AN

ESSAY

ON THE

THEORY

OF

MONEY AND EXCHANGE.

Second Edition,

WITH

CONSIDERABLE ADDITIONS,

INCLUDING

AN EXAMINATION OF THE REPORT

OF THE

BULLION-COMMITTEE.

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TO THE PUBLIC.

ABOUT three years ago I published an Essay on the Theory of Money and Exchange, in which I endeavoured to shew what appeared to me to be the principle upon which the use of money, or a circulating medium, depended.

When, in March last, a Committee of the House of Commons was appointed, to take into consideration the high price of bullion and low rate of exchange, &c. I sent a copy of this work to the honourable Chairman, accompanied with an offer of my personal services, in rendering any explanations that might be required. That this offer was never accepted did not surprise me, when the Report of that Committee was published, as I then found that any information I could have given would have been diametrically opposite to the principles which the Committee ap-

pear from the first to have been determined to act upon. A perusal of their Report, of the clear and distinct evidence in the Appendix, and of the numerous publications the Report has given rise to, have, however, only tended to impress upon my mind more strongly, if possible, the justness of the doctrine I had stated. But, understanding that the illustration of my doctrine has not been deemed sufficiently explicit, and the Report having excited very considerable attention, I have been induced to obtrude upon the public a new edition, in which, I trust, I have so clearly explained my ideas on the subject, as to have considerably lessened the difficulty of determining whether they are or are not correct.

THOMAS SMITH.

ESSAY

ON THE

THEORY OF MONEY.

IN all countries the least civilized, or where the distinction of individual property is known, the intercourse between man and man, in the exchange of commodities, has been carried on by the intervention of coins, generally made of the precious metals, and which have been called *money, or the circulating medium.* The farther advanced a country becomes in civilization, the more necessary is a well-regulated circulating medium to that country. In Great Britain, therefore, where manufactures and commerce have advanced to so great a pitch, and where the political existence of the country depends so much upon them, it must be of the highest consequence. On this account it might naturally be concluded, that not only the practical use of the different kinds of money, or circulating medium, was completely understood in this country; but that the true theory, upon which their various operations are founded, had been, long before this, investigated and explained. How surprising then is it, that there has not yet appeared any theory of money which has met with general approbation, or by which the phænomena daily occurring in practice can be satisfactorily explained. In the following essay an attempt will be made to supply this deficiency.

For this purpose it is proposed :—

In the first place, to state what appears to be the ground-work, or true first principle, upon which the existence of money, or a circulating medium, depends.

Secondly. To show the nature and properties of coins, and their connection with the first principle.

Thirdly. To show the nature and properties of paper-money, and its connection with the first principle.

Fourthly. To show the true theory of exchange, or connection with foreign countries, which is also founded on the first principle, and which will be illustrated, by an explanation of the real cause of the late high exchange in Ireland, and of the present high price of gold and silver bullion in this country.

CHAPTER I.

To state what appears to be the groundwork, or true first principle, upon which the existence of money, or circulating medium, depends.

THE great error, into which most of the late writers upon money appear to have fallen, is their having adopted wrong ideas in regard to the functions of gold and silver. Finding that these metals had, in all ages, been employed as the circulating medium, and that the quantity of them in a coin was always equal, or nearly equal, to the value it passed for, they have concluded that they were the standards of value; and they have wasted their labours in vain

endeavours to reconcile the different phænomena of money to this idea. And this they have done, although, at the same time, they allow that the metals themselves vary in value; consequently, they ought to have seen the absurdity of attempting to establish any article of variable value, the invariable standard of value, and should, therefore, have sought for some other. Had they only examined a little farther, they must have discovered, that, in every country, there exists another standard of value, a nominal, or imaginary, one, of which the coins, passing in circulation, are only symbols or tokens; and which standard is perfectly invariable.

That the nature of this standard may be clearly understood, it will be necessary to give a detailed account of its origin and use.

The formation of man is such, that, in order to support his existence in this world, he is under the necessity of daily consuming a certain proportion of the produce of the earth, as food and clothing, and this he is condemned to procure by labour, before he can use it.

When man was first formed, his creator addressed him:—"Be fruitful and "multiply, and replenish the earth, and "subdue it, and have dominion over "the fish of the sea, and over the fowl "of the air, and over every living thing "that moveth upon the earth. Behold "I have given you every herb bearing "seed, which is upon the face of all the "earth, and every tree in the which is "the fruit of a tree yielding seed, to "you it shall be for meat."

But, after his fall, he was told: "cursed is the ground for thy sake, in sorrow shall thou eat of it, all the days "of thy life, thorns also and thistles "shall it bring forth to thee, and thou "shalt eat the herb of the field; in the "sweat of thy face shalt thou eat "bread." That this denunciation to the

first man has extended to all his posterity will not, it is presumed, be denied by any one.

It is therefore evident, that man cannot exist on this earth without consuming daily a proportion of the animal or vegetable productions thereof. Indeed this law extendeth to all living creatures upon the earth, "to every beast of the "earth, and to every fowl of the air, "and to every thing that creepeth upon "the earth, wherein there is life, I have "given every green herb for meat." But this proportion of the produce of the earth man in general can only obtain by labour.

Thus the first object of man in this world is the providing for his daily subsistence.

In the early ages of society, man's wants being but few, and those chiefly confined to articles of the first necessity, they are easily gratified; he then looks no farther than to the daily supply. Like the brutes around him, he does not trouble himself with futurity; the wild beast of the forest that prowls for his prey, and the peaceable animal that browses on the herb of the field, alike rest after they have satisfied their appetites, and think not of renewing their labours, until they are again pressed by the calls of hunger. So the savage will undergo fatigues and labours almost incredible, in search of the fruits spontaneously produced, in pursuit of game or of the produce of the sea; but, whenever he has accomplished his object, he sits down contented and indulges in that indolence and ease, in which he places his greatest enjoyment, until roused again by the imperious calls of this great law of nature.

In this state, man may be said to draw his sustenance from land alone.

But, should a spark of that knowledge which has illuminated the civilized part

of mankind fall upon the savage, it will teach him, that, by cultivating a portion of the earth at stated periods, according to the seasons, he will be enabled to increase the produce thereof. And it will also teach him, that, by domesticating part of the animals, that run wild around him, they will increase more rapidly, and he will at all times have it in his power to command what part of them he requires for his subsistence. In this case the savage has made one step to civilization, and may be said to have added labour to land, in procuring his daily food.

Although, however, he may cultivate a small spot of ground, because he finds it more to his advantage and easier accomplished than wandering through the woods in quest of the natural products of the earth; and although, for the same reason, he may domesticate a few animals or fowls; yet he will still confine his exertions entirely to what he conceives will serve his own consumption, and that of his family.

It is only when man in this state has been visited by people already advanced in civilization, and by them taught barter, or the exchanging one commodity for another, that he will be induced to cultivate more ground, or to increase the number of his domesticated animals; because he then finds, that, with the extra produce of these, he may procure many articles hitherto unknown to him.

Barter has been stigmatised as being beneath the dignity of man, the source of all the baneful and ignoble passions, the cause of strife and differences amongst men, &c. So far from this, barter is one of the great causes of all the improvements man has made in civilization, and the faculty of bartering appears to be one of the great distinctions betwixt the brutes and him.

Animals possess many of the qualities

of mind:—of the intellectual faculties, they seem to have, some in a greater, others in a less, degree, memory, gratitude, love, hatred, foresight, and even some knowledge of accumulation or providing for their future wants. But they are utterly destitute of the knowledge of, or any assimilation to, barter. Although many species are gregarious, or fond of associating together in crowds, yet it is merely for the sake of company, it is not like man to be mutually assisting to one another. Each animal labours solely for his own benefit; he procures his own food, and, when he has too much of one sort he allows it to remain; he has no idea of exchanging it for any other. Man alone barters one article of food or clothing, which he happens to have in super-abundance, for another which he is in want of.

But however great the benefits derived therefrom may be, it is not in the exchange of the produce of the earth alone that barter is of the most essential service to mankind. It is in mental barter, or the exchange of one man's ideas for those of another, and the accumulation of ideas consequent thereto, that barter confers the highest and most lasting benefits. Although animals may be capable of communicating with one another, yet that faculty is confined to the expression of the wants and feelings of the moment, and they appear to be perfectly destitute of the power of communicating their ideas or improvements, bodily or mental; these are taught them only by an intercourse with man, are confined to the individual, and can never be extended to the species.

Man on the contrary exchanges his own ideas and improvements for those of his neighbour, and teaches both to his descendents; by this means accumulating the knowledge of every generation.

Barter not only teaches the savage the advantage to be derived from raising a

greater quantity of the necessaries of life than his own consumption may require, it also instructs him in the division of labour, or the application of an individual to one pursuit alone. The advantages to be derived from a division of labour have been often stated, and are now generally known and acknowledged, therefore it is deemed unnecessary to repeat them here. The savage soon discovers that, by increasing the particular branch he cultivates, he may acquire such a superabundance of that article, not only above what he requires for himself, but above what he requires to exchange for the other necessaries he needs, as will enable him to procure in exchange conveniences and luxuries to which he had previously been a stranger.

But, if he exchange this superabundance for articles of a perishable nature, and which he immediately consumes, however well or luxuriantly he may have lived, he will at the end of the year be no richer or in a better state than he was at the beginning of it.

If, on the contrary, he should have confined his daily subsistence to what it formerly was, and have employed the superabundance in turning his hut into a house, in adding furniture to that house, in increasing the stock of tools necessary for his occupation, or have reserved it in some form capable of being converted to any of those purposes, he will have laid a foundation for wealth, and actually begun a capital.

Thus it appears that the natural progress towards wealth in this world is by labour and parsimony, which produces capital, or wealth; for capital is actually wealth, and therefore to say that capital produces wealth is just saying that wealth produces wealth. In a savage state land not being appropriated, but common to all, it may be said to be one of the means of producing wealth; but, in a civilized state, land being wholly the property of individuals, and to be acquired only by purchase, it has become entirely a modification of capital, or wealth; so that there labour alone is the foundation of all wealth; and parsimony, or accumulation, the means by which wealth, or a capital, is acquired. In all commercial and manufacturing states this is very evident, and in none more so, than in Great Britain: there every man is born to acquire not only his daily bread but wealth by labour; capital, whether it is in land or under any other form, is only an adventitious circumstance pertaining but to a few, and even in those cases it has been originally acquired by labour and parsimony.

That in this country parsimony is alone the source of all wealth and labour the foundation may be easily proved. It has already been stated, that, by his original conformation, man, in order to support his existence in this world, is under the necessity of consuming as articles of food and clothing a certain proportion of the produce of the earth. This proportion varies, both in quantity and quality, according to the circumstances he is placed in and the opportunities he has of acquiring it: but he can only acquire it by labour: the product of his labour is called his income. In this country the articles of food and clothing are numerous, and much increased beyond the amount absolutely necessary for man's existence: the qualities are not only various but their values are extremely different, so that a man may be supported at a greater or less expense; and there is no income, however great it may be, that can not be completely exchanged for perishable articles of food and clothing of which no vestage will remain. A man, who thus consumes during one year the produce of his labour, will at the end of that year be no richer than he was at the commencement. But if he should confine himself to less expensive articles of food and clothing, and convert the surplus of his labour into durable articles,

with which he can at all times command the necessaries of life, he will then have laid the foundation of a capital, or in other words acquired wealth, which will enable him if he pleases to abstain from labouring, or which he can employ in assisting that labour and increasing his capital. It may be objected here, that in this country many people are to be found who are possessed of wealth by inheritance, and, therefore, do not require to labour; but that is of no consequence, these are only exceptions to the general rule, and, if they be traced back, it will be found to have originally been formed by labour and parsimony. At any rate, if the present possessors spend the whole produce of that wealth in consumable articles, they will never become more wealthy. In plain language, if a man spends all his income, he will never acquire wealth, or a capital, if he has none, or increase it if he has one already.

This appears to require little farther explanation; but, in order to render it still more clear, it will be illustrated by a single example. Suppose a man to be a journeyman tradesman, a butcher, baker, shoemaker, or tailor, and that he earns a guinea a week; should he expend exactly that guinea in consumable articles, food, clothing, lodging, &c. he will never be richer, and, provided he continues in health and gets constant employment, he will never be poorer. But if this person contents himself with the necessaries of life, equivalent only to half the sum, he may accumulate the other half, and thus in time acquire a capital which will not only provide for him, in case of sickness or want of employ, but enable him to commence business for himself and to increase his income to an indefinite extent. That such things daily occur, any one the least acquainted with London or even the smallest trading town in the kingdom will vouch.

