency more abundant in such a country than in other parts of the world, as a *commodity,* its relative value to other commodities would remain unaltered; as a commodity also, its price would rise in the same proportion as that of other commodities, although, in the state of coin, of which the *denomination* is fixed by by law, it could only pass current according to that *denomination*.

" When paper is thus augmented in any country, the exportation of the gold coin, therefore, will take place; not because gold, as a *commodity*, is become more abundant and less valuable with reference to other commodities in such a country; but, from the circumstance of its value as currency remaining the same, while its price in that currency is increased in common with the prices of all other commodities."

I should perfectly agree with these writers, that the effects on the value of gold as an exportable commodity would be as they describe, provided the circulation consisted wholly of paper, but no rise would take place in the price of bullion, in consequence of an addition of paper currency, whilst the currency was either wholly metallic, or consisted partly of gold and partly of paper.

If an addition be made to a currency consisting partly of gold and partly of paper, by an increase of paper currency the value of the whole currency would be diminished, or, in other words, the prices of commodities would rise, estimated either in gold coin or in paper currency. The same commodity would purchase, after

+ Certainly the convertibility of Coin into Bullion would prevent any permanent difference in value, between Gold in Coin & Gold in Bullion — but their assimilation in point of Value would be effected by the coin being melted & its acquiring the high Value of

after the increase of paper, a greater number of ounces of gold coin, because it would exchange for a greater quantity of money. But these gentlemen do not dispute the fact of the convertibility of coin into bullion, in spite of the law to prevent it. Does it not follow, therefore, + that the value of gold in coin, and the value of gold in bullion, would speedily approach a perfect equality? If then a commodity would sell in consequence of the issue of paper for more gold coin, it would also sell for more gold bullion. It cannot therefore be correct to say that the relative value of gold bullion and commodities would be the same after as before the increase of paper.

The diminution in the value of gold, as compared with commodities, in consequence of the issues of paper in a country where gold forms part of the circulation, is, in the first instance, confined to that country only. If such country were insulated, and had no commerce whatever with any other country, this diminution in the value of gold would continue till the demand for gold for its manufactures had withdrawn the whole of its coin from circulation, and not till then would there be any visible depreciation in the value of paper as compared with gold, whatever

Bullion, not by Bullion partaking of the supposed diminished Value of the Coin ever the amount of paper might be which was in circulation.

As soon as the gold had been wholly withdrawn, the demand for manufactures still continuing, gold would rise above the value of paper, and would soon obtain that relative value to other commodities which subsisted before any addition had been made to the circulation by the issues of paper. The mines would then supply the quantity of gold required, and the paper currency would continue to be permanently depreciated. During this interval the gold mines of such country, if it possessed any, could not be worked, because of the low value of gold, which would have reduced the profits on capital employed in the mines below the level of the profits of other mercantile concerns. As soon as this equality of profit were established, the supply of gold would be as regular as before. These would be the consequences of a great issue of paper in a country having no intercourse with any other.

But if the country supposed, as is the case with England, had intercourse with all other countries, any excess of her currency would be counteracted by an exportation of specie, and if that excess did not exceed the amount of coin in circulationi which could be easily collected

by

by those who evade the law, no depreciation of the currency would take place.

Suppose England to have 1000 ounces of gold in the state of bullion, and 1000 ounces in the state of coin, whilst her exchange with foreign countries was at par; that is to say, whilst the value of gold abroad was precisely the same as here, and therefore could be neither advantageously exported nor imported.

Suppose, too, that the Bank were at such time to issue notes to an amount which should represent 1000 ounces more of gold, and that they were not exchangeable for specie. If her bullion retained the same value after as before the issue of paper (which is the point contended for), how could a single guinea be exported? Who would be at the trouble and risk of sending guineas to the continent to be sold there for their value as bullion, while the value of bullion continued here as high as before, and consequently as high as the price abroad? Would not the coin be melted and sold as bullion at home, till the value of bullion had so much diminished in its relative value to the bullion of other countries, and therefore to the relative value of commodities here, as to pay the expences of transportation; or, in other words, till the exchange had fallen to the price at which it would repay such

expences?

expences? At that price the whole 1000 ounces would go at once, or if any part were retained in circulation, it would not be of less value than an equal weight of gold bullion. I am all along considering the law as having no effect in preventing exportation, and if it be contended that the law could be strictly executed, that argument would be equally applicable if the addition to the currency had been made in gold coin, and not in paper currency.

It appears, therefore, evident, first, that by the addition of paper to a currency consisting partly of gold and partly of paper, gold bullion will not necessarily rise in the same degree as other commodities; and, secondly, that such addition will cause depression not in the nominal but in the real exchange, and therefore that gold will be exported.

But to return to Mr. Bosanquet. He observes, "that the three propositions," viz. those on which I have been commenting, "appear to have been brought forward by the Committee as well as by the authors on whose theories the report is founded, to induce the admission of the depreciation of the paper currency of this country as the necessary consequence of the impossibility of accounting for the depression of the exchanges and the increased price of bullion in any

any other way. They may be termed negative arguments."

Now, as far as I, who am one of the authors arraigned, am concerned, Mr. Bosanquet is incorrect: the third of these propositions was not on any occasion brought forward by me. The fact of the balance of payments being for or against this country could be of little consequence, in my estimation, to the proof of the theory which I maintain. Whether a part of our exports or a part of our imports consisted of gold cannot in the least affect this question, it is abundantly certain that our currency is neither by ourselves nor by foreigners estimated at its bullion value. And why should our currency be degraded below such value more than those of America, France, Hamburgh, Holland, &c.? The answer is, because neither of those countries have a paper currency not convertible into specie at the will of the holder.

CHAP.

CHAPTER V.

Mr. Bosanquet's Argument to prove that the Bank of England has NOT *the Power of forcing the Circulation of Bank Notes—considered.*

THE fourth proposition is what now presents itself for discussion:

"That the Bank, during the restriction, possesses exclusively the power of limiting the circulation of Bank notes."

It is difficult to determine whether Mr. Bosanquet thinks that even a forced paper circulation could have the effect of lowering the exchange; so confidently is it asserted by him that there is no connexion between the exchanges and the amount of Bank notes. If the Bank were to become truly a government Bank, in the sense in which Mr. Bosanquet somewhere uses that term; if they were to advance all the money requisite for the service of the year; if from twenty millions they were to raise the amount of their notes to fifty millions, would not such a Bank be justly said to force a circulation of paper? and would not the effect of such a forced circulation of paper be, that their notes would be depreciated, that the price of bullion would rise and the foreign exchanges fall? Would not these effects take place

place although Government were to guarantee the notes of the Bank, and the final payment of them should by no one be doubted? Would not the abundance of the circulation alone produce depreciation? Or is it to be maintained that no abundance of paper money, provided its final redemption be certain, can cause depreciation? A proposition so extravagant will hardly, I think, be supported, and it must therefore be admitted that depreciation may arise from the abundance of notes alone, however great might be the funds of those who were the issuers of them. As these symptoms, then, which accompany a forced paper currency are, at this moment, too glaring to be denied, as they cannot be accounted for in any other way either by theory or by an appeal to experience, are we not justified in our suspicions that the Bank of England, as at present constituted, is not so devoid of the power of forcing a circulation as their friends would have us believe? It is not intended by the words forced circulation to accuse the Bank of having departed from those cautions which have usually accompanied the issue of their paper; it is meant only that the restriction bill enables them to keep in circulation an amount of notes (allowance made for the coin that would then be in circulation) greater

 than

than they could maintain but for that measure. It is this surplus sum which I consider as producing precisely the same effects as if it were forced on the public by a Government Bank. The plea that no more is issued than the wants of commerce require is of no weight; because the sum required for such purpose cannot be defined. Commerce is insatiable in its demands, and the same portion of it may employ 10 millions or 100 millions of circulating medium; the quantity depends wholly on its value. If the mines had been ten times more productive, ten times more money would the same commerce employ. This Mr. Bosanquet admits, but denies the analogy between the issues of the Bank and the produce of a new gold mine.