Parsimony may however be carried to such an extent as to degenerate into a vice and become avarice. What would be

highly commendable in the journeyman might in the master be extreme avarice.

In barter, mankind must soon have discovered the want of a natural mode of ascertaining the exact value of each article, that is to say, the value which the parties exchanging mutually agreed should be fixed upon each of their commodities. To show the difficulty attending this, it will be necessary to make some observations on the real nature of value.

Value seems at first view to be a property easily defined, and which requires very little explanation, and yet few terms appear to have been less understood or fairly explained.

It may be necessary to state, that, although value has been divided into two kinds, value in use and value in exchange, it is to the latter only that the following observations are applicable.

Dr. A. Smith pronounces labour to be the real measure of the exchangeable value of all commodities; and exemplifies it by stating that "the real price of "every thing, what every thing really "costs to the man who wants to acquire "it, is the toil and trouble of acquiring "it. What every thing is really worth "to the man who has acquired it, and "who wants to dispose of it or exchange "it for something else, is the toil and "trouble which it can save to himself, "and which it can impose upon other "people." If this definition were correct, then it would follow that the value of all articles would be fixed and unvariable, and no alteration could take place therein. In daily experience this is found not to be the case; and, therefore, the doctor qualifies his first assertion, or rather does it away altogether, by stating, that, "though labour be the real mea-"sure of the exchangeable value of all "commodities, it is not that by which "their value is commonly estimated. It

"is often difficult to ascertain the pro-"portion between two diffierent quan-"tities of labour; the time spent in two "different sorts of work will not always "alone determine this proportion, the "different degrees of hardship endured, "and of ingenuity exercised, must like-"wise be taken into account. There "may be more labour in an hours hard "work than in two hours easy business, "or in an hours application to a trade "which it cost ten years labour to learn, "than in a months industry at an ordi-"nary and obvious employment. But it "is not easy to find any accurate mea-"sure, either of hardship or ingenuity. "In exchanging indeed the different pro-"ductions of different sorts of labour "for one another, some allowance is "commonly made for both. It is ad-"justed, however, not by any accurate "measure, but by the higling and bar-"gaining of the market, according to "that sort of rough equity which, though "not exact, is sufficient for carrying on "the business of common life."

The author of an inquiry into the nature and origin of public wealth comes nearer to the real definition of value, when he states: "the term value, whatever might have been its original sense, "as it is used in common language, does "not express a quality inherent in any "commodity. There is nothing which "possesses a real, intrinsic, or invariable, "value: the possession of no quality, "however important to the welfare of "man, can confer value; for water, the "most necessary of all things, seldom "possesses it." This certainly applies very accurately to *exchangeable* value; but, if so, the noble author might have seen the impossibility of laying down rules to judge of this uncertain term, without first establishing a ground-work to act upon.

Other writers have stated that value is exactly the same as weight and measure, and therefore is to be ascertained in the same manner. Weight and measure are descriptions of qualities inherent

in and essential to material objects, and are therefore easily defined and understood; but value is not a quality inherent in any thing. When a pound of beef or a yard of cloth is mentioned, a distinct idea is expressed, and every one knows what is meant, but a shilling's worth of beef or a guinea's worth of cloth has no certain reference and conveys no determinate idea. Weight being a quantity appertaining to bodies, a pound represents a certain proportion which has been fixed by common usage and is well known; a yard in the same manner represents a certain proportion of length, another quality essential to a variety of articles. A pound, therefore, and a yard, both representing two things certain and fixed, they are clearly understood, but a shilling or a guinea represents nothing certain. They are no doubt representatives of value, but, as value is itself variable, the mode in which they represent it must first be clearly ascertained, before their meaning can be fairly understood.

Unfortunately, in this country, the people have been so long in the habit of weighing with a pound weight, and paying with a guinea, without investigating the real principles upon which these operations take place, that even men of superior education and improved minds have treated the subject so superficially as to state, that, "if we weigh with a real "pound, it is equally true that we go to "market with a real guinea;" and, when we do so, "we purchase in proportion "to the *value of the metal* in the guinea," without appearing to conceive it at all necessary to inquire how that value is to be ascertained.

Value not being a quality inherent in any commodity or article whatever in this world, value in exchange must depend upon the opinion of mankind alone. The man who holds an article which he wishes to part with puts his value upon it, the person who wants to purchase also puts his value; and, unless their opinions

meet, there can be no exchange; but, as men's opinions are not only different but extremely changeable, it follows that value must also be variable, and accordingly it is found to alter very frequently.

What a difference is to be found in the value of the same article in different parts of the world. When America was first discovered, the inhabitants were astonished to find the Spaniards attach so much value to the bits of yellow metal which were picked up in their rivulets, and on which they set little store. On the other hand, the Europeans were equally surprised to find the Americans put a very high value on many things which to them were of little. Captain Cook found the natives of Otaheite ready to give their most valuable articles for an ax, a nail, a few strange feathers, a looking-glass, or a small piece of scarlet cloth.

The more advanced a country becomes

in civilization, the more frequent are the exchanges of property and the greater the variations in value; and, although these variations are partly caused by plenty or scarcity, yet in many instances they proceed more from the caprice and fancy of men.

This may be observed even in the articles of the first necessity, that is, such as man cannot exist in this world without. On the Corn-Exchange of London, the great standard by which the price of grain all over the kingdom is regulated, this is seen every day; a continuance of the wind in one particular quarter, by which the arrival of supplies by sea is stopped, raises the price; a change of wind, which allows their arrival, instantly sinks it; a few days bad weather in summer are generally followed by a report that the ensuing harvest is to be a bad one, and prices start; the sun breaks out, the weather becomes fine, and the prospect of an abundant harvest lowers them. In the cattle-market the same things

happen, as also with all articles, even of the first necessity. The rise or fall on their price or value by no means depends upon the real scarcity or abundance of them, or upon the supply in proportion to the demand; although these have, without doubt, a considerable effect, yet caprice and fancy have often a much greater.

Water, we have been told, although one of the most necessary of all things to man's existence, is seldom or never of any value, and yet we find it, in many instances, even in this country, of very great value. The Duke of Bridgewater made a princely fortune by his canals, many others have done the same. In all great cities water is paid for, and the New-River Company of London, who deal in water alone, have increased the value of a share of their capital from £100 to 13 or £14000. But it is in the articles of luxury that the uncertain nature of value is to be seen more unequivocally.

Whenever a man, after having procured a sufficiency to supply his real necessities, finds a surplus remaining to be expended in what are denominated luxuries, or such articles as a man can exist on this earth without, then do the variations of value appear to depend entirely upon the whim of mankind, and in many cases to be carried very extraordinary lengths. What sums are given by one man for articles, which to another appear of no value at all! Fine houses, fine furniture, fine pictures, carriages, horses, &c. command a great price, or go for nothing, just as fashion, that deity of man's fancy and caprice, dictates.

At a sale of household-furniture, an old picture, drawn from the garret, is sold for a guinea to a broker, who exhibits it in his shop, and demands, perhaps, two guineas for it. It is seen by a connoisseur, who finds, or pretends to find, that it is a valuable piece, the work of a famous master, and its value immediately

rises to a thousand guineas, perhaps five.

A horse is sold in the market for 30 or 40 guineas; he is shortly after carried to a race-course, where he is run against others, and found to excel them in speed, by perhaps a yard in a mile: his value immediately rises, and 10, 15, or 20, times the purchase-money is demanded for him.

What extraordinary sums are daily given for articles of curiosity or antiquity? Five pounds was paid for a Queen Anne's farthing, because it was said that only three or four had been thrown off at the time of her death, when the die was broken; but the good folks of Birmingham contrived to supply a good many, and then nobody would give any thing for them.

What variations occur every day in the value of finery and dress. To day they are run upon and no price is thought too high.—To-morrow a new pattern appears, and they are thrown completely aside.

From these and a great variety of other examples that might be brought forward, but which must be obvious to every reflecting mind, it evidently appears, that value in exchange is not a quality inherent in matter, or known in nature, but entirely fictitious.

So that exchangeable or comparative value may be defined to be "an artificial, "or fictitious, property attached to matter, "the rate of which depends upon the "fancy and caprice of man, acted upon "by his hopes or fears."

In barter, therefore, mankind must have soon found themselves at a very great loss for an exact mode of determining the relative value of their respective articles. In consequence they appear to have fixed on some article, which, according to their rude ideas of value at that time, was of invariable value, and

this article they established as the standard by which the value of all other articles was to be ascertained. Thus we find that, in antient times, oxen, salt, &c. were used. When Captain Cook entered into traffic with the natives of the South Seas, they choose axes as the standard by which the value of other articles was to be determined; axes being an article in very great request amongst them, and which they conceived were all of exactly the same value. That intelligent traveller Park states, that, on one part of the coast of Africa, the natives for the same reasons employed a bar of iron. In this country our ancestors appear to have used a pound weight of silver for the same purpose, and on exactly the same grounds, being in great request, and in their estimation of invariable value.

Whenever an increased intercourse introduced the nicer distinctions of value, it must have been obvious that these articles varied in value, not only in comparison to other articles, but to one another, all axes or bars of iron not being of exactly the same value; and therefore none of them could in reality be employed as the standard of value. But each answered the purpose required, which was merely a point of comparison by which the value of all other commodities might be settled, and in that capacity they became perfectly fixed and stationary. Thus we find the natives of Otaheite soon gave over the idea of receiving real axes in return for their pigs, cocoa-nuts, or poultry; they were contented with such a quantity of other articles, beads, feathers, mirrors, scarlet cloth, &c. as in their opinion was equivalent to the number of axes they estimated their own goods at. In the same manner the African, when he valued his slave at 100 or 150 bars of iron, did not expect *really* to receive that quantity of iron in return, he only looked for a quantity of rum, tobacco, cloth, &c. equivalent thereto. On this head what Mr. Park says is

perfectly decisive. "In thus bartering "one commodity for another many in"conveniencies must necessarily have "arisen, at first, from the want of coined "money, or some other visible and de"terminate medium, to settle the ba"lance, or difference of value, between "different articles; to remedy which, the "natives of the interior make use of small "shells, called Cowries. On the coast the "inhabitants have adopted a practice "which, I believe, is peculiar to them"selves. In their early intercourse with "Europeans, the article that attracted "most notice was iron. Its utility in "forming the instruments of war and "husbandry made it preferable to all "others; and iron soon became the mea"sure by which the value of all other "commodities was ascertained. Thus a "certain quantity of goods, of whatever "denomination, appearing to be equal "in value to a bar of iron, constituted, "in the traders phraseology, a bar of "that particular merchandise. Twenty "leaves of tobacco, for instance, were "considered as a bar of tobacco; and a "gallon of spirits (or rather half spirits "and half water) as a bar of rum; a "bar of one commodity being reckoned "equal to a bar of another commodity. "As, however, it must unavoidably hap- "pen that, according to the plenty or "scarcity of goods at market in propor- "tion to the demand, the relative value "would be subject to continual fluctua- "tions, greater precision has been found "necessary; and, at this time, the cur- "rent value of a single bar, of any kind, "is fixed by the whites at two shillings "sterling. Thus, a slave, whose price "is £15, is said to be worth 150 bars."

A bar of iron was, therefore, nothing but the term which the Africans fixed upon for ascertaining the comparative value of the different articles of barter. But, as bars of iron were with the Europeans not all of the same value, before they could act properly upon this standard, it was necessary to fix a value upon them relatively to their own standard,

and, accordingly, it is expressly stated that "the current value of a single bar "was fixed by the whites at two shil- "lings."

As all that was required was a fixed point of comparison; it does not appear to have been of any consequence what article or term was employed, provided only that all the people in the country used the same one. Thus Montesquieu states, that, on some parts of the coast of Africa, the people use, for this purpose, an imaginary term altogether. He says: "We are informed the blacks, on the "coast of Africa, have a sign purely "ideal for fixing the value of their com- "modities:—when they wish to make an "exchange of them, they say such an ar- "ticle is worth three macutes, such an- "other is worth five macutes, and such "another ten; and yet a macute can "neither be seen nor felt; it is entirely "an abstract term, and not applicable "to any sensible object. Is it a coin? Is "it a token? Is it a measure? It is "neither a coin, a token, nor a measure, "for they do not exchange their merchandise for three, five, or ten, macutes, "but for some article worth the same "number of macutes."

This is a very exact description of the proceeding which it has been found necessary to adopt, to supply the deficiency of a natural mode of accurately ascertaining value; and it bears very strong marks of authenticity, because, as neither Montesquieu nor the traveller he quotes appear to have had any idea of such a deficiency existing, it is not possible that they could have composed or imagined it, they must merely have reported the information they received.

In this country a pound of silver was, originally, the article assumed by our ancestors as the point of comparison, and that term was actually represented by a real pound of fine silver. By degrees, the quantity of silver employed to represent

it became less and less; still the term pound was and is retained, so that it must be obvious that it cannot have reference to a pound of fine silver; and that, therefore, Dr. A. Smith was mistaken, when, in talking of the northern nations having more silver than gold, he says: "In "England, therefore, and, for the same "reason, I believe, in all the other na"tions of Europe, all accounts are kept, "and the value of all goods and of all "estates is generally computed, in sil"ver; and, when we mean to express the "amount of a person's fortune, we sel"dom mention the number of guineas, "but the number of pounds sterling, "which we suppose would be given for "it;" and from thence argues that silver is the standard of these countries.

Since he wrote, an act of parliament has been passed, fixing that all payments above £25 should be made in gold; at least that silver, for more than than sum, was not a legal tender. From this some late writers argue that gold is now the standard of the country. If so, how comes it that Dr. Smith's term of *pound* is still employed? Why has it not been changed to *guinea?* Does not the continuance of the term pound imply that something else is meant than a lb. of silver? Originally, there is no doubt that term was applicable to a lb. of fine silver, now it represents, or is represented, by less than four ounces. Does not this show most clearly that the term is not applicable to the precious metals? And may not the existence of a standard of value, by which the value of all articles is fixed, and of which the coins are only symbols, be clearly proved by this very quotation?

For, in Great Britain, the pound sterling appears to be really and truly the standard by which the value of all articles is regulated and ascertained. The gold, silver, and copper, coins, which have been issued by government, and pass in common circulation, being just the symbols, or tokens, of that standard,

are employed expressly as such, and not as articles of real value themselves. Therefore, when it is said that such a man is worth ten thousand pounds, it is not meant that he is really possessed of ten thousand pounds weight of silver, or any quantity of silver, nor has it any relation whatever to silver or gold. It is merely to be understood that he holds property in lands, houses, merchandise, debts due to him, &c. the relative value of which, were they to be exchanged for other articles of value, would be stated at ten thousand pounds, or ten thousand times the standard of the country: and, in this property, the value of the gold and silver he really has, which generally bears a very small proportion, is always stated at so many pounds, or parts of a pound, sterling.

This ideal standard, or, as it will in future be called, the standard unit, appears to be something of the same nature with the letter placed for the unknown quantity in Algebra. It has no real value itself; but a value being fixed upon it which it always retains, by it the relative value of all articles is ascertained; all accounts are kept, and all exchange of property is settled.

In this country, the pound sterling will be found doing all these offices, in every transaction, from the highest to the lowest. In mercantile ones, for instance, it is very conspicuous; when a merchant sells goods, he states the price at so many pounds, or parts of a pound, sterling; the invoice is extended so many pounds; the bill is drawn in the same words. When it becomes due, it is paid by symbols, representing so many pounds sterling; and, whether these be guineas, shillings, or bank-notes, they are always taken at the exact proportions of the standard unit they are issued to represent. In the same manner, when a man, who has a property in lands or houses, wishes to sell any part of that property, he states the price at

so many pounds sterling, the purchaser offers so many pounds sterling, and, when he has purchased, he lets them at so many pounds of yearly rent. When the premier brings forward his budget, he states the debt of the nation at so many pounds sterling; the loans required at so many pounds sterling; the taxes to pay them in the same manner: and these taxes are paid by so many symbols as represent the number of pounds stated.

In simple or direct barter, or the exchange of one commodity for another, without the intervention of coins or tokens, a standard unit was found to be essentially necessary. In this country, many bargains are yet made in this way, the value of the goods on each side is ascertained by fixing the number of pounds sterling they are conceived equal to; a balance is then struck, and, if there is any difference, it alone is settled by coins or tokens.

The very circumstance, allowed by all

writers on this subject, that gold and silver vary in value themselves, is a most convincing proof that there exists another standard of value; else, how could the variation in their value be ascertained? and what the standard in this country is may clearly be seen by the general answer to the question,—what is the price of gold bullion? It is four pounds, four pounds one shilling, or four pounds two shillings, per ounce, according to the fluctuation of the market. But, look to these writers for a definition of the term pound, they tell you that it is an imaginary coin, representing a certain fixed quantity of gold or silver, the invariable standards. This certainly bears absurdity on the face of it, and does not require a laboured refutation. Take the opposite definition, and nothing can be more clear or simple. "The pound sterling is the "standard of Great Britain, by which "the relative value of all articles is as-"certained; and the gold, silver, and "copper, coins, issued by government, "and circulating in the country, are

"merely symbols, or tokens, of that stand-"ard."

This doctrine of an imaginary standard having been decried and ridiculed as whimsical and erroneous, the reasoning on which it is founded will be briefly recapitulated.

Weight and measure are descriptions of properties inherent in, and essential to, material substances: they exist, and are to be found in nature. A pound weight and a yard measure carry a clear and determinate idea with them; they are representatives of certain divisions of matter, which are familiar to the mind, and bear always the same meaning.

Exchangeable value is an artificial quality, not inherent in matter. In a state of nature, when man holds no distinct property, but has all things in common, it is not known; it owes its creation to barter. All value in exchange is comparative; one man compares the article he holds himself with that held by another; but, in order to do so properly, more especially where the articles are numerous and varied, a point of comparison is required, and, as none was to be found existing in nature, it became necessary to use an artificial or imaginary one. For this purpose it was of no consequence what was fixed on, provided only that it was understood and used by all; a point was all that was required, only it was essentially requisite that every one should use the same point. Similar to a mathematician describing a figure, who says, take any given point, from which raise a perpendicular, and draw a straight line, and you form a rectangle: but, unless both are done from the same point, no figure can be made. So, in comparative value, when one man says "my horse is worth "six points, your cow only five, to ef- "fect an equal exchange, therefore, you "must give me an additional article, "which, in my opinion, is worth another "point." Unless the same point was understood, confusion would ensue.

Amongst all civilized nations, therefore, there will be found a point, or standard, by which all their comparisons of value are made, and which is separate and distinct from the coins passing in circulation. It has, in consequence, been denominated money of account; but this term is erroneous, and has led to many mistakes. It might be named the comparative point; but the term standard unit has been used, and will be continued, through this work.

In the next chapter it will be shown that coins pass in a country merely as representatives of value, according to certain fixed proportions of the standard unit. The operation of exchange of commodities, as carried on at present in this country, is, therefore, simply this: when a man, who wants to purchase a pound weight of tea, sugar, tobacco, or any other article, goes into a shop, the first thing he inquires is the price, or comparative value, put upon it, which is always expressed in proportions of the standard of the country: if he is satisfied therewith, he desires it to be weighed to him, and he pays for it, by giving as many of the coins of the country as represent the proportions of the standard agreed on.

In this transaction, no doubt, a real pound weight is employed, because it is required to ascertain that quantity of the article wanted; but the pound weight is retained by the seller, and the article itself is given away. On the contrary, although a real guinea or a real shilling are employed, they are actually given in return for the article received. The uses, therefore, of a pound weight and of a guinea are completely different, and bear no affinity together. A pound weight is merely used to ascertain a certain proportion, or division, of matter; a guinea is employed to represent the matter itself. Mankind, in order to facilitate their exchanges of property, have agreed, that a guinea shall pass as a representative of

articles; but it would be impossible for it to do so, unless a point of comparison had previously been fixed on, so that a guinea does not pass as a certain quantity of gold, but as a representative of a certain proportion of that point of comparison. The operations, therefore, are perfectly different, the one being mechanical, the other mental.

In all countries, the least civilized, such a standard appears to be absolutely necessary, and it is accordingly to be found in every one.

In France, the livre Tournois was long the standard, and is now succeeded by the franc.

In Spain, the current dollar, or dollar of account, which is quite separate and distinct from the hard, or silver, dollar; the latter being a coin circulating in the country, and representing one and $\frac{42}{128}$ of the other.

In Portugal, the milrea.
In Russia, the ruble.
In America, the dollar divided into cents.
In Holland, the florin.
In Hamburgh, the Flemish pound, &c.

CHAPTER II.

To shew the true Nature and Properties of Coins, and their connection with the first principle, or the Standard Unit.

ALTHOUGH mankind, by the introduction of an intermediate standard of value, got over one great difficulty in the exchange of commodities, yet there still remained another, which was, that, whenever they wished to make an exchange, they were obliged to carry the articles themselves to market. The great inconvenience of this must have been very soon severely experienced; and, as intercourse encreased, they felt the absolute necessity of substituting some intermediate agent, as a representative of the commodities. After trying several, the precious metals were preferred; and, wherever they could be procured, they, for reasons which are extremely obvious, and have been often stated, have for a long time past been generally employed. At first they were used for this purpose in rude bars, which were weighed upon delivery. These bars did not pass at a fixed value, according to their weight, but were always taken at a certain rate, in comparison to the previously-adopted standard of the country, and which rate varied according to circumstances. A man who wanted to sell beef and buy cloth meets with another who wishes to buy beef; not having cloth to give for it, he says to the first, I will give you gold for it, and the man who has cloth will take the gold from you in return; the value of the lb. of beef, and the value of the lb. or oz. of gold, according to the standard unit, is then fixed, and the exchange takes place by the ascertained quantities being delivered. But, when gold in bars was thus exchanged for any commodity, two oper-

ations were necessary, the first, to fix the value of the commodity, the second, to fix the value of the gold, the same as if it were another commodity. To simplify this, when mankind advanced in civilisation and became united under regular governments it was arranged, that a certain quantity of gold or silver, properly stamped, and issued by the government, should pass at all times for a certain fixed proportion of the standard unit of the country. So that, when a man had fixed the value of the article he had to sell, it was no more necessary to inquire the value of gold; the account was at once settled, by giving so many of those counters as made up the amount of the commodity in the standard unit of the country.

Coins may therefore be stated to be representatives of the articles of necessity, convenience, or luxury, which pass in a country, not as the standard of value themselves, nor even according to their real value, but always according to that proportion of the standard unit they are issued to represent

It is conceived, that this may very easily be proved to be actually the case with the coins that pass in common circulation in Great Britain.

A guinea is issued to represent one and one-twentieth of the standard unit, or pound sterling, and, no doubt, when it was coined, a quantity of gold equal, at the time, to that value used to be put into it. But, although particular circumstances should afterwards occur, by which the price of the lb. of gold in bullion, that is to say, the number of pounds sterling it is conceived equal to, is increased or diminished, yet the value of the guinea will not be increased or diminished in proportion; it always remains the same. A guinea will continue to represent one and one-twentieth of the pound sterling, so long as it is employed as the circulating medium of the country. At every new coinage, the quantity of gold in each guinea may be

arranged, as exactly as possible, to the value of gold at the time, but, after, they are once put into circulation, no alteration is ever made in the value they pass for.

This only requires to be pointed out in order to be perfectly obvious, and what is to be seen in every transaction in the common intercourses of society. Let a man go into any shop, purchase an article, and lay down a guinea to pay for it; the dealer will, at once, take that coin as a fair representative of one and one-twentieth of the standard, and account for it accordingly. He may examine whether it is real or a counterfeit, but he never will think of examining or making any inquiry whether the price of gold bullion is the same to-day that it was yesterday. That he knows he has nothing to do with. He does not take the coin as a quantity of gold of exactly the same value as a guinea, but he takes it as a representative of value, which he is certain will be taken from him at precisely the same rate, Were a piece of unstamped gold presented to the dealer, and he were told "this is "exactly the weight of one, two, or three, "guineas, which you can easily prove, "I, therefore, wish you to take it as "such." He would immediately reply, "I will have nothing to do with it; give "me guineas, and I know what I have "got; but I am no judge of the value of "gold." It may here be objected, that the stamp gives the value of the guinea. The stamp certainly ascertains the fineness of the gold in the guinea; but it cannot possibly fix the value, if it be understood that that value fluctuates according to the price of bullion in the market; and, therefore, it must be evident, that, if the stamp fixes the value, that value cannot alter, however much the price of bullion may. This proves what Mr. Locke laboured hard to contradict, that gold in bullion, and gold in coin, may and do differ in value daily.