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101
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On this subject Mr. Bosanquet makes the following observations.

"Mr. Ricardo has assimilated the Bank of England during the restriction, so far as relates to the effects of its issues, to a gold mine, the produce of which being thrown into circulation, in addition to the circulating medium already sufficient, is an excess; and has the acknowledged effect of depreciating the value of the existing medium, or, in other words, of raising the prices of commodities for which it is usually exchanged. But Mr. Ricardo has not stated what is essential to the comparison, *why* it is that the discovery of a gold mine would produce this effect. It would produce it, because the proprietors would issue it, for whatever services, without any engagement, to give an equal value for it again to the holders, or any wish, or any means, of calling back and annihilating that which they have issued. By degrees, as the issues increase they exceed the wants of circulation; gold produces no benefit to the holder as gold; he cannot eat it, nor clothe himself with it; to render it useful, he must exchange it either for such things as are immediately useful, or for such as produce revenue. The demand and consequently the prices of commodities and real properties measured in gold, increases; and will continue to increase as long as the mine continues to produce. And this effect will equally follow whether, under the circumstances I have supposed, the issue be gold from a mine or paper from a government-bank. All this I distinctly admit; but in all this statement, there is not one point of analogy to the issues of the Bank of England.

"But the principle on which the Bank issues its notes is that of loan. Every note is issued at the requisition of some party, who becomes indebted to the Bank for its amount, and gives security to return this note, or another of equal value

value at a fixed and not remote period; paying an interest proportioned to the time allowed."

Now supposing the gold mine to be actually the property of the Bank, even to be situated on their own premises, and that they procured the gold which it produced to be coined into guineas, and in lieu of issuing their notes when they discounted bills or lent money to Government that they issued nothing but guineas; could there be any other limit to their issues but the want of the further productiveness in their mine? In what would the circumstances differ if the mine were the property of the king, of a company of merchants, or of a single individual? In that case Mr. Bosanquet admits that the value of money would fall, and I suppose he would also admit that it would fall in exact proportion to its increase.

What would be done with the gold by the owner of the mine? It must be either employed at interest by himself, or it would finally find its way into the hands of those who would so employ it. This is its natural destination; it may pass through the hands of 100, or 1000 persons, but it could be employed in no other manner at last. Now if the mine should double the quantity of money, it would depress its value in the same + proportion, and there would be double the demand for it. A merchant who before required the loan of

+ If it is meant that by doubling the quantity of money, you would reduce the value of any given quantity one half, it is a very erroneous opinion — see Thornton on the Circulation of Ireland pp 46-7 — printed 1805

of 10,000*l.* would now want 20,000*l.*; and it could be of little importance to him whether he continued to borrow 10,000*l.* of the Bank, and 10,000*l.* of those with whom the money finally rested, or whether he borrowed the whole 20,000*l.* of the Bank. The analogy seems to me to be complete, and not to admit of dispute. The issues of paper not convertible are guided by the same principle, and will be attended with the same effects as if the Bank were the proprietor of the mine, and issued nothing but gold. However much gold may be increased, borrowers will increase to the same amount, in consequence of its depreciation; and the same rule is equally true with respect to paper. If money be but depreciated sufficiently, there is no amount which may not be absorbed, and it would not make the slightest difference whether the Bank with their notes actually purchased the commodities themselves, or whether they discounted the bills of those who would so employ them.

If it were granted to Mr. Bosanquet that a given sum, and no more, could be absorbed in the circulation, the effects he states would follow: but I deny that there would be a surplus seeking in vain for advantageous employment, and which, not being able to find it, would necessarily either return to the Bank in payment of a bill already

already discounted, or would prevent an application to them for an advance of money to that amount.

If money, however abundantly issued, could retain its value, such might be the effects; but as, when once it is brought into circulation, depreciation commences, the employment for the additional sum would retain it in the currency.

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Let us recur to the effect which would result from the establishment of a Bank of undoubted credit in a country where the circulation was wholly metallic.

Such a Bank would discount bills or make advances to government as our Bank does; and if the principle now contended for by Mr. Bosanquet be correct, their notes would necessarily return on them as soon as issued; because the metallic currency being before sufficient for the commerce of the country, no additional quantity could be employed.—But this is contrary both to theory and experience. The issues of the Bank would, as they now do, not only depreciate the currency, but the value of bullion at the same time, as I have endeavoured to explain at page 75; this, again, would be the temptation to exportation, and the diminution of the currency would make it regain its value. The Bank would issue more notes, and the same effects would

would follow; but in no case would there be such an excess as would induce any holder of notes to return them to the Bank in payment of loans, if the law against the exportation of money could be effectually executed. Money would be demanded because it could be profitably exported, and not because it could not be absorbed in the circulation. But let us suppose a case in which money could not be profitably exported—Let us suppose all the countries of Europe to carry on their circulation by means of the precious metals, and that each were at the same moment to establish a Bank on the same principles as the Bank of England—Could they, or could they not, each add to the metallic circulation a certain portion of paper? and could or could they not permanently maintain that paper in circulation? If they could, the question is at an end, an addition might then be made to a circulation already sufficient, without occasioning the notes to return to the Bank in payment of bills due. If it is said they could not, then I appeal to experience, and ask for some explanation of the manner in which Bank notes were originally called into existence, and how they are permanently kept in circulation.

I should find it laborious to follow up in all its bearings the analogy between the first establishment

blishment of a Bank, the discovery of a mine, and the present situation of our Bank; but of this I am fully certain, that if the principle advanced by the Bank Directors be correct, not a Bank note could ever have been permanently kept in circulation, nor would the discovery of the mines of America have added one guinea to the circulation of England. The additional gold would, according to this system, have found a circulation already adequate, and in which no more could be admitted.

The refusal to discount any bills but those for *bonâ fide* transactions would be as little effectual in limiting the circulation; because, though the directors should have the means of distinguishing such bills, which can by no means be allowed, a greater portion of paper currency might be called into circulation, not than the wants of commerce could employ, but greater than what could remain in the channel of currency without depreciation. It is well known that the same thousand pounds may settle 20 *bonâ fide* transactions in one day. It may pay for a ship; the seller of a ship may pay with it his rope-maker;—he again may pay the Russian merchants for hemp, &c. &c. Now as each of these was a *bonâ fide* transaction, a bill might have been drawn by each, and the Bank, by their

their rule, might discount them all; so that 20,000*l.* might be called into circulation to perform those payments for which 1000*l.* was equal. I am aware that the opinion of Dr. Smith, as quoted by Mr. Bosanquet, appears to favour his opinion; but that able writer has in various passages of his work, and within a few pages of that from whence Mr. Bosanquet has quoted, declared that, " The whole paper money of every kind which can easily circulate in any country can never exceed the value of the gold and silver of which it supplies the place, or which (the commerce being supposed the same) would circulate there if there were no paper money"

To this test we must not submit our currency. If at its present amount it consisted of gold and silver, no laws, however severe, could retain it in circulation; a part would be melted and exported till it was reduced to its just level. At that level it would be as impossible to force the exportation of it. In such case we should no longer hear of the balance of payments being against us, nor of the necessity of exporting gold in return for corn. That such would be the consequences cannot be doubted by those who are familiar with the writings of Dr. Smith. But if it should be otherwise, if the continent should

should adopt the almost impossible, absurd policy of wishing to buy more of that of which they already had too much, what evil consequences would ensue to us, even if our currency were reduced to the same level at which it stood before the discovery of America? Would not this be a national gain? inasmuch as the circulation of the same commerce being carried on with a smaller amount of gold, the balance might be profitably employed in procuring a return of more useful and more productive commodities. And if the circulation of paper were reduced in the same proportion, would not the profits now gained by the Bank be enjoyed by those who can shew a much better title to them?