In like manner, a shilling is issued to represent the twentieth part of a pound

sterling, and, therefore, when coined, the quantity of silver, equal to that value, is put into it. After it is once in circulation, however, no farther attention is paid to the value of silver bullion; although the price of it should rise or should fall, it is of no consequence, the shilling still continues to represent one-twentieth of the standard unit. Indeed, so little stress is laid on the real value, that it is a well-known fact that a great proportion of the pieces which are employed in common circulation as shillings do not contain more than one-half of the silver that a shilling ought to do, and many of them less. But that is of no consequence; they all pass at the same value, that is, each represents one-twentieth of the pound sterling, or standard unit.

The copper coinage continues also fixed, at the same proportion of the unit, whatever variations may take place in the value of copper bullion. A very striking instance of this exists at the present time. Some years ago, Mr. Bolton, of Birmingham, was employed by government to make a coinage of penny and halfpenny pieces, which he did, and sent them into circulation at the rate of sixteen pence per pound of copper, each penny piece weighing an ounce. Since that, the value of copper bullion rose about 50 per cent. and the same gentleman, having been employed to coin more penny and halfpenny pieces, he was obliged to conform their size to the price of the metal at the time; and they were accordingly issued one-third less. Such of the old pieces, however, as are yet in circulation still continue to pass at the same value they were issued for. So that it is not an uncommon circumstance to receive in one payment two coins, representing the same proportion of the standard unit, the weight of one of which is actually one-third more than that of the other.

This alone is a most incontrovertible evidence that coins do not pass in this country according to the value of the metal in each, but merely according to

the fixed relations they have to the standard unit. Indeed, were it not so, an endless confusion would reign through all the intercourses of civilized society. Were it possible that coins passed only at their value as bullion, the lowest shopkeeper or mechanic would not only have to be acquainted with the value of the article he had to sell, but, after he had fixed a price for it, he would require to be master of the rise and fall in the price of bullion, so as to fix the exact value of the coins he had to receive. What an uncertainty would in consequence be attached to all mercantile transactions! At present, a dealer knows, that, when he sells goods and receives the current coins in return, he is certain of passing these coins to-morrow at the same value he takes them to-day. But, in the other case, he would have to run the risk of a rise or fall in the value not only of the article he had to sell, but also of the coins he was to receive for it.

This invariability, however, only holds

whilst these coins continue in the country, by the government of which they have been issued: when carried to another, they in general only pass at their value as bullion. The inconvenience of this was very sensibly felt in Holland, where the great proportion of the circulation was carried on by foreign coins, which only passed by weight, at their value as bullion. This was found to impede the course of business so much, that the bank of Amsterdam was established for the express purpose of putting an end to it, by substituting its paper, which, as symbols of the standard of the country, always bore an invariable value. The same inconvenience was felt at Hamburgh, and rectified in the same manner by the establishment of a public bank. Both these banks receive foreign coins at their exact value as bullion, and give, in return, credit in their books for a certain proportion of the standard of the country, granting receipts for the same, which may at all times be transferred from hand to hand, and always bear the same value.

In other countries, where foreign coins are only partially introduced, they fluctuate in their value like bullion. But that value is always fixed by the standard unit of the country they are passed in, and the tokens thereof. Spanish dollars are an example of this. They, being a foreign coin, and representing no fixed proportion of the standard unit of Great Britain, when passed in this country vary in their value, according to the rise or fall in the value of silver bullion. But their value is always ascertained by the quantity of silver and copper coins for which they will pass. For, when it is said that dollars are worth four shillings and sixpence, or four shillings and nine-pence, each, their value is immediately known; it is never asked what is the present value of silver or copper bullion, that the present value of shillings or pence may be ascertained.

Thus, under all established governments, the intercourses of society have for a long time past been carried on by the intervention of coins, which pass from hand to hand as *representatives of value*, and not as articles of value themselves; for the metals of which they are formed are actually of no real value in use. They have only obtained a fictitious value, in consequence of their being found serviceable, as substitutes for useful commodities. As all barter or exchange of commodities consists in the giving a superabundance of one article of necessity, convenience, or luxury, for a proportion of another, of which a person is in want, it must be very evident that no man would give any such article in exchange for gold or silver, merely as gold or silver. These have actually no value in use. Although, in a highly civilized state, they may have some value as articles of luxury, they never can be reckoned articles of necessity or convenience. A man cannot eat gold, drink gold, or clothe or keep himself warm with gold or silver. They must, therefore, have at all times been used merely as substitutes or representatives of useful articles, which their for-

mation into coins enabled them more effectually to do.

A coin may therefore be defined to be "a symbol, or token, issued by the government of a country to represent all commodities according to a certain fixed proportion of the standard unit of that country, and which proportion it continues to bear, so long as it is employed as a circulating medium in that country."

From this it will be seen, that one striking property of coins is their *invariability*. This invariability would appear, at first glance, to be completely in favour of those writers who argue that coins are the standard of value. Yet this very circumstance has cost them more trouble, and been the cause of more confusion, than any other. Not attending to the nature of coins, they have not discriminated betwixt metals employed, as bullion, forming an article of commerce, and as coins, forming the circulating medium of a country. Gold, silver, and copper, in bullion, are daily bought and sold as articles of commerce, and, as such, fluctuate in their value, like all other articles of commerce; but, whenever they are made into coins, and employed as the circulating medium of a country, they assume a new character. As representing a certain proportion of the standard unit of that country, they become fixed and invariable in their value, and continue so as long as they are so employed. Not aware of this, these writers, at the very time they laboured to establish one or other of these metals as the invariable standard of value, constantly confounded their variability as bullion with their invariability as coins, and thus launched themselves and their readers into difficulties inextricable.

The circumstance of coins being issued of value as near as possible to what they pass for, has tended to mislead on this head. But that has been entirely the effect of political expediency. In order to establish coins as invariable representa-

tives of the standard, government found it necessary to take the coining and issuing them into their own hands. They said to the public, "bring your gold and "silver bullion to the mint; we will be at "the expense of making it into guineas "and shillings, and we will return it to you "in these forms, of the exact weight you "brought, and divided according to the "rates we have established." After that is done, no farther attention is paid to the price of bullion.

What has had, however, a greater effect on popular opinion and prejudice, is, government having continued, for a very long time past, to retain, at the mint, one unvaried price, at which gold and silver are to be received for coinage, or what is the same thing, a fixed number of guineas and of shillings, into which a pound of gold or an ounce of silver is to be coined. These rates had been, in former times, altered by our monarchs, so as to make the quantity of metal in a coin correspond with the proportion of the standard unit it represented, according to its value at the time. But, since Queen Elizabeth's reign, they have remained the same; and, as it is by comparison with them that the value of gold or silver is said to be high or to be low, the public have been led to adopt the idea, that the mint-price is the standard by which all articles are to be valued, and therefore that it must remain fixed and stationary, because, if it should be altered, all contracts, bargains, and agreements, made at the old rate, will be changed and vitiated.

This appears to have been the grand *ignis fatuus* which has led so many astray. It was first started by Mr. Locke, who argued that an ounce of silver, whether in coin or bullion, was and would continue to be of exactly the same value, and that the price established at the mint was fixed and invariable. The high character and acknowledged abilities of this gentleman gave a sanction to these opinions; and he had influence enough with the government at the time to prevail on

them to issue a very great coinage of silver, at the old mint-price of 62*d.* per ounce, while silver bullion in the market was considerably higher. The consequence was, that the country suffered a severe loss, without reaping any advantage, as these silver coins disappeared almost as soon as they were issued, being converted into bullion again, and exported.

In spite of the ill success of this experiment, the same system has been uniformly acted upon ever since his time; and when, on the commencement of the present reign, considerable coinages of gold were made and issued they were all done at the old rate of £3 : 17 : 10½ per ounce, although gold bullion in the market was from £3 : 18 to £4 per ounce. The consequence was, that the guineas disappeared almost as soon as they were issued. With these facts staring them in the face, it is very extraordinary that there should be found writers of the present day who come forward to support the exploded doctrine of the mint-price being the standard of value in the country; and it is still more extraordinary that they should meet with readers and supporters. Had these gentlemen taken the pains to examine the mode followed in fixing the mint-price of bullion previous to the reign of Queen Elizabeth, they would have discovered that it was invariably ascertained by the average rate of the price of bullion in the market, and that the price, even in the earliest times, was always determined by the pound sterling, or standard unit of the country; and when Queen Elizabeth fixed it at £3 : 17 : 10½ it was done upon exactly the same principles.

Had the same method been followed in King William's time, in regard to the silver coinage, and, in the present reign, with the gold, the coins then issued might in great part have been still in circulation.

An application of the previous doctrine will at once show the fallacy of the idea of the mint-price being the standard of

value, or having any connection therewith. If there exist a standard unit, of which the coins are merely representatives, then the price fixed to be given at the mint for bullion can only be ascertained by that standard unit, and must at all times have reference thereto; accordingly we find, that at all times this price has been regulated by a reference to the standard unit, and therefore it is impossible that it can be the standard itself.

In former times, the government always endeavoured to make the value of the bullion put into the coin equivalent to the value it passed for. Although this was by no means essentially necessary, it prevented two bad consequences. When coins are made less than their value coiners have an additional inducement to counterfeit them; when they are made more, they are liable to be exported. By the mint-prices having been continued the same for more than a century, the country has alternately suffered by both these inconveniences.

If coins are thus only symbols of the standard unit of the country, then it must be evident that all the writers on this subject have taken them completely out of their sphere, and given them an importance to which they are really not entitled. And, in endeavouring to establish not only the coins but the metals of which they are made to be the invariable standards of value, these writers have been led to make most false conclusions upon the nature of paper money. Instead of placing paper money upon the same footing with coins, they have treated it as a representative of coins, and consequently subject to and liable to be controlled at all times by them. In the next part, an attempt will be made to point out the fallacy of this and some other of the assertions of these writers in regard to paper money.

CHAPTER III.

To show the Nature and Properties of Paper Money, and its connection with the Standard Unit.

WHEN mankind had advanced in civilization their mutual intercourse increased, and the exchange of articles became so frequent, and to such an extent, that coins were found to be no longer a sufficiently convenient intermediate agent. To remedy this, paper money was introduced.

The theory of paper money appears to be founded on the existence of a standard unit. For, if coins are only symbols, or tokens, of the standard unit of the country, it is certainly by no means absolutely requisite that each of these coins contain in it a proportion of metal equal to the value it passes for. Were all the people of a country perfectly honest, the government of that country might, with great safety and advantage, give a cheaper medium of circulation to the public, by issuing copper, lead, or iron, tokens, in place of, and for the same value as, the gold and silver ones, provided only that the government bound itself to give value again for them, or to take them at the same value. But, in the present state of society, any country doing so would be immediately overrun with counterfeits. This inconvenience is, in a great degree, obviated by the use of paper money, which is of the least intrinsic value, and, at the same time, more difficult to be counterfeited, and much easier detected when so.

Paper money may be defined to be "an obligation to account for a certain

"proportion, or quantity, of the standard "unit of the country, granted by a per-"son or persons, in whose responsibility "the people of a country have confi-"dence, which obligation passes from "hand to hand, as a symbol, or token, of "the standard unit, according to the "proportion expressed therein."

When paper money was first introduced, its nature and properties were not well understood, and many erroneous doctrines were advanced concerning it. In this country, these are now mostly corrected in practice; but it is very extraordinary, that, in theory, great part of them are still kept up; the writers on this subject continuing to persevere in support of many maxims, which, in practice, have been long ago abolished. One great cause of this appears to be, that there have existed two species of paper money, perfectly separate and distinct in their nature, properties, and effects, but which have been hitherto confounded together by all these writers. It is, therefore, proposed, after stating what is conceived to be the true principles upon which paper money should be issued, to describe these two kinds, and to examine them by these principles.