It is fortunate for the public that there should exist the disinclination to discount at the Bank which Mr. Bosanquet mentions,—as without some such check, it is impossible to say to what amount Bank notes might by this time have been multiplied. Indeed, to all those who have given the subject any consideration it is matter of surprise that our circulation has been confined within such moderate bounds, after knowing the principles which the Bank Directors have avowed as their guide in regulating their issues.

CHAP.

CHAPTER VI.

Observations on the Principles of Seignorage.

Dr. Smith, though favourable to a small seignorage on the coin, was fully aware of the evils which might attend a large one.

The limits, beyond which a seignorage cannot be advantageously extended, are the actual expences incurred by the manufacturing of bullion into coin. If a seignorage exceeds these expences, an advantage will accrue to false coiners by imitating the coins, although they should actually make them of their legal weight and standard; but even in this case, as the addition of money to the circulation beyond the regular demands of commerce will diminish the value of that money, the trade of false coiners must cease when the value of the coin does not exceed the value of bullion more than the actual expences of fabrication. If the public could be secured from such illegal additions to the circulating medium, there could be no seignorage so high which a government might not advantageously

tageously exact; as the coined money would, in the same degree, exceed the value of bullion. If the seignorage amounted to 10 per cent. bullion would necessarily be 10 per cent. under the Mint price; and if it were 50 per cent., that also would the value of coin exceed the value of bullion. It appears then, that although a given weight of bullion can never exceed in value a given weight of coin, a given weight of coin may exceed in value a given weight of bullion by the whole expence of seignorage, however great that seignorage may be, provided that there was effectual security against the increase of money through the imitation of the coins by illegal means. And it appears also, that if no such security could be given, the trade of the false coiner would cease as soon as he had added so much to the amount of the coin as to diminish its value, on a comparison with bullion, to the actual expences incurred. That these principles are correct may be proved from the consideration of the circumstances which give value to a Bank note. A Bank note is of no more intrinsic value than the piece of paper on which it is made. It may be considered as a piece of money on which the seignorage is enormous, amounting to all its value; yet if the public is sufficiently protected against the too

too great increase of such notes, either by the indiscretion of the issuers, or by the practices of false coiners or forgers, they must, in the ordinary operations of trade, retain their value.

Whilst such money is kept within certain limits any value may be given to it as currency; 3*l.* 17*s.* 10½*d.* may be worth an ounce of gold bullion, the value at which it was originally issued, or it may be reduced to the value of half an ounce; and if the Bank which issued had the exclusive privilege of procuring money to be coined at the Mint, 3*l.* 17*s.* 10½*d.* of their notes might be rendered of equal value to 1, 2, 3, or any number of ounces of gold bullion.

The value of such money must depend wholly upon its quantity, and in the case supposed the Bank would not only have the power of limiting the amount of paper money, but of metallic money also.

I have before endeavoured to show, that previously to the establishment of banks the precious metals, employed as money, were necessarily distributed amongst the different countries of the world in the proportion that their trade and payments required; that whatever the value of the bullion so employed for the purposes of currency might be, the equal demands and necessities of all countries would prevent the quantity allotted to each from being either increased

creased or diminished, unless the proportions in the trade of countries should undergo some alteration which should make a different division necessary; that England or any other country might substitute paper instead of bullion for the uses of money, but that the value of such paper must be regulated by the amount of coin of its bullion value, which would have circulated had there been no paper.

Under this point of view the paper currency of any particular country represents a certain weight of bullion which, her commerce and payments continuing the same, could neither be increased nor diminished; 3*l.* 17*s.* 10½*d.* of coin or paper currency might represent an ounce of gold bullion, or 4*l.* 13*s.* might, in consequence of some internal regulation, do the same; but the actual amount of bullion so represented would, under the same circumstances of commerce and payments, be eternally the same.

Suppose that England's share amounted to a million of ounces, if by a law which could be effectually executed a million and a half of ounces in coin could be forced or retained in circulation, by preventing its being melted or exported, or if by means of a restriction bill the Bank should be enabled to maintain an amount of paper which should represent a million and a half

half of ounces of coined gold in circulation, such million and a half would be of no more value in currency than a million of ounces; and consequently an ounce and a half of coined gold, or bank-notes which represented that amount, would purchase no more of any commodity than an ounce of gold bullion. If, on the other hand, Government were to charge a seignorage of 50 per cent. or if the issues of the Bank were to be exceedingly limited, whilst they had also the exclusive right of coining, so that the whole amount of their notes did not exceed what should represent at the mint price half a million of ounces of gold, that half million would in currency pass for the same value as the million of ounces in one case, and the million and a half in the other did before.

From these principles it results, that there can exist no depreciation of money but from excess; however debased a coinage may become it will preserve its mint value, that is to say, it will pass in circulation for the intrinsic value of the bullion which it ought to contain, provided it be not in too great abundance. It is a mistaken theory, therefore, to suppose that guineas of 5 dwts. and 8 grains cannot circulate with guineas of 5 dwts. or less. As they might be in such limited quantity that both the one and the other

other might actually pass in currency for a value equal to 5 dwts. 10 grains, there would be no temptation to withdraw either from circulation; there would be a real profit in retaining them. In practice, indeed, it would seldom occur that the heavier pieces would escape the melting pot, but it would arise wholly from the augmentation of such currency, either by the liberal issues of the Bank, or by the supply of false money which the arts of the false coiner would throw into circulation.

Our silver currency now passes at a value in currency above its bullion value, because, notwithstanding the profit obtained by the counterfeiter, it has not yet been supplied in sufficient abundance to affect its value.

It is on this principle too that the fact must be accounted for, that the price of bullion previously to the recoinage in 1696, did not rise so high as might have been expected from the then debased state of the currency; the quantity had not been increased in the same proportion as the quality had been debased.

It also follows from these principles, that in a country where gold is the measure of value, the price of gold bullion (where the law offers no restraint against exportation) can never exceed its mint price; and that it can never fall

fall more below it than the expences of coinage; and that these variations depend wholly on the supply of coin or paper currency being proportioned to the trade of the country, or, in other words, that nothing can raise the value of bullion even so high as the mint price but an excess of circulation. If, indeed, any power in the state have the privilege of increasing the paper currency at pleasure, and be at the same time protected from the payment of its notes, there is no other limit to the rise of the price of gold than the will of the issuers.

CHAPTER VII.

Mr. Bosanquet's Objections to the Proposition, that the Circulation of the Bank of England regulates that of the Country Banks, considered.

The next proposition which Mr. Bosanquet attempts to disprove is that in which the Committee give it as their opinion, "That the circulation of country bank-notes depends upon, and is proportionate to, the issues from the Bank."

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There are many practical authorities for the truth of this principle also. It appears to be singularly unfortunate, that few of the principles of the Bullion Committee which Mr. Bosanquet has selected have not the authority of practical men, to whose opinions on these subjects so much deference is paid. That the exchange can never vary for any length of time beyond the limits defined by the Committee has been, and is, the opinion of the ablest practical men.

That the price of bullion cannot long continue with a sound system of currency above the mint price has received full confirmation from the same quarter, and the proposition now under discussion is not without the same sanction. Mr. Huskisson has already availed himself of the authority of the Governor of the Bank for its truth, who declared in his evidence to the Committee, page 127, "The country banks by not regulating their issues on the principle of the Bank of England might send forth a superabundance of their notes; but this excess, in my opinion, would no sooner exist in any material degree, than it would be corrected by its own operation, for the holders of such paper would immediately return it to the issuers, when they found that in consequence of the over issue its value was reduced, or likely to be reduced, below par; thus, though

though the balance migh tbe slightly and transiently disturbed, no considerable or permanent over issue could possibly take place, as from the nature of things the amount of bank-notes in circulation must always find its level in the public wants." Mr. Gilchrist of the Bank of Scotland stated to the Committee, that "If the Bank of England were to restrict their issues, of course the Scotch banks would find it necessary to diminish theirs." "The issues of the Bank of England," he observed, "operate upon the issues of the banks of Scotland in this manner. If the banks of Scotland issue more than they ought to do in proportion to the issues of the Bank of England, they would be called upon to draw bills upon London at a lower rate of exchange." (Page 114, App.) Mr. Thompson, a country banker, and a member of the Committee, was asked "By what what criterion do the country banks now regulate their issues of paper?"—Ans "By the plenty or scarcity of bank-notes." "Then their issues bear a proportion to the issues of the Bank?"—Ans. "In my opinion they do.' '

The Committee," Mr. Bosanquet observes, "has not defined the sense in which they use the term excess of currency; I, therefore," he continues, "suppose it to be used in the Report, in the

the sense in which it is used by Dr. Smith, as denoting a quantity greater than the circulation of the country can easily absorb or employ." And in another place, "As the fact is not *apparent* at least (I mean that there is more paper than the country can easily absorb and employ), the *onus probandi* seems to lie on the Committee."

This is not the sense in which I consider the Committee to use the word *excess*. In that sense there can be no excess whilst the Bank does not pay in specie, because the commerce of the country can easily employ and absorb any sum which the Bank may send into circulation. It is from so understanding the word excess that Mr. Bosanquet thinks the circulation cannot be excessive, because the commerce of the country could not easily employ it. In proportion as the pound sterling becomes depreciated will the want of the nominal amount of pounds increase, and no part of the larger sum will be excessive, more than the smaller sum was before. By excess, then, the Committee must mean the difference in amount of circulation between the sum actually employed, and that sum which would be employed if the pound sterling were to regain its bullion value. This is a distinction of more consequence than at first sight appears,

And is proved [illegible] that the Paper currency
is only depreciated 10 per Cent. It following
from this reasoning that an increase [illegible]
10 per Cent on the [illegible] of [illegible]
is the amount of [illegible] what under

appears, and Mr. Bosanquet was well aware that it was in this sense that it was used by me. He has been so obliging as to express my meaning in a passage where it appeared obscure; he has done it most ably, and completely understood the sense in which I used the words *an excessive circulation*. He observes upon the passage, page 86, "If this interpretation be adopted, it will be nearly useless to search for, and enquire after, excess of paper as a fact; we must be content to admit proof of its existence from its effects, and our attention must be directed to ascertain depreciation, or an increased price of commodities, solely arising out of, and occasioned by, the increased amount of the circulating medium." I do most unequivocally admit, that whilst the high price of bullion and the low exchanges continue, and whilst our gold is undebased, it would to me be no proof of our currency not being depreciated if there were only five millions of bank-notes in circulation. When we speak, therefore, of an excess of bank-notes, we mean that portion of the amount of the issues of the Bank, which can now circulate, but could not, if the currency were of its bullion value. When we speak of an excess of country currency, we mean a portion of the amount of the country bank-notes, which cannot be absorbed in the circulation,

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the present circumstances
would be necessary to carry on
the same circulation

circulation, because they are exchangeable for, and are depreciated below, the value of bank-notes.

This distinction appears to me to be an answer to Mr. Bosanquet's objection, where he says, "But does it follow that the country bank paper, if issued to excess, will not be checked, because there is already more bank paper in circulation than the country can absorb and employ? If it be admitted, and how can it be denied? that the price of commodities must every where rise or fall in proportion to the increase or diminution of the money which circulates them; must not an increase of London money increase the prices of commodities in London only, unless a part of that money can be employed in the country circulation? and, on the contrary, must not the same rise take place in the country prices only if the country currency be increased, and if it be not convertible into London currency, or cannot circulate in London? If the case put by Mr. Bosanque tbe supposed possible, that the London currency only should be increased, and that London bank-notes were not current in the country, then we should have an exchange with the country in the same manner as we have with Hamburgh or France, and that exchange would shew that London paper was on

on a comparrison with country paper depreciated.

If each of the country banks were protected by a restriction act from paying their notes in any other medium than their own paper, and if these notes were each confined to the circulation of their particular districts, they would each be depreciated on a comparison with bullion, in proportion as their amount exceeded the amount of money of bullion value, which would have circulated in those districts if they had not been protected by such an act. The notes of one bank might be depreciated 5 per cent. of another 10, another 20, and so on. The restriction bill being confined to the Bank of England alone, and all other notes being convertible into their notes, country notes can never be issued in a greater proportion than those of the London bank. Mr. Bosanquet thinks, "I was bound to shew that some physical impossibility obstructs the increase of bank-notes at the expence of country notes, and vice versa, before I assume that an increase of bank notes must produce an increase of country notes."

From what I have already said, I think it will appear that unless London notes are employed in the circulation of places where they were not before admitted, there is, if not a physical, at least

least an *absolute*, impossibility, that an increase of Bank of England notes should not either be followed by an increase of country bank-notes, or by a depreciation in the value of the London notes, as compared with the country notes.

But how is this effected? How do the issues of the Bank produce an increase in the country circulation? Mr. Gilchrist has informed us. Reverse the case which he has supposed, and it would stand thus: If the Bank of England increase their issues, the country banks might increase theirs: the prices of commodities being raised in London, whilst those of the country continued as before, money would be wanted in the country to purchase in the cheaper market; bills would be demanded for that purpose upon the country, which would therefore sell at a premium, or, in other words, bank-notes would be depreciated below the value of the country currency. Such demand would cease as soon as the country currency were either brought up to the level of the London currency, or the London currency reduced to the level of the country currency.

I should not have thought that a principle so clear could have been questioned: the value of our gold currency formerly regulated the value of a pound sterling all over England. If gold became

became abundant from the discovery of new mines, and more money were therefore employed in the circulation of London, a proportionate increase must necessarily have taken place in the country to preserve the equality of prices. Bank-notes perform now the same office, and if they be increased the country currency must either partake in the use of the additional quantity, or the country banks must make a proportional increase to their issues. It is not difficult, under such circumstances, to determine what will be the choice of the country banks.

The Committee having stated, that "If an excess of paper be issued in a country district, while the London circulation does not exceed its due proportion, there will be a local rise in prices in that country district, but prices in London will remain as before; that those who have the country paper will prefer buying in London, where things are cheaper, and will therefore return that country paper upon the banker who issued it, and will demand of him Bank of England notes, or bills upon London; and that thus the excess of country paper being returned upon the issuers for Bank of England paper, the quantity of the latter necessarily and effectually limits the quantity of the former."

Mr.

Mr. Bosanquet asks, " Does this follow as a consequence? Admitting the accuracy of the reasoning, under the supposition that the country notes were actually paid in bank-notes, does it apply under the admission that they are paid by bills on London, since, as we have already shewn, the payment of these has very little reference to bank notes?" Most certainly it does. Suppose the excess of country paper to be 1000*l.* and in consequence a thousand pounds in Bank of England notes is demanded of the issuer, and sent up to London for the purchase of goods, will not 1000*l.* be added to the London circulation, whilst that of the country is diminished 1000*l.* Now suppose that, instead of a Bank of England note of 1000*l.* a bill on London is given to the holder of the country note: this will as sufficiently answer his purpose of making a purchase in London, but as a bill is only an order to A in London to pay to B in London, the London currency will remain as before; but the country currency will be reduced 1000*l.*

Now the only difference in the two cases is this, that in the former 1000*l.* was added to the London circulation, in the latter it continued at the same amount. But will not the country banker, having by the payment of the thousand pound Bank of England note diminished that deposit,

deposit, which he thinks it necessary for the safety of his establishment to have by him, give directions to his correspondent, either by the sale of an exchequer bill, or in any other way that might be agreed upon, to send him Bank of England notes to the amount of 1000*l.*

" If things are cheaper in Liverpool than in London, I shall prefer buying there, and if I have too many bank-notes, I shall send them to Liverpool in payment,"—provided they can circulate there. If they can, Liverpool will partake with London in the increase of circulation, but it is not improbable that a Liverpool banker will find an opportunity of persuading the people of Liverpool, that his note will answer their purposes as well as the Bank of England note*; he will, therefore, possess himself of it for one of his own, and will send it to London, thus will the circulation of Liverpool be increased by the issues of the Bank of England; and thus Mr. Bosanquet is mistaken, when he observes that " they may restrict, but can never augment, one shilling the circulation of

* The Committee asked Mr. Stuckey, " Is it not your interest as a banker to check the circulation of Bank of England notes, and with that view do you not remit to London such Bank of England notes as you may receive beyond the amount which you may think it prudent to keep as a deposit in your coffers." Ans. Unquestionably.

of the Liverpool banks." The Committee having "assumed as an axiom, that country bank paper is a superstructure raised on the foundation of the paper of the Bank of England," Mr. Bosanquet asks, where they have learnt this? "They learned from Mr. Stuckey," he continues, "a considerable and experienced banker in Somersetshire, that his houses regulate their issues by the assets they have in London to pay them, consisting of stock, exchequer bills, and other convertible securities, without much reference to the quantity of Bank of England notes or specie which they have, although they always keep a quantity of both to pay occasional demands. What is there in this evidence to sanction the opinion, that bank-notes either generate or limit country notes?"