The true principles upon which paper money can be issued, so as to support its credit and be of advantage to a country, appear to be,

First.—That the quantity issued do not exceed the real demands of the country for a medium of circulation.

Second.—That the issuer always receive in return, at issuing, the real value, not in perishable commodities, or in unconvertible funds, such as lands, houses, &c. but in funds again convertible into the medium, at a short distant period, and which funds he retains in his hands until the notes are withdrawn from circulation.

Third.—That the issuer be always ready to give value for them, either in other

mediums of circulation or in the funds for which they were originally issued.

The two kinds of paper money proposed to be described may be distinguished by the appellations of forced and free.

FORCED PAPER MONEY.

By forced paper money is meant, that paper-currency which is forced upon the people of a country, and which they are obliged to take, whether they will or not. It being given in general for debts already contracted, and which the issuers of that paper have, at the time, no other mode of liquidating. This can only be done by people in power, and, therefore, all forced paper has been issued by sovereign powers.

In antient times, wars being less frequent, during the intervals of peace the government, or head, of each country endeavoured to collect a quantity of the precious metals, to defray the extraordinary expenses of the next war the country might be engaged in. In latter times, these intervals being shorter, and the expenses incident to war much greater, other resources have been resorted to. Those states which have been forced to engage in war without having any funds provided have been obliged to have recourse to borrowing. One mode of which has been the issuing of paper money, payable at a distant period, perhaps one or two years after the end of the war; which paper money their subjects are compelled to take, in place of cash, in payment of the goods the government may require.

This has been more particularly adopted by new states, or by such as have changed their form of government and assumed a new one, to establish which they are obliged to carry on war without

having funds for that purpose, or the power of immediately raising them. The government of a country, in this situation, issues paper, not to supply the deficiency of a circulating medium, but to supply the want of funds. They do not study the need the people of the country may have for a medium, but the need they themselves have of a substitute for money; and, therefore, in proportion to that need is paper money poured upon the country.

When a nation gets engaged in the horrors of civil war, her manufactures and commerce are cut up and destroyed, her exports are diminished, and her imports are increased. To pay for that increase, the gold in the country will be carried off. When, therefore, paper money is first issued, it may pass at the full value it is issued for, and remain so, as long as it is required to supply the place of coin exported. But, as soon as it exceeds that, it will fall in value, and continue to depreciate, according to its excess. This will evidently ensue, if the doctrine laid down be true, "that no "paper money should be issued without "the issuer receiving and retaining an "equivalent." — Although the government, when they issue this paper money, receive value for it, it does not remain with them; it will only be consumable value, such as warlike stores, provision, clothing for their armies, &c. and will pass away from them directly. The paper issued will, therefore, continue to exist, without representing any real value, and will be less or more depreciated, according to the prospect, more near or more distant, of its being discharged by some future funds to be appropriated to that purpose.

The American States have exhibited two strong instances of this species of paper money: Before the revolution; and at its commencement.

In the middle of the last century, the settlers in America having experienced

that want of capital and circulating medium incident to all new colonies, the governments of the different States were induced to give them assistance by loans. But, as these governments had no specie to give, they issued paper notes, payable two, three, and sometimes five, years thereafter. These notes they gave to the settlers, upon the security of their lands, houses, &c. binding the receivers to pay the amount when the notes became due. It was also the practice of these governments to pay, in many cases, the ordinary, and at all times the extraordinary, expenses attending their establishments, by the same mode of paper money payable at a distant period.

As long as these issues did not exceed the sum necessary for the circulation of the colony, it is to be presumed, these paper notes would pass at par, that is, for the sum they were issued to represent. As they were not bounded, however, by the demand for a circulating medium, but were extended to supply the want of government-funds and of settlers' capitals, the quantity floating soon became superabundant, and a depreciation ensued.

This depreciation increased as the issues increased, until it became very great indeed; and this is not to be wondered at, because the settlers, having no other mode of procuring capital, found it better to pay 30, 40, or even 50, per cent. discount on the sums borrowed from government than to allow their lands to lie waste. The profits on capital are great in proportion to the scarcity thereof. If a settler had a piece of land capable of producing £150 upon £70 being laid out thereon, it was certainly his interest to borrow that £70, although he engaged to pay £100 for it. Besides, as these loans were made for three to five years, and the discount only once paid, the loss upon the whole would not be so great as appears at first. If a settler borrowed £100, for three years, received only £70 for it, and paid five per cent. per annum

of interest, he paid about twenty per cent. per annum of interest for the loan. If he had it on the same terms for five years, he then only paid fifteen per cent. annual interest. Now, when it is considered that the great proportion of the first settlers in America were people who had expended what little money they had in the purchase of lands; or who, having no money originally, had either got grants of land for nothing or had engaged to pay for them at some future distant period; and that these lands in general produced very great returns upon being cultivated; it will not appear at all extraordinary that these settlers were induced to borrow capital on those terms, rather than forego the advantages to be derived from labouring their lands and improving them.

Had these governments continued to exist, the whole of these issues would, in time, have been redeemed at the same value they were issued for; and, although individuals might have suffered, the country would have been no loser. But the revolution in that country completely put a stop to their circulation, and was the cause of the production of an issue of paper money, which might more literally and truly be called *forced*.

When the congress began their operations, they found a pressing want of funds to carry them on with; and, having no means of immediately procuring these funds, they had recourse to the issuing paper dollars, payable at the end of the war. These they forced the people, from whom they got the articles required, to take in payment, and with these they paid their soldiers and sailors, and they made an arbitrary act, ordering them to pass, and be taken at all times, the same as silver dollars. Two circumstances tended to their very quick depreciation. Being issued in great quantities, to supply urgent necessities, the circulation was soon completely overstocked. And their payment in the end depending entirely upon the ultimate success of congress,

every person pressed to get quit of them, for fear of their producing nothing at all at last. In consequence, they fell to almost nothing in value, and were passed in quires.

French assignats are another very complete example of *forced* paper money. After the revolution in France, in 1793, the convention, having exhausted all the funds they could command, had recourse to the sale of the lands belonging to the church and to the ex-nobles. Not finding immediate purchasers for these, they issued paper money, which they bound themselves to receive back, in payment of those lands when sold; and they obliged the creditors of the state to take the same, in payment of the debts due to them.

This paper money, commonly called assignats, being issued, not in proportion to the demands of the people, for a circulating medium, or even to the value of the lands to be sold, but to the wants of the convention, soon came to be depreciated; and this depreciation was accelerated by the convention themselves breaking faith with the public. For, when the latter came forward to make purchases of the lands in question, and tendered these assignats in payment, the agents of the convention refused to take them at the value they were issued for. They would only receive them at the value they then passed for. Whilst, at the same time, the convention were continuing to issue fresh quantities, until their value was sunk almost to nothing; and at length a counter-revolution swept them into oblivion.

From these instances, the nature of forced paper money will be seen; it appearing,—

1st. That, in the issuing of it, no attention whatever is paid to confine the amount to the demands of the country for a circulating medium.

2d. That the issuer really receives no retainable value for it at issuing.

And 3d. That the issuer has no funds whatever to give for it again, upon demand.

It may be concluded, that forced paper money is issued, in direct contradiction to what has been stated, as the just principles upon which paper money ought to be issued. And, therefore, it can never be substituted, as a circulating medium, with safety or advantage; being void of the two essential requisites to a well-regulated paper-medium; viz. a check upon the original issuing, that that may keep pace with the real demands of the country; and, after it is issued, the means of retiring it from circulation when found requisite.

FREE PAPER MONEY.

By free paper money is to be understood, that paper money which is issued by individuals or public bodies, at the request and desire of the people of a country themselves, in order to supply the deficiency of a circulating medium in that country. For which the issuers receive, at the time, an equal value, not on perishable commodities or in unconvertible funds, but in funds again convertible into the medium, at a short distant and fixed period.

In former times, when a man became a merchant, he required a capital fully equivalent to the trade he was to carry on. And, when he had laid out that capital in the purchase of articles, he had to wait until he met with a person, who not only wanted these articles, but had a capital sufficient to pay for them. When credit was introduced, then a purchaser got three or four months to pay in; but, as he had to give as long a time when he sold, his receipts would not meet his payments any more than formerly, and, consequently, he required capital as much as ever. When sales upon credit, however,

became general, to establish the debt, and to prevent any dispute as to the terms, bills were taken for the amount.

A bill may be defined "a written obligation to account for a certain sum, "or certain proportion of the standard "unit of the country, at a distant period "therein specified."

Bills were found so useful and necessary, that a summary mode of procedure, in recovering payment of them, was established by law. Being thus a legal voucher of debt, and easily transferred, it became usual for the holders of bills, that they might be enabled to go to market again sooner than they otherwise could, to apply to their friends, to advance them the amount in cash, and to take these bills in security. This was found so beneficial, that, in process of time, people of capital commenced a regular trade of giving cash for bills, upon deducting the discount. For a long time, gold coin continued to be given in exchange for these bills, and to be received for them when due; until the demand became, in consequence of the extended trade and commerce of the country, too great for the capitals of the dealers, and they were obliged to refuse many. At length it occurred to them to say: "We "will give you, in return for these bills, "our own promissory notes for a small "proportion of the standard unit of the "country, which will pass for a circulat- "ing medium; and, when the bills be- "come due, we will take these promissory "notes back in payment."

This appears to have been the legitimate foundation of banking, and of the issuing of bank-notes as a circulating medium. And it is the only mode that can be followed to ensure either safety to the public or advantage to the individual. Tried by the three rules laid down, it will be found perfectly correct, and conform thereto. For it is only at the desire of the public that the notes are originally issued; the issuer always

receives security for them, which he retains in his hands until the notes are returned; and he is always ready to give that security for them.

The bank-notes employed in the circulation of Great Britain, whether they be those of the Bank of England, Bank of Ireland, Scotch chartered banks, or private banks, rank indisputably under the head of free paper money, and may be quoted as examples thereof. This must be evident to every one the least acquainted with the mode universally adhered to in the issuing of these notes. But, as some objections have been started, in regard to Bank-of-England notes, ever since that bank has been freed from the absurd bondage of being obliged to give gold for their notes upon demand, which has given ignorant people occasion to say that the public were forced to take the notes of the bank, and had no means of checking the quantity issued, or obliging the bank to withdraw them when once in the circle, it may be necessary to shew that Bank-of-England notes are really free paper money, and that these objections have no solid foundation, but may truly be called frivolous and vexatious.

Mr. Wenthorp, governor of the Bank of England, in his examination before the select Committee of the House of Commons, in March, 1804, declared positively, "That that Bank never issues its "paper but for a valuable consideration, "or what it deems to be such, in the way "of discounting bills, or of advancing on "exchequer-bills." That is to say, upon application from a banker or merchant, the Bank gives notes for a bill due in London, or for an exchequer-bill granted by government; the first payable within two months, the other generally within nine.

If, therefore, the Bank issue notes only in this way, it must be evident that the quantity issued will depend entirely upon the demand from the holders of these bills, which will never be more than the

actual circulation of the country requires. And the notes can only continue out until these bills become due, when they will return back to the Bank in payment. So that, if the Bank were to stop making fresh advances of notes, in two months the greatest part, and by the end of nine the whole, of those in the circle would be returned to the Bank.

But, say the writers on this subject, the Bank makes advances to government, and government *forces* the creditors of the state to take these notes in payment. That the Bank occasionally makes advances to government is very true; and that government pays away the notes so advanced to the creditors of the state is also very true. But the Bank advances to government only upon the credit of loans, or taxes previously granted by parliament, though not collected. And the notes, thus paid away by government, are, in due time, returned to the Bank in payment of these loans or taxes. So that, when the Bank makes these advances, it knows as well and as certainly when they will be returned as if they had been made on bills or exchequer-bills. And the creditors of the state, so far from requiring to be forced to take these notes, generally give a premium for them, because they know well that with these alone can they pay either their bills or their taxes.

The mistakes into which these writers have fallen appear to be owing to their arguing as if the Bank gave away its notes never to be returned. Whereas the fact is, it only lends them, and, before doing so, it generally takes every effectual care to secure their return.