It may, I think, be shewn, that the increased issues of the Bank would induce Mr. Stuckey, or any other country banker, to increase the amount of his issues, although he kept precisely the securities which he has enumerated. There would be such a demand for country notes, in consequence of the alteration of prices in London, that a country banker would be enabled to obtain bills upon London in return for his notes. With the produce of the bills he might possess himself of a larger sum of stock,

exchequer

exchequer bills, &c. the foundation being thus increased, the superstructure might be further raised.

The Committee could not have supposed that the Scotch Bank in the year 1763, when they reduced their circulation by giving bills at 40 days upon London, actually deposited bank-notes, in the first instance, in the hands of their London correspondents. They might, if such were the case, have redeemed their notes at once with bank-notes in Scotland. No; the Scotch Bank were situated as Mr. Stuckey describes; they had securities of some sort in London, which they authorised their correspondents to turn into money in time to pay their bills. There was a transfer of money from A to B in London, and the Scotch note was withdrawn.

CHAPTER VIII.

Mr. Bosanquet's Opinion—that Years of Scarcity and Taxes have been the sole Cause of the Rise of Prices, excessive Circulation no Cause—considered.

Mr. Bosanquet, after having shewn, as he imagines, the insufficiency of the arguments of the Committee, to prove that the Bank circulation

lation is excessive, brings forward positive arguments to prove that it is not. The ground of these arguments is, the cause of an advance of prices which arises from years of scarcity, and increased taxation. He has quoted a passage from Dr. Smith in support of this opinion, which I regard as in favour of the opinion which I hold on that subject.

" A prince," says Dr. Smith, " who should enact that a certain proportion of his taxes should be paid in a paper money of any kind, might thereby give a certain value to this paper money, even though the time of its final discharge and redemption should depend altogether on the will of the prince. If the bank which issued this paper were careful to keep the quantity of it always somewhat below what could easily be employed in this manner, the demand for it might be such as even to make it bear a premium, or sell for somewhat more in the market than the quantity of gold and silver for which it was issued."

Now, asks Mr. Bosanquet, as the annual amount of taxes far exceeds the amount of bank-notes, how can paper according to this principle be depreciated? But where does Dr. Smith talk of the annual amount of taxes? It might as fairly be contended, that the comparison of the amount of paper should be made with

with the amount of two or three years taxes. I understand Dr. Smith to mean, that if the quantity of paper does not exceed that amount, which can be wholly and solely employed in the payment of taxes, it will not be depreciated; he never could have maintained so extravagant a proposition as that which Mr. Bosanquet ascribes to him. To try our paper circulation by this rule of Dr. Smith, it should be proved that the daily payment of taxes is equal in amount to the whole of the bank-notes in circulation. According to Mr. Bosanquet's interpretation of this passage, as the amount of the total payments into the exchequer is 76.805.440*l.*, bank-notes cannot become excessive or depreciated till they exceed that amount. Who, on reading the passage, can believe that such was the fair meaning of Dr. Smith's words?

When Mr. Bosanquet talked of a premium having been given for bank-notes, I conceive he meant a premium in gold or in silver; I can have no other idea of a premium: but it seems Mr. Bosanquet meant that a premium was given for them in paper more depreciated than themselves; in exchequer bills or banker's checks. Now both of these securities being payable in bank-notes at some future period, may, on some occasions,

occasions, be less valuable than the notes which are wanted for immediate use, and which will sufficiently account for the preference. An assignat at a discount of 50 per cent might have borne such a premium as Mr. B. supposes.

One of the proofs with which Mr. Bosanquet has favoured his readers of the very small increase that has taken place in the actual amount of bank-notes, compared with the business which it has to perform, is, that the increase in the amount of currency since the year 1793 is three millions, and the increased amount of payments to Government alone above sixty millions.

In this calculation the addition to the country currency is wholly omitted. I shall endeavour presently to shew, that it does not by any means necessarily follow that this enormous increase in the amount of taxes should have made any increase of circulation necessary, unless during the same time there had been an increase of commerce and trade.

At present it will be sufficient for me to remark, that had Mr. Bosanquet made a comparative statement from the year 1793 to 1797, he would have possibly seen reason to doubt the accuracy of his *theory* on this subject. During those four years there must have been a considerable addition to the taxes; and, therefore,

on Mr. Bosanquet's principles, there should also have been an addition to the circulating medium, which does not appear to be the fact. It is not probable that any very great addition was made to the amount of the coin in circulation; on the contrary, from the very great coinage in 1797 and 1798, the metallic currency must, in 1797, have been at an unusually low level. And it appears from the account delivered in to the Lords' Committee, that the amount of Bank notes in circulation

In the year 1793 amounted to	.	£11,451,180
1796 it varied from	.	10,713,460
		to
		9,204,500

and in 1797 the general average, even after the restriction, did not exceed the amount of 1793.

The amount of Bank notes in circulation in 1803 was nearly 18 millions. In 1808 it was not more; and yet no one will deny that in those five years our taxes and expences must have been greatly augmented.—Thus, then, it appears, that considerable additions may be made to the taxes of a country without a corresponding increase in its circulating medium.

The Committee is charged by Mr. Bosanquet with not having sufficiently considered the effect of taxation on the prices of commodities; and

and it is implied in that accusation, that they have exclusively attributed the rise in the prices of commodities to the depreciation of the currency. The Committee would indeed have been highly deserving of censure, if they had held out hopes to the people of this country, that the reformation of the currency could possibly reduce the prices of commodities to that level at which they were previously to the restriction bill. The effect produced on prices by the depreciation has been most accurately defined, and amounts to the difference between the market and the mint price of gold. An ounce of gold coin cannot be of less value, the Committee say, than an ounce of gold bullion of the same standard; a purchaser of corn therefore is entitled to as much of that commodity for an ounce of gold coin, or $3l.$ $17s.$ $10\frac{1}{2}d.$, as can be obtained for an ounce of gold bullion. Now, as $4l.$ $12s.$ of paper currency is of no more value than an ounce of gold bullion, prices are actually raised to the purchaser 18 per cent., in consequence of his purchase being made with paper instead of coin of its bullion value. Eighteen per cent. is, therefore, equal to the rise in the price of commodities, occasioned by the depreciation of paper. All above such rise may be either traced to the effects of taxation, to the

82
86
h.101

increased

increased scarcity of the commodity, or to any other cause which may appear satisfactory to those who take pleasure in such enquiries.

The theory which Mr. Bosanquet has advanced with respect to taxation, and the effects which it produces on the amount of circulating medium, is exceedingly curious, and is a proof that even practical men are sometimes tempted to wander from the sober paths of practice and experience, to indulge in speculations the most wild, and dreams the most chimerical.

Mr. Bosanquet observes, there are two causes of the augmentation of prices in Great Britain since the date of the restriction bill. 1st, "The altered state of the corn trade, and the scarcity arising out of it, in 1800 and 1801." 2dly, "The increase of taxes since the commencement of the war in 1793."

That the scarcity of corn, and the expences which have attended its importation, must have produced some rise in the prices of commodities I do most readily admit. But is it a self-evident proposition—is it, as Mr. Bosanquet lays it down, an axiom in political economy, that the effect of taxation is to raise the prices of commodities in the full amount of the taxes levied? Does it by any means follow, because taxes since the year 1793 have increased to the enormous

amount

amount of forty-eight millions, that all that sum must have gone to the increase of the prices of commodities, and that, therefore, this fact alone will account for a rise of 50 per cent. on the prices of 1793? Does it follow that every person, excepting the stockholder, has the power of indemnifying himself for the taxes which he pays?

Does it make no difference, for example, whether the tax be laid on consumable commodities, or whether it be such a tax as an income tax, assessed taxes, and twenty others that may be named? Do they all tend to raise the prices of commodities? And is every contributor but the stockholder enabled to rid himself of the burthen? If this argument were correct, it would appear that the whole weight of taxation falls exclusively on the stockholders; that the whole annual augmentation since 1793, amounting now to fifty-three millions, must have come from their pockets. Their taxes must at this rate have exceeded their income, because they exceeded the interest of the national debt. This I do not consider very correct doctrine; and, if true, it would not make stockholders very much enamoured with that species of property. Wars would, on such a principle, never impoverish, and the sources of taxation could never be exhausted.

To

To me, however, it appears convincingly certain, that neither the income tax, the assessed taxes, nor many others, do in the least affect the prices of commodities.

Unfortunate indeed would be the situation of the consumer, if he had to pay additional prices for those commodities which were necessary to his comfort, after his means of purchasing them had been by the tax considerably abridged.

The income tax, were it fairly imposed, would leave every member of the community in the same relative situation in which it found him. Each man's expences must be diminished to the amount of his tax; and if the seller would wish to relieve himself from the burthen of the tax by raising the price of his commodity, the buyer for the same reason would wish to buy cheaper. These contending interests would so exactly counteract each other, that prices would undergo no alteration. The same observations are applicable to the assessed taxes, and to all other taxes which are not levied on commodities. But if the tax should in its operation be unequal, if it should fall particularly heavy on one class of trade, the profits of that trade would be diminished below the general level of mercantile profits, and those engaged in it would either de-

sert

sert it for one more profitable, or they would raise the price of the commodities in which they dealt, so as to bring it to produce the same rate of profits as other trades.

Taxes on commodities would certainly raise the price of the commodity taxed to the full amount of the tax. The price for such commodities may be considered as divided into two portions; one portion, its original and natural price, and the other a tax for the liberty of consuming it. If this tax again were laid on a commodity, the consumption of which, by each individual, was in exact proportion to his income, no other commodity would rise but the one taxed; but if it were not in such proportion, those who paid more than their just portion would demand an increased price for the commodity in which they dealt, and, by obtaining it, the society would be put in the same relative situation in which they were before placed.

If, instead of the tax being laid on the commodity, each individual were to pay no more for the commodity than the original price, and were to pay the amount of the tax at once to government for a licence to consume it, it would act precisely as the assessed taxes do, there would be only a partial rise in the prices of some commodities

modities to compensate the inequality which, in spite of the best wishes of the legislature, must accompany every tax.

If this view of the effect of taxation be correct, it will follow that Mr. Bosanquet's estimate, that 48 millions has been actually added to the prices of commodities in consequence of taxation since the year 1793, and that such addition will sufficiently account for the rise in the prices of commodities, without having recourse to the depreciation of the circulating medium as the cause, is a false theory, neither supported by reason nor probability.

From these statements Mr. Bosanquet has deduced another consequence, viz. that

As the value of commodities has been raised 48 millions since 1793, and the circulation only increased 3 millions, such increase cannot be called excessive *.

Although in the preceding statement I have conceded to Mr. Bosanquet, that in consequence of some of our taxes the prices of commodities

* If we add to these 3 millions the increase in the country circulation, and bear in mind the economy in the use of circulating medium, so ably and so clearly explained by Mr. Bosanquet, it would appear to me that, granting all the facts for which Mr. Bosanquet contends, the circulating medium has increased in an undue proportion.

modities will be increased, it does not appear necessarily to follow that more money will be requisite to circulate them.

That amount of money which is received by government in the shape of taxes, is taken from a fund which would otherwise have been expended on consumable commodities.

In proportion as the taxes are great, must the expences of the people diminish. If my income amounts to 1000*l.*, and government requires 100*l.* in taxes from me, I shall have but 900*l.* to expend on such necessaries and comforts as are requisite for the use of my family. If government take 200 I shall have but 800 for such purposes. Now, as the amount of money actually expended by government and by me cannot exceed 1000*l.*, no additional circulating medium would, I think, be required, although the taxes were 50 per cent. of each man's income. If the tax were laid upon bread, and, in consequence, the wages of labour were raised, the tax would eventually fall on all those who consumed the produce of the labour of man. It would make no real difference to these consumers if they had at once paid the amount of such tax into the exchequer, or if it had gone through the circuitous channel which it would then take.

Nor

Nor would any additional sum be required. Government would be in the daily receipt of a portion of the taxes, whether it was paid to the exciseman or to the tax-gatherer, and their expences in the one case would be precisely the same as in the other. Whatever the government expended would cause a diminished expenditure in the people to the same amount: the same amount of commodities would be circulated, and the same money would be adequate to their circulation.

This is on the supposition that the people were sufficiently prudent or sufficiently rich to pay all the taxes from their annual income, and were not tempted or compelled to diminish their capital to satisfy the calls of government. If capital were however diminished, the aggregate amount of productions would also diminish; and if the money which was before necessary for their circulation were to continue of the same amount, it would bear a larger proportion to the goods, and it might therefore be expected that commodities would rise; but we must not forget that the amount of money in a country is regulated by its value, and as its value would in this case be diminished, it would become relatively excessive to the money of other countries, and the excess would therefore be exported.

When

When we talk of a scarcity of corn, and a consequent increase of price, it is naturally concluded, because its value is doubled, that double the value of money will be necessary to circulate it, but this is by no means obvious or necessary. If double the money be necessary, there should be an equal quantity of corn at double the usual price,—but it is because there is a diminished quantity of corn that its price is doubled.

If the commerce of a country increases, that is to say, if by its savings it is enabled to add to its capital, such country will require an additional amount of circulating medium; but, under all circumstances, the currency ought to retain its bullion value; that is the only sure test by which we may know that it is not excessive.

CHAPTER IX.

Mr. Bosanquet's Opinion, that Evil would result from the Resumption of Cash Payments—considered.

To conclude, Mr. Bosanquet is persuaded that much evil will ensue from the resumption of cash

cash payments, and he cannot anticipate any improvement in the course of exchange, or any fall in the price of bullion from a reduction of the circulation, unless our imports are diminished and our exports increased.

To me, however, it appears perfectly clear, that a reduction of Bank notes would lower the price of bullion and improve the exchange, without in the least disturbing the regularity of our present exports and imports. It would neither enable us to export or import gold in any way different to what is now actually taking place. Our transactions with foreigners would be precisely the same, we should possess only a more valuable money of the same name; and instead of being credited by Hamburgh for a depreciated pound sterling, which will only purchase 104 grains of gold, at the rate of 28 Flemish schillings, we should, by restoring our pound sterling to its true bullion value, viz. 123 grains, have a credit at the rate of 34 schillings. The difference, however, of six schillings, which would thus appear in our favour, would be an advantage in name and appearance solely. No mistake would be greater than to suppose there was in it any real advantage.

If, by a reduction of Bank notes, they were so raised in value as to be above the value of gold bullion,

bullion, we should then interfere with the real course of exchange; we should disturb the present equilibrium of imports and exports; and we should cause an importation of bullion, or, in the language of merchants, a favourable balance of trade.