These statements, it is hoped, are sufficient to prove, that Bank-of-England notes are really free paper money, and opportunities will afterwards occur to enlarge thereon. Meantime it is proposed to proceed to investigate a few of the erroneous doctrines which have been advanced in regard to these notes, in conse-

quence of the mistaken ideas which have have been entertained of them. This will, at present, be confined to three of the principal, which are:

First.—That bills of exchange and promissory notes are not so sure pledges to lend upon as houses, lands, &c. and that, therefore, banks, in issuing notes, ought always to prefer mortgages and real securities.

Secondly.—That banks ought always to be ready to give gold for their notes.

Thirdly.—That bank-notes (although free paper money) can be issued to such an extent as to cause a depreciation in their value, and that without effecting the credit of the issuers.

That "Bills of exchange and promissory notes are not so sure pledges to "lend upon as houses and lands; and "that, therefore, banks ought to prefer "mortgages and real securities" is a doctrine that was very early advanced, and continued to be upheld in the time of Sir JAMES STEWART, who avowedly supports it, although he might have seen its fatal effects in many instances.

When a bank issues notes upon bills of exchange or inland bills, these being due in two or at most three months, the notes will return by that time. So that, although an over-issue should be made, it is always possible to check and remedy it in the course of three months, at farthest; whereas, when an over-issue of notes is made on mortgages or landed securities, it is impossible to remedy it immediately, or, indeed, for some considerable time. For, however good these securities may be, yet it may be years before they can be turned into convertible funds to place against these notes, which, in the mean time, must remain in the circle unretired.

Many examples of the bad consequences of this doctrine, when put in prac-

tice, may be produced. The issues to the American settlers is a strong one; but two in this country will be stated, "the "case of the Bank of England, in 1697, "and that of the Air Bank, in Scotland, "sixty years afterwards." These two examples are more particularly pitched upon, because they have been already quoted by others, and most egregiously misapplied.

In the year 1697, being very soon after the establishment of the Bank of England, the directors of that bank issued a greater quantity of notes than was really required for the circulation of the country. This they were enabled to do, because that issue was made, not upon bills at a short date, but "upon mortgages "land real securities, at five per cent. per "annum, and to government without "any security." As the common rate of interest was, at that time, higher, all, who had good security to offer, took advantage of the bank's willingness to lend. Thus an over-issue actually took place, and, from the mode in which it was done, it required a long time before it could be corrected, by the notes returning in a regular way into the Bank. In consequence, a considerable discount, or depreciation, upon them ensued, and the Bank was obliged to have recourse to extraordinary methods of calling them in. It increased its capital, and took the notes in payment; and it got government to appropriate certain funds to discharge the advances it had made. Now, allowing it to have been possible that the superabundance of notes had been issued upon the security of good bills due in two or three months, the bank would have been able to check it at the end of three months, at farthest. Because, when these bills became due, the notes would be returned for them, or, what would have been equally the same, other funds, which could have been exchanged for the notes.

The Air Bank erred in a similar manner, but to a greater extent. A spirit of industry and improvement having sprung

up in Scotland, about the middle of the last century, the people took it into their heads that the banks then in existence were not liberal enough, and they, therefore, determined to have a new one, which accordingly was formed, under the title of the Air Bank.

This bank set out upon the most liberal principles, but they were very mistaken ones. Every gentleman who held a share was allowed a credit with the bank to the extent of that share. To explain this, it may be necessary to state that it is a practice with the Scotch banks to advance money upon good bonds of credit; that is to say, if a merchant or manufacturer require a sum of money, not permanently but occasionally, upon applying to a bank, and granting a bond, along with two sufficient securities, the bank allows him to draw out, from time to time, such sum as he may require; provided always that the whole does not amount to more than the sum specified in the bond, and that he repay the money in a short time, drawing it out again as he needs it.

This practice is peculiar to Scotland, and has been of very great service in that country, where capital is so much wanted; but it requires to be managed with great prudence and caution. Two essential rules ought always to be observed: the first, that the bank, granting these credits, be careful that the total amount of them be considerably less than its capital; and the second that frequent operations be performed on these accounts.

In both these particulars the Air Bank failed. By allowing, as above stated, every partner to hold a cash-credit equal to his shares of stock, it was at once deprived of its capital almost entirely, as most of the partners availed themselves of this permission; indeed, it was the means of many improper persons becoming partners. Any man who could borrow £500 or £1000 for five or six days had only to buy one or two shares, apply next

day for a credit, draw the amount out, repay the loan, and thus become a partner of the bank, without advancing a sixpence of the capital. So that the loans advanced in this manner became completely permanent ones.

Not satisfied with this, however, the next step the bank took was to grant a credit to every respectable person who applied and brought two securities. As the professed object in establishing the bank was to encourage improvements in the country, and more particularly agricultural ones, in granting these credits landed gentlemen were principally preferred. The consequence was, that most of that description, who got credits, set about improving their lands with great spirit, and, in a short time, laid out the amount of the credit thereon, very much to the benefit of the lands no doubt, but very little to that of the bank, which soon found that landed security may do very well for folks who have money to lay out at interest, but not for a bank to issue notes on.

By granting so many credits, the bank issued many more notes than the circulation of the country required, and, in consequence, what remained of its capital was soon completely swallowed up in retiring them. So that when it began to discount bills, which was also done very freely, there were no funds to answer the over-issue of notes upon that head. The resource fallen upon was, drawing and re-drawing upon London; and, as that could not last long, the bank was soon under the necessity of stopping payment.

These two instances may suffice to shew the absurdity of this doctrine, and how much it is contrary to the true principles of banking.* Indeed, it is now carefully

* One exception in favour of this doctrine ought to be stated; it is, that banks, like individuals, may employ their own capital in any manner or way they please; as far as it goes, they may, with safety, lend

guarded against by all proper banks, and by none more so than by the Bank of England, which has gained knowledge by experience. And yet Lord Lauderdale, in a late publication, has brought forward this mistake, committed by the Bank in 1697, as a proof that bank-notes

upon mortgages, landed securities, personal securities, or on permanent loans to government; because, should they, in the first instance, make these advances in notes, they have always their capital ready to replace these notes when returned upon them. Thus, as has been stated, the Scotch banks advance money upon personal bonds. And it is well known, that the Bank of England has made a permanent loan to government, of above eleven millions sterling, which it could easily do, because the whole sum is capital, and therefore no notes are in the circle on account thereof. But, were that bank to come forward, just now, to make government another permanent loan of eleven millions, and, in order to pay it, give government at once the amount in their own notes, these notes might be passed away by government to the creditors of the state, but there they would remain: the bank holding no convertible funds opposed to them, they could, by no means, be retired from circulation, and would, therefore, become really and truly forced paper money, and a depreciation would ensue upon them, may be issued to depreciation, without in the least adverting that the quotation which he gives from a Mr. Godfrey, one of the directors of the Bank at that time, as an evidence of the fact, expressly states the cause which produced the over-issue, "for they have lent money on "mortgages and real securities."

The second error to be taken notice of, "that banks ought always to be ready to "give gold for their notes," is one into which not only the writers on this subject, but the country in general, have fallen. Indeed, it is so universally allowed to be a fundamental maxim in banking, that it seems to have been admitted even by Mr. Thornton himself, as he pleads in favour of the *restriction*, merely as a temporary measure of necessity. It will, therefore, be deemed a bold assertion to say, that it is a vulgar error, which ought long ago to have been exploded; and yet it is conceived that this may be easily proved, when applied to free paper currency. For

this purpose, a few questions, and what appear to be the proper replies to them, will be stated.

First.—Do the banks, when they issue notes, receive gold for them?

They certainly do not. It has already been stated, that they issue these notes upon the credit of bills, at a short date, lodged with them.

Secondly.—Do the banks bind themselves in the body of these notes to pay gold for them?

They do not. They expressly say, that they will pay one pound, one pound one shilling, five pounds five shillings, twenty pounds, one hundred pounds, &c. by which is merely to be understood, that they engage to account for that proportion of the standard unit of the country. A very great stress has been laid upon this, that the banks promise to pay, and that they do not pay; but they, most assuredly, do not promise to pay in gold; they might almost as well promise to pay in broad cloth, wine, sugar, or any other article of merchandise.

Thirdly.—When the bills, for which the banks have issued notes, become due, do they receive gold in payment, or would the acceptors of these bills be pleased, should the banks require gold in payment?

The banks do not usually receive gold in payment of the bills they hold, nor would the acceptors of those bills be at all pleased or satisfied should the banks insist upon gold in payment.

Fourthly.—If, then, the banks do not receive gold when they issue their notes, nor when the bills they hold become due, upon what ground is it that they are expected to be ready, at all times, to give gold for their notes?

It is entirely owing to the mistaken

ideas which have been entertained of the nature of gold coin. Gold being an article of real value, paper of none, it has been concluded, that gold was the standard of value in the country, paper only a symbol thereof. And that, therefore, the issuers of that paper should, at all times, be ready to give the standard for it.

It is hoped, after what has been stated, that the public will now see the fallacy of this reasoning, and be convinced that gold coin and paper money are exactly on the same footing, each being only a symbol, or token, of the standard unit of the country, and, consequently, neither of them entitled to be placed above or before the other.

It is very extraordinary that the writers who made the greatest outcry on this subject were so ignorant of the true nature of the paper-currency of this country, that they seriously asserted that nothing but obliging the Bank to give gold for the notes could possibly prevent its issuing any quantity of these notes, and, after they were once issued, retaining them in the circle without their being ever withdrawn: this argument has already been refuted. It has been shewn, that, if the bank only issue notes upon inland bills or exchequer-bills, the sum issued must depend upon the amount of these. And, whenever these inland bills or exchequer-bills become due, the notes must be returned to them, in payment thereof, and then given out again upon new securities of the same kind. Now, if the Bank were also obliged to have gold always in readiness, to give for these notes, it would hold two equivalents for the same thing: for each note issued, it would have a bill and a guinea. This would be doing away the meaning and intention of issuing paper money most completely, and it would be much better, when a bill was discounted, to give the gold at once. It is true that the advocates for the banks paying gold assert that it would not be necessary to keep guineas for every note issued, and some pretty calculations have

been made, upon the number of guineas that might be required, in proportion to the circulation; but this is conceived to be perfectly absurd. If a bank is liable to be called upon for gold, it is impossible to say to what extent that call may be; and Mr. Thornton has most satisfactorily proved that a bank, continuing to issue notes, may be called upon for gold, to an amount far beyond that of their circulation.

It is, therefore, clear, that there can be no medium. If the issuers of bank-notes are to be called upon to give guineas for them whenever the holders chuse, then the issuing of bank-notes ought to be given up. If the trade and commerce of this country actually require a circulation of paper money, then the idea of making the issuers give gold for it should be entirely abandoned.

One of the objects in the first issuing of paper money was the giving a circulating medium to the public, and thereby allowing the gold in the country to be made use of, either to pay debts, already contracted abroad, or to go to market with there. Now, if the Bank is obliged to give gold for its notes, this object would be defeated, as, instead of allowing the gold to be exported, the Bank would require to hoard it up, to be ready to answer the demands upon them. And for what purpose is it that gold is required to be given for bank-notes?—Surely not for inland circulation; surely the good people of England have found, after a ten-years' trial, that bank-notes are, at least, as good for a circulating medium, amongst themselves, as gold; on many occasions they must be allowed more convenient, and on none less. It can only be for exportation, therefore, that gold will now be sought; and, if so, it would be extremely hard upon the Bank to be obliged to supply the public with gold as often as they required it.*

* One of the great defects of coins is, that, owing to their invariability, whenever the rate of exchange is against a country, they are laid hold of to be exported, in place of bullion; because bullion rises in value according to the demand, but coins do not. This alone is a sufficient objection against banks being obliged to give gold for their notes, and will be treated more fully under the head of Exchange.

Besides, if the principles already laid down be just, it must be clear, that to insist upon banks giving gold for their notes would be completely subversive of the intention for which bank-notes are issued. When a bank issues notes upon the credit of a bill, payable two or three months thereafter, it gives these notes forth upon the faith of their being returned when the bill becomes due, and only then. But if, in the interim, gold should be demanded for these notes, and paid, then, when the bill becomes due, there are no notes in the circle to stand against it, and it, therefore, cannot be retired. A superficial reasoner will say here, "there is no want of bank-notes to "people who should have them, or, who "have funds to command them;" but this is a very great mistake, and the reverse has often been experienced. If the

Bank of England issue four millions of notes upon discounted bills, and afterwards give gold for two millions of these notes, which gold is not put into the circulation of the country, but exported, it must be evident that the Bank will then hold four millions of bills, and that there are only two millions of notes in circulation to retire these bills; consequently, before they can be retired, the Bank must issue two millions more of notes upon other bills. This explains the nature of the mistake the Bank fell into in 1793, when, in consequence of a great run upon them for gold for exportation, they curtailed their discounts, instead of extending them, and, by that means, threw the mercantile world into very great distress, for want of a circulating medium.

The last error to be taken notice of is, "that a free paper currency can be issued to such an extent as to cause a depreciation of the value thereof, and that without effecting the credit of the issuers."

The definition given of a free paper currency, is, that it is notes issued upon securities, convertible again into these notes at a short distant period; that is to say, it is a bank issuing notes for bills, having two or three months to run, and receiving back these notes again, when the bills become due.

Now, wherever a bank acts upon this system, it is absolutely impossible for that bank to issue notes to such an extent as to cause a depreciation of these notes, because no respectable man would give a good bill, at two or three months date, for notes, which he was certain would not pass from him at the value specified in them, but at a discount, more or less, according to the quantity that might be issued. If there were really too many in circulation, he would find plenty of people willing to give them for a good bill, not at the value they bore, but at the current value; and, therefore, he would have no occasion to take them from the Bank at their full value. Should such a Bank even fall into the error of issuing too many notes any one week, it would be corrected the next; for there would be no applications for discounts, and, as the bills they held would be daily becoming due, the surplus notes would very soon return to them.

Besides, whenever a private banker, merchant, or trader, finds that he has got more bank-notes than he has immediate occasion for, he sends them to the Bank, and gets a receipt for the full amount, so that thus all extra notes are instantly taken out of the circle. It may be objected that this is of no consequence, as the Bank will only give him notes again; but this is a mistake, for what he deposits at the Bank is no longer circulating medium, but capital, or property, which he keeps there for the convenience of having it at command; having it always in his power to transfer it, at once, either in payment of obligations already incurred or in exchange for other property; and that by a

simple draft, or order, on the Bank, without the intervention of bank-notes at all.

This doctrine of depreciation has, of late, been a very favourite one, and a great deal has been said upon it by people who do not seem to have understood what they were talking about. As a convincing proof of this, it may be only necessary to state, that they, one and all, treat of depreciation of coins, and depreciation of paper, as proceeding from the same causes, and being the same. That the effects are the same, there is no doubt; but the causes are very different indeed.

Depreciation may be defined to be "the passing of a symbol, or token, for "less of the standard unit than it was "first issued for." This, to be sure, will apply equally to coins and to bank-notes. If a gold guinea, which was issued to represent twenty one-twentieths of the standard unit of this country, should pass in common circulation for 17*s.* or 18*s.* say 17-20th or 18-20th parts of the unit, it would really be depreciated. In like manner, should a bank-note for one pound pass for 17*s.* or 18*s.* it would also be depreciated. The effect is the same, but the causes are very different. The value of gold and silver coin is always supposed to be equal, or nearly equal, to the value they pass for; a depreciation of these, therefore, must proceed either from a deficiency of the quantity of metal in each, or from an adulteration in the quality of that metal, in consequence of which they pass for less than they were issued to represent. Neither of these causes will apply to paper currency; for a bank-note is intrinsically worth nothing; all the value attached to it is from the credit of the people who issue it; and, as long as that credit remains unimpeached, it will pass at its full value; if once that credit is impeached, or even suspected, a slight depreciation only would not follow; the note would sink in value to nothing, and a total stop would be put to its circulation. Should a guinea or a shilling be so deficient in quantity or

adulterated in quality as not to pass for coin, they are yet of some value, they will sell for bullion; but, if the credit of the issuers of a bank-note is gone, it is worth nothing; it will only sell for waste paper.

How absurd, then, is the assertion that bank-notes can be depreciated without the credit of the issuers being affected! and yet it has been asserted, that, although the credit of the Bank of England is *most undoubted*, the notes of that bank have been over-issued, so as to cause a depreciation thereof.

The mode followed in issuing these notes has already been stated. And it is certainly well known, that, at the time this depreciation was said to exist, private bankers, and merchants of the greatest wealth, credit, and respectability, in London, continued to make daily applications to that bank, to give them notes in exchange for good and undoubted bills, generally having only one month, and never having more than two months to run; and which bills the holders knew they would receive full value for, when they became due. Now, if a depreciation had actually existed on these notes, would these gentlemen have persisted in applying to the Bank for them, in exchange for such bills; and not only so, but allowed the Bank to deduct the discount, that is to say, the legal interest for the time the bills had to run? It is impossible. If, as is asserted, a depreciation of two per cent. existed on these notes, then a banker or merchant who regularly applied to that bank for discounts would not only have had to pay the legal interest of five per cent. but, allowing all the bills done for him had two months to run, he would have had to pay twelve per cent. more; that is to say, two per cent. discount, six times in the twelve month, so that he would actually have been borrowing money to carry on his business at the rate of seventeen per cent. per annum; a rate which the usual run of profits in this country would by no

means afford,* and yet he would have had to pay it. For, when the Bank issued these notes, they certainly did it at their full value, that is, the value expressed in them; the first receivers, therefore, must have been the people who suffered by a depreciation, if one actually existed. But how have the asserters of this depreciation proved its existence? Have they attempted to shew that the Bank, when it discounts a bill, stated a £100 note at only £98, or that the person who received that note from the Bank for £100 reckoned it, when he paid it away, at only £98? or, lastly, that, when the bill became due, the Bank would not receive the note for £100 but only for £98! No; no attempt has ever been made to prove any

* These bankers and merchants are in a very different situation from the settlers in America, formerly mentioned; the latter had no capital, and therefore cheerfully gave a high premium for the loan of one: the former have plenty of capital, and only require occasional assistance, to turn that capital into circulating medium; but, for that accommodation, they cannot afford to pay such a premium.

of these. If, then, the note was issued, paid away, and received back again, at the exact value expressed in it, whence did the idea of depreciation arise? Why, from a solitary fact stated by Mr. Puget, before the select Committee of the House of Commons, upon the Irish paper and exchange. Upon being asked the question, "Have you known guineas purchased in this country?" he answered, "At present, I understand two per cent. has been given by persons, for the purpose of having gold by them in case of invasion." And was this sufficient evidence upon which to found a depreciation of Bank-of-England notes? Was this sufficient ground to attack the credit of that Bank? Certainly not! taken at its utmost latitude what does it imply? that some people wanting guineas had paid a premium for collecting them; and for what purpose? was it to serve in common circulation because bank-notes would not pass? No; it was to hoard up in case of invasion.

If the principles stated be just, then must it be evident that not only no depreciation of Bank-of-England notes has existed, or at present exists, but that it is not possible for that bank to issue such a quantity as to cause a depreciation, without completely altering the mode of making those issues.

There appears to be a bare possibility, that, if a country has been long flourishing, and has had such a balance of trade in its favour as to have introduced a great quantity of the precious metals into it, the government of that country may be led to coin such a quantity of these metals into symbols, or tokens, of the standard unit as may make an abundance, or even say a super-abundance, of the circulating medium in that country; and which would remain in it until the balance of payments turned against it, or that the people, in consequence of growing rich, and having plenty of these coins at command, turned them into ornaments for their persons and houses. That this is not the case at present in this country is a melancholy truth that will be contradicted by none. And, in a country where the circulation is almost wholly carried on by the intervention of paper money issued in the manner that the paper money of Great Britain is, to assert that a super-abundance of circulating medium either does or can possibly exist appears to be a most complete absurdity, and, it is hoped, has been proved so.

Depreciation of paper money can only take place when a quantity beyond the demand of the country for a medium is issued permanently; that is, without any provision being made for its being withdrawn again from circulation in a short time; and will appear by the paper passing for a less proportion of the standard unit, than it was issued for. Forced paper money alone can be issued to depreciation, and that depreciation will

soon be evident, not by the coins of the country rising in value, but by a discount being demanded on the notes.

Depreciation exists in another sense; that is, depreciation of the standard unit itself, not of any particular coin or token, but of what is called money itself. The common complaint is, a pound will not go half so far as it did; and this complaint seems to have been made in every age. The standard unit appears to have decreased in value every century, but it did so in comparison to every article, gold and silver included; for the quantity of these, by which it was represented, grew less and less. Originally, it was a lb. of silver, now it is less than four ounces. For the last fifty years, however, the unit has decreased in value, in comparison to every other article, *except gold and silver;* they have remained nearly stationary in this respect. This must be obvious; a guinea does not purchase half so much as it did, but a guinea contains as much gold as it did, and the same is applicable to a shilling. This is a plain and most complete proof that gold and silver, those vaunted standards of value, have, themselves, depreciated in value of late, more than any other article of value.

CHAPTER IV.

To shew the true Theory of Exchange, or connection with foreign Countries, which is also founded on the first Principle, and which will be illustrated by an explanation of the real cause of the late high Exchange with Ireland, and of the present high price of Gold and Silver Bullion in this Country.

THE intercourse between two countries was first carried on by barter, or the giving one article for another. When the precious metals were introduced as mediums of circulation, then they were employed in facilitating the interchange, until the discovery of paper money, produced a very great improvement in the substitution of drafts or bills of exchange.

A bill of exchange may be defined to be "a written order by a merchant in one "country, upon a merchant in another, "to pay a certain sum specified in the "body thereof, at a certain time also "specified." This is sent from the one country to the other; and, if the merchant upon whom it is drawn accept the same, then he becomes bound to pay it, when due.

When a merchant sends goods to another country, he draws a bill of exchange for the amount thereof; and that bill he sells to any of his neighbours, who may have to pay for goods he has got from that country. Or else he receives, from the person to whom he has sent the goods, a draft upon his neighbour for the amount. Thus bills are drawn or accepted for all the articles sent out of or received into a country. And, as far as the amount of the articles exported from a

country are equal to those imported into it, the mutual debt may be discharged by these bills.

In the use of bills, however, one great difficulty occurs; which is, that each commercial country has a different standard unit, and different coins or tokens thereof. So that to ascertain in one country the amount of a debt in another requires a knowledge, not only of the standard and coins of each country, but of their respective values one to another; and, as in some cases, those have never been exactly ascertained, a good deal of confusion has ensued. All this might be completely avoided, and the business made perfectly easy, were the commercial world to agree to have one standard unit for the whole; then the proportion that the coins of each country bore to that standard would be accurately known. This, however, like the idea of an universal standard of weights and measures, may be talked of in theory, but will never be reduced to practice.

The common mode followed is, that, when goods are bought in one country for behoof of a merchant in another, they are first charged according to the currency where bought; but, when a bill is drawn for them, the value is either changed into the currency of the country they are going to, according to the proportion the two currencies bear to one another at the time, or that proportion which is called "the rate of exchange" is fixed and stated in the bills. For instance, a merchant in London orders from Russia a quantity of goods, which the agent there purchases, and states the invoice as amounting to so many rubles, which is the unit of that country. A ruble is supposed equal to thirty pence British, or 30-240ths of the British unit; but this proportion fluctuates, and is sometimes two or three pence below, and sometimes as much above, that rate, according to the less or greater demand for drafts. When the agent draws for the amount, he either calculates the sum in pounds sterling, according to the rate of exchange at the time, or else he

just states, in the bill, so many rubles at so many pence per ruble, by which means the amount in British money is easily ascertained.

In consequence of bills of exchange being now constantly used, in thus liquidating the debts of one country with another, they are become a complete article of merchandise; they are bought and sold, and vary in their price as much as any other goods. But, as they will only be bought in one country to pay a debt due to another, it must be evident that the demand for them, and, consequently, their value, will entirely depend upon the debt due by that country being more or less than the debt due to it. Therefore it was always understood that the high or low rate of exchange was an indication that the imports or exports of a country were greatest; in short, that their value was entirely regulated by the balance of trade, or, at least, by the number of bills brought to market. It remained for the ingenuity of the present times to discover, that "the effect of the balance "of trade, or even of the balance of pay- "ments, upon the rate of exchange, was "very small in comparison to the effect "of currency thereon;" and that, consequently, whenever the rate of exchange got very high in any country, then it might be positively concluded that the currency of that country was depreciated.