If Mr. Bosanquet's view of our affairs were indeed correct, gloomy would be our prospects. Obliged to support a great foreign expenditure, "to import articles with which we cannot dispense," and in return for which nothing but gold will be accepted, we might almost calculate the period at which the contest must terminate, from a want of this most essential commodity. For a balance of payments so enormous as he calculates, gold could not be found in this country for one twelvemonth; and if our goods can no where purchase it, how hopeless must be our condition!

For my part, however, I have no such apprehensions. I am persuaded that our foreign expenditure is neither paid with gold nor with bills of exchange,—that it must eventually be discharged with the produce of the labour and industry of our people.

It is only to a blind perseverance in our present system of circulation that I look with alarm,—a system which is gradually undermining our resources,

sources, and the inconveniences and evils of which, in the language of the Committee, "if not checked, must at no great distance of time work a practical conviction upon the minds of all those who may still doubt their existence; but even if their progressive increase were less probable, the integrity and honour of Parliament are concerned not to authorize longer than is required by imperious necessity, the continuance in this great commercial country of a system of circulation in which that natural check or controul is absent, which maintains the value of money, and, by the permanency of that common standard of value secures the substantial justice and faith of monied contracts and obligations between man and man."

May we be permitted to hope, that what an enlightened Committee has so happily begun, is a pledge of what will be accomplished by the wisdom of Parliament?

APPENDIX.

AFTER the preceding sheets were sent to the press, I read the supplementary observations of Mr. Bosanquet, annexed to the second edition of his pamphlet. I shall have but few remarks to make on them.

1st, From what I have already said it may be seen that I deny the accuracy of all Mr. Bosanquet's calculations concerning the exchange with Hamburgh. Those calculations are made on the assumption of a fixed invariable par, whilst the true par, on which they should have been made, is subject to all the variations to which the relative value of gold and silver is exposed. These two metals having varied no less since the year 1801, than from $6\frac{1}{2}$ per cent. under the mint proportions, to 9 per cent. above those proportions; calculations made on such a principle may involve errors to no less an amount than $15\frac{1}{2}$ per cent. 2dly, The argument attempted to be founded

founded on the fact of the increase or diminution in the amount of Bank notes, not having invariably been accompanied by a fall or rise in the exchange, or by a rise or fall in the price of bullion, is of no avail against a theory which admits that the demand for circulating medium is subject to continual fluctuations, proceeding from an increase or decrease in the amount of capital and commerce; from a greater or less facility which at one period may be afforded to payments by a varying degree of confidence and credit; and, in short, which supposes that the same commerce and payments may require very different amounts of circulating medium. An amount of Bank notes which at one time may be excessive, in the sense in which I use that term, and which may therefore be depreciated,—may, at another, be barely sufficient for the payments which it may have to perform, barring the effect of a temporary increase in its value above that of the bullion which it represents. It will therefore be useless to admit or to deny the correctness of the grounds on which Mr. Bosanquet's calculation of the amount of country paper in circulation is founded. Those facts do not, in my opinion, bear upon the subject in dispute. Whether the paper currency be 25 or 100 millions, I consider it equally certain that it is excessive,

cessive, because I am not aware of any causes but excess or a want of confidence in the issues of the paper (which I am sure does not now exist), which could produce such effects as we have for a *considerable time** witnessed.

Mr. Bosanquet has thrown the inferences which he wishes to be drawn from the facts he has newly brought forward into the shape of four problems; the solution of which, upon the principles of the Committee, he presumes to be impossible. I hope I have already shewn that his facts fall abundantly short of proving the points which he makes to rest upon them, and I think the difficulty will not be great in giving him even a solution of his problems in perfect conformity with the principles of the Committee.

The first problem is, "The fall of the exchange, from an average of 6 per cent. in favour,

* Mr. Bosanquet has remarked as incorrect, my having used the words "length of time" in reference to a discount on Bank notes, because Mr. Mushet's tables did not indicate a very unfavourable exchange for more than a year before I wrote, in Dec. 1809. We should once have thought a year a *considerable time*, when speaking of a discount on Bank notes, but as I have constantly maintained that the high price of bullion was the test on which I most relied for the proof of depreciation, and as the price of gold has not been under the Mint price for about ten years, the correctness of my conclusion cannot, I think, on my principles, be questioned.

from 1790 to 1795, to 3 per cent. below par, in 1795 and 6, with an equal circulation of eleven millions of Bank paper, convertible into specie on demand, and the advance of the exchange to 11 per cent. above par, on average in 1797 and 1798, the circulation being increased to thirteen millions and not so convertible."

The reader will perceive that this problem has already received its solution in the body of the work. The exchanges are not correctly stated, and no one denies that the exchanges may rise and fall from many causes.

It has been proved that the demand for gold for the Mint, and for silver for the East Indies, in the years 1797 and 1798, had their natural effect on the exchange, and was not counteracted by an extravagant issue of paper currency. The gold was required to fill up the exhausted coffers of the Bank; it was therefore not sent into circulation; and the addition of two millions in Bank notes served only to supply the vacuum which the hoarding of money had occasioned; so that there was no real increase to the circulation of those years.

The second problem is "The fall of the exchange to 6 per cent. below par, and gold 9 per cent. above the mint price in 1800 and 1801, the Bank circulation rather above 15 millions, and

the advance to 3 per cent. above par, on average of six years, from 1803 to 1808, and gold nearly at the mint price, with an augmented circulation of 17 to 18 millions."

Besides the effects from a varying degree of commerce and credit, it should be recollected that whilst our circulation consisted partly of gold and partly of paper, the effect of an increased issue of paper, both on the exchanges and the price of bullion, was corrected, after a sufficient interval, by the exportation of the coin. That resource has been for some time lost to us.

The third problem, viz. "The fall of the exchange, from 5 per cent. above par, in July 1808, to 10 per cent. below par, in June 1809, the Bank circulation being the same in both instances;" is of easy solution. I cannot find the document from which Mr. Bosanquet has stated that the amount of Bank notes was the same in July 1808 as in June 1809; but, admitting its correctness, are they fair subjects of comparison? One period is immediately after the payment of the dividends, the other immediately before. In January and July 1809 there was no less an increase in the amount of Bank notes, after the payment of the dividends, than 2,450,000*l.* and in the January following, 1,878,000*l.*

I am not disposed to contend that the issues of one day, or of one month, can produce any effect on the foreign exchanges; it may possibly require a period of more permanent duration; an interval is absolutely necessary before such effects would follow. This is never considered by those who oppose the principles of the Committee. They conclude that those principles are defective, because their operation is not immediately perceived. But what are the facts respecting the circulation of Bank notes in the years 1808 and 1809? There are only three returns of their amount in the year 1808 made to the Bullion Committee. Let us compare them with the returns for the same periods in 1809, and I think my readers will agree with me, that these facts will rather confirm than appear to be at variance with the principles of the Committee.

	Amount of Bank notes In 1808.		Amount of Bank notes In 1809.
1 May .	17,491,900	1 May .	18,646,880
1 August .	17,644,670	1 August .	19,811,330
1 November	17,467,170	1 November	19,949,290

As for the fourth problem, viz. "The gradually increasing price of commodities, during the American war, when the circulation was gold, and during the six years from 1803 to 1808, when the exchange was in favour," where has it been disputed that there are not other causes besides the depreciation of money which may account for a rise in the prices of commodities? The point for which I contend is, that when such rise is accompanied by a permanent rise in the price of that bullion which is the standard of currency, then to the amount of that rise is the currency depreciated. During the American war the rise in the prices of commodities was not attended with any rise in the price of bullion, and was therefore not occasioned by a depreciation of the currency.

We are now, for the first time, left to doubt, whether the principles of the Committee against which Mr. Bosanquet in the body of his work had so strongly contended, are really at variance with his own. We are now told not that the theory is erroneous, but "that the facts must be established before they can be reasoned upon," "and that the importance of those facts would, in no degree, be lessened even by an unreserved admission of the accuracy of the principles assumed." Does this declaration accord with Mr. Bosanquet's conclusions? Certain principles are brought forward by the Bullion Committee, and which, if true, prove the fact of the depreciation of the currency. Your principles

ciples are plausible, and reason appears to sanction them, says Mr. Bosanquet, but here are facts to prove that they are inconsistent with past experience; and he further observes from Paley, "that when a theorem is proposed to a mathematician, the first thing he does with it is to try it on a simple case; if it produce a false result, he is sure there must be some error in the demonstration." "The public must proceed in this way with the report, and submit its theories to the test of fact." Can, then, Mr. Bosanquet be consistent in contending "that the importance of what, in his preceding pages, he had offered to the public, would be in no degree lessened even by an unreserved admission of the accuracy of the principles assumed?"

If the theory of the Committee is allowed to be accurate on the one hand, and Mr. Bosanquet's facts are accurate on the other, what follows? Either that Mr. Bosanquet agrees with the Committee, or that his facts are totally inapplicable to the question. One other conclusion there is, but one which I have no intention to ascribe to Mr. Bosanquet;—That there may be a theory on the one side, and facts on the other; both true, and yet inconsistent.

As for Dr. Paley's test, of trying the Committee's theory by a simple case; Mr. Bosanquet might

might have tried it by a thousand, and would have found it accurately to correspond. Had he employed his leisure and ingenuity in tracing its application to the thousands of cases with which it accords, instead of hunting for two or three cases *seemingly* contradictory, and adopting them with fond credulity, he would have probably arrived at more just conclusions.

Mr. Bosanquet calls in question the accuracy of the following proposition of Mr. Huskisson, "that if one part of the currency of a country (provided such currency be made either directly or virtually legal tender according to its denomination) be depreciated, the whole of that currency, whether paper or coin, *must* be equally depreciated."

The fact brought forward by Mr. Bosanquet, that the "extraordinary depreciation of the silver coin, in the reign of King William, did not depreciate the gold; that, on the contrary, the guinea, worth 21 perfect shillings, passed currently for 30 shillings," does not prove the principle advanced by Mr. Huskisson to be at variance with experience, because gold was not then the current coin; it was not either *directly* or *virtually* legal tender; nor was it estimated at a fixed value by public authority: it passed in all payments as a piece of bullion of known weight

weight and fineness. If by law it could not have passed for more than 21*s.* of the debased silver currency, it would, whilst in the state of coin, have been equally debased with the 21*s.* for which it would have exchanged. If guineas were now to be considered as a commodity, and were not by law prohibited from being exported or melted, they might pass in all payments at 24 or 25 shillings, whilst the Bank note continued of its present value.

Neither is the following principle of Mr. Huskisson, from which Mr. Bosanquet dissents, *contrary to authority;* "That if the quantity of gold, in a country whose currency consists of gold, should be increased in any given proportion, the quantity of other articles and the demand for them remaining the same, the value of any given commodity measured in the coin of that country would be increased in the same proportion." Mr. Huskisson does not question, as Mr. Bosanquet supposes, the truth of the principle advanced by Dr. Adam Smith, "that the increase in the quantity of the precious metals, which arises in any country from an increase of wealth, has no tendency to diminish their value;" but says, that if the quantity of the precious metals increases in any country, whilst its wealth does not increase, or

or whilst its commodities remain the same in quantity, then will the value of the gold coin of such country diminish, or, in other words, goods will rise in price. Mr. Bosanquet himself, in the argument relating to the mine, has admitted that such would be the effect. To this passage from Mr. Huskisson's book, however, I have an objection to offer, because he adds, that an increase in the prices of commodities would take place (page 5) under the circumstances supposed, "although no addition should actually be made to the coin of the country." I hold it as a conclusion which will not admit of dispute, that if neither commodities, nor the demand for them, nor the money which circulates them, suffer either increase or diminution, prices must continue unaltered, whatever quantity of gold or silver may exist in the state of bullion in such country*. It is hardly necessary to remark, that the case is wholly hypothetical, and is indeed impossible. There can be no great addition to the bullion of a country the currency of which is of its standard value, without causing an increase in the quantity of money.

I confess I was not a little surprised by the next

* It is to be understood that I am supposing no increased or diminished *confidence* operating, so as to give a diminished or increased value to the coin.

next point brought forward by Mr. Bosanquet, and I have no doubt it must have excited equal astonishment in many of his readers. Having contended throughout his work that Bank notes were not depreciated as compared with gold coin, that the same rise in the price of gold might have taken place, and actually had, on some occasions, taken place, whilst our currency consisted partly of gold, and partly of paper convertible into gold, at the will of the holder; after denying that there was any point of contact between gold for exportation and gold in coin, and that it was for want of such contact that its price had risen, we are now seriously told by Mr. Bosanquet that, "applying to this subject the most approved theories, he inclines to the belief that gold, since the new system of the Bank of England payments has been fully established, has *not*, in truth, continued to be the measure of value. Bank notes," he maintains, "have since 1797 unquestionably become the measure of commerce, and the money of account, and it is on these grounds that he considers the proposition respecting the price of gold, on which so much reliance is placed, as one of those which, though he admits the principle, he hesitates at the application." Whether the Bank Directors, or others who have so confidently asserted

serted

serted that, admitting gold to be the standard, its high price did not prove the depreciation of the currency, will be pleased with a defence on such principles, which yields all for which the Committee contend, it is not for me to enquire. That gold is no longer in practice the standard by which our currency is regulated is a truth. It is the ground of the complaint of the Committee (and of all who have written on the same side) against the present system.

The holder of money has been injured, inasmuch as there is no standard reference by which his property can be protected. He has suffered a loss of 16 per cent. since 1797, and there is no security for him that it may not shortly be 25, 30, or even 50 per cent. more. Who will consent to hold money or securities, the interest on which is payable in money, on such terms? There is no sacrifice which a man holding such property should not make, to secure to himself some provision for the future whilst such a system is avowed. Mr. Bosanquet has, in these few words, said as much in favour of the repeal of the restriction bill as all the writers, all the theorists, have advanced since the discussion of this subject commenced. What, then, does Mr. Bosanquet admit that we have no standard because it is no longer gold? Let us hear what he

says:

says: "If a pound note be the *denomination*, it will, of course, be asked what is the standard?

"The question is not easy of solution. But, considering the high proportion which the dealings between government and the public bear to the general circulation, it is probable the standard may be found in those transactions; and it seems not more difficult to imagine that the standard value of a one pound note may be the interest of 33*l.* 6*s.* 8*d.*—3 per cent. stock, than that such standard has reference to a metal, of which none remains in circulation, and of which the annual supply, even as a commodity, does not amount to one twentieth part of the foreign expences of government in one year."

So then we *have* a standard for a pound Bank note, it is the interest of 33*l.* 6*s.* 8*d.*—3 per cent. stock. Now, in what medium is this interest paid? because *that* must be the standard. The holder of 33*l.* 6*s.* 8*d.* stock receives at the Bank a one pound note. Bank notes are, therefore, according to the theory of a *practical* man, the standard by which alone the depreciation of Bank notes can be estimated!

A puncheon of rum has 16 per cent. of its contents taken out, and water poured in for it. What is the standard by which Mr. Bosanquet attempts to detect the adulteration? A sample

of the adulterated liquor taken out of the same cask.

We are next told, that "if the Bank really possess a large stock of gold, or only to the extent of six or seven millions, the best use they can make of it is to call in all the notes under 5*l.*, and not re-issue any of this description."

How could bankers and manufacturers be enabled to effect their small payments if the gold, thus partially issued, were at the present exchange and price of bullion to be either exported or melted? If the Bank did not issue small notes, and they could not procure guineas for large ones, they would be obliged to cease such payments altogether. The more I have reflected on this subject, the more convinced I am that the evil admits of no other safe remedy but a reduction in the amount of Bank notes.

THE END.