As this doctrine has now gained almost universal credit, even amongst the best informed, it will be necessary to be particularly explicit in attempting to refute it.

The error appears to have originated in ignorance of the principle of a standard unit in each country, and in wrong ideas of the nature of depreciation.

Not attending to the principle of a standard unit, writers on this subject have puzzled themselves and their readers by attempting to establish gold and silver as the universal standard. And, by con-

ceiving that the value of these articles should be the same all over the commercial world, they have been led to make such conclusions as have involved the subject in very great obscurity. A lb. of silver in Peru is not of half so much value as it is in Spain. In Spain it is of less value than in England, and in England it is just of half the value that it is in China. Yet, in all these places, silver may be and is employed in common circulation, not as the standard of value itself, but as a symbol, or token, of it. It must, therefore, appear absurd to say, that, if a merchant gives so many pounds weight of silver for a draft on another country, when he sends the draft to that country he is to receive exactly the same weight of silver for it. Should one in Britain purchase a draft in Spain, and receive payment in this way, he would lose by it. If the draft was on China, he would gain. Were gold and silver of exactly the same value in all commercial countries, then the trade in these articles would be at an end, and the quantity of them, in each country, would always continue the same. Or, should accidents diminish it in any particular country, it would remain diminished, as there would be no inducement to merchants to supply the deficiency. It is the constant fluctuation in the comparative values of these, with other articles of merchandise, that causes the conveyance of them from one country to another.

If it be allowed that there exists, in every commercial country, a standard unit, by which the relative value of all articles, in that country, is truly ascertained, then it must be evident that it is of no consequence what symbols, or tokens, the people of a country employ to represent that standard unit, provided only that these tokens readily pass at the value they are issued for. And it must also be evident, that, when a merchant sends goods to any country, and draws a bill for the amount, it can be of no consequence to him how, or in what way, that bill is paid, provided only, that, in

the first instance, he gets value for it; equivalent to the amount in the standard unit of his country; and that, in the second, the person he passes it to be also satisfied by receiving payment in tokens, representing the amount in the standard unit of the country it is payable in.

For example, a merchant, in London, sends to Hamburgh, goods to the value of one hundred pounds British, and draws for the amount. In doing so, he will state a sum in Hamburgh currency, equivalent to the pounds sterling, according to the rate of exchange at the time; suppose that at thirty-five schelings, then his draft will be for one hundred and seventy five pounds Flemish. Now, if he gets one hundred pounds in this country for this draft, and the person to whom he sells it, or to whom it is sent at Hamburgh, gets equivalent to one hundred and seventy-five pounds Flemish for it there, it certainly matters not to the London merchant whether the payment, at Hamburgh, is made in gold, silver, or brass coin, paper money, or goods. In the same manner, should a merchant, at Hamburgh, send goods to London, and draw for the amount, he will state the draft at so much sterling for Flemish; and if it is settled for in London, according to the sum stated, it is certainly of no consequence to him whether it is paid in guineas, shillings, crown pieces, dollars, bank tokens, or bank notes.

When a merchant, therefore, purchases a bill on a foreign country, and remits it to that country, he does not expect that it will be paid by the exact same quantity of gold or silver being delivered for it that he gave. Indeed, in the present improved state of commercial intercourse, it very seldom happens that gold or silver are really given, either in the purchase or payment of a draft. The settlement is more generally made by bank-notes, or a check on a bank, and not unfrequently by goods or inland bills. It would, therefore, often be very difficult to ascertain the exact quantity of

gold, equivalent to the value either given for, or received in payment of, such a draft. Luckily for the mercantile world, there does not exist the least necessity for such troublesome calculations, although the late writers on this subject have amused themselves with a variety of very abstruse speculations thereon.

These writers have also stated some very mistaken ideas, as to depreciation in connection with exchange. The true nature of depreciation has already been explained. It is said really to exist, only when a symbol or token passes, in common currency, for a less proportion of the standard unit than it was originally issued to represent :—for instance, should a guinea pass for eighteen shillings, or eighteen-twentieths of a pound sterling, it would really and truly be depreciated. Now, if a merchant, in London, had a bill upon Hamburgh, for a sum equivalent to one hundred and five pounds British, say one hundred guineas, in selling it, he certainly would not take, as payment, one hundred of these guineas that passed currently at eighteen shillings; because one hundred of these would not be equivalent to one hundred and five pounds, but only to ninety pounds. It would, therefore, require one hundred and sixteen and a fraction to make the equivalent; and, should he get that quantity, he would just have sold his bill at par. But if, when guineas were passing currently at twenty-one shillings, one hundred and sixteen of them were demanded for a draft of one hundred and five pounds, exchange might then justly be said to be sixteen per cent. against Britain. The distinction is obvious; when the symbols, or tokens, of circulation pass at an under value, in purchase of all commodities, and are taken for bills of exchange, at exactly the same under rate, then these symbols, or tokens, are, without doubt, depreciated. But when the symbols, or tokens, pass readily, in all cases, at the full proportion of the standard unit they were issued for; and, at the same time, will

not purchase a bill of exchange, or draft on a foreign country, according to that proportion; then, may it be concluded, with certainty, that the exchange is in favour of that foreign country.

The only case in which the currency can have any effect upon the course of exchange is, when that course is against a country. Then, if the coins, passing in that country, really contain a proportion of metal equivalent to the value they pass for, they will be employed as a remittance, until the rate of exchange is lowered or they are exhausted. This will clear up a circumstance which Mr. Fox mentioned in the House of Commons, some time in March, 1804, in talking of the Bank of Ireland Restriction-Bill, he said, "that he was convinced, that "the currency of a country had some "effect on the exchange, though he "could not exactly tell how; for, at "a certain period, the guineas in this "country were very much debased, "(not depreciated,*) and the exchange "with Hamburgh was up two or "three per cent. but, upon a new "coinage being issued, the exchange "fell to par." The cause is very plain. The balance being, at that time, against this country, bills were in demand, and, therefore, their price rose: the merchants finding it more their interest to pay two or three per cent. for them than to send guineas, because those guineas, which passed here at twenty-one shillings, would, at Hamburgh, only bring their value as bullion, which might not be more than eighteen or nineteen shillings. But, whenever government issued new guineas, the gold in which was equivalent to what they passed for, and which, consequently, would be worth as much at Hamburgh as here, then the merchants found it their interest to send them, and they accord-

* This distinction is important; a guinea is said to be *debased* when it has too little gold in it, yet it passes at its full value; to be depreciated when it passes at an under value.

ingly did so, until bills, being less in demand, fell to par.*

This can only take place, however, in a country, where the currency, or circulating medium, consists of coins made of the precious metals, and which coins really contain a proportion of metal equal to the value they pass for: as in that case they are equal to bullion as a foreign remittance, and, being in some instances preferable, they are then eagerly used as such. In a country, where paper money only is the medium, no such inconvenience can happen, because that paper is only of value within the country. Where the medium is part coins, and part paper money, it may occur, that these coins become of such value as to bear a premium, that is to say, that they are taken at a higher proportion of the standard

* In this manner has this country been, from time to time, drained of its specie, so that, out of sixty millions of guineas coined during his present majesty's reign, it is believed, that there are not five millions remaining in it.

than they are issued to represent. Where this happens, if it appear that these coins are thus taken, not to be again circulated in that country, but for the express purpose of being sent out of the country; and if, at the same time, it appears, that the paper money passes, in all the common intercourses of society within the country, at the exact rate it was issued to represent; then may it be concluded, that the balance of payments is heavily against that country; and that the notes are not depreciated, but that the coins are raised in value, in consequence of having changed from coins to bullion, and, under that head, become valuable as a foreign remittance.

If it be granted, that it is of no consequence what a bill of exchange be paid in, provided only that the holder receive value equivalent to the amount of the standard unit expressed therein, then it will appear evident, that, in general, the currency can have no effect on the rate of exchange, or the rate of exchange on

the currency. But that the price of bills of exchange must depend entirely upon the demand for them. Consequently, that the rate of exchange can never be really against a country without the balance of trade, or, at least, the balance of payments being also against that country. Indeed, this seems so clear, that it is conceived that the rise or fall in the exchange, upon bills, is the only exact criterion to judge, whether the balance of payments is for or against a country.

It has been generally allowed, that the common mode of ascertaining the balance of trade, by a comparison of the gross amount of the exports with that of the imports, taken from the Custom-house books, is a very uncertain one; but it is believed to be still more liable to error than has been commonly supposed. For, when a comparison is made between the exports and the imports of Great Britain, and the conclusion drawn from the excess of the first above the last, that the balance of trade is in favour of that country, and, consequently, that the course of exchange should also be in favour thereof, a very important fact seems to be completely overlooked, which is, that for a considerable part of the exports, no regular returns, indeed, in many cases, no returns at all, have been made, and therefore, in balancing the account, no notice ought to be taken of these sums which are still due.

A very inadequate and lame view of the subject can be had by merely comparing the gross amount of the exports and imports in a year, without taking this into consideration, as will appear at once evident, by simply reflecting upon the sums of money due to Great Britain from all parts of the world. It is not sufficient to say, that because Britain has exported goods, to the value of thirty-six millions, and has only imported to the value of twenty-nine millions, the balance of trade is seven millions in her favour, and that, consequently, the rate of exchange should

be in her favour. Before making such a conclusion, it is necessary to prove, that the whole of the goods exported have been paid for. It is very possible that, of the thirty-six millions, only twenty-five millions have been remitted for, and the remaining eleven added to the debts already due to the country. In that case, in place of a balance in her favour of seven millions, there would be a balance against her of four millions; and that this is not a bare supposition may at once be proved by a reference to the state of accounts between Great Britain and the West-India Islands alone.—What immense sums of money are due by the single island of Jamaica?

In the last three years of the late war, the trade of this country was most flourishing, and the amount of the exports from it greater than at any former period. The balance between exports and imports being estimated at seven millions, on an average, it was thought extraordinary that the rate of exchange with Hamburgh should have been against it; but this phenomenon was accounted for by some circumstances which came out at the peace.

When, by the treaty then concluded, Demarara was agreed to be restored to the Dutch, it was discovered, that that colony owed the merchants of Great Britain between eighteen and twenty millions. So that, having been only about three years in the possession of this country, it had contracted betwixt six and seven millions of debt annually. And thus, the great balance of trade, in favour of Great Britain, was done away at once, without adverting to the balances due by the other new colonies of Berbice, Surinam, and Trinidad, to all of which great sums were sent, especially to the latter. Settlements there having been a favourite speculation, goods, to the value of several millions, were exported to that island, for the express purpose of invest-

ing the proceeds in lands to be cultivated.

During these three years, the rage for exporting was greater than ever was known, and many millions worth were sent, not only to the West-Indies but to America, for which no returns have ever been made. In many instances part of the goods are lying in these countries, to this day, unsold. When to this is to be added the immense sums paid by Great Britain for grain, during these years, estimated at fifteen or twenty millions, over and above the usual imports into the country, and which, therefore, were to be separately paid for, is it any wonder that the exchange was against Britain and the country drained of guineas?

It appears very extraordinary, that, in all the treatises on this subject, no notice whatever is taken of this way of examining these matters. It is thought perfectly sufficient to state, from the Custom-house books, that the exports have been so much, and the imports so much less; and, therefore, the balance is so much in favour of this country. It is not at all taken into consideration, that the whole amount of the imports stands, positively, against the country as a debt, which must be paid, and, for which drafts are drawn upon it. Whereas, for a great part of the goods exported, no drafts are drawn or received, because they are either sent to folks, who are only to account for them a considerable time after, and, perhaps, may never account for them; or they are sent upon chance, to be sold for what they will bring, by people to whom they are consigned, who, in many cases, do not sell them for years; and who, after they do sell them, often forget to remit for them.

It is a well-known fact, that more mercantile people have been ruined by sending goods abroad, upon speculation, than by any other line of business; and many merchants have suffered severely, by sending out goods ordered by those who never

do remit for them. When a great West-India or other foreign house stops payment, what is the excuse?—Want of remittances from abroad. Now, when a house, in that situation, exhibits a state of its affairs, the creditors certainly would not be satisfied to be told, that it had exported such a quantity of goods, and had only imported so much less; the query would be, have you been paid for what you have exported, or can you get payment? It is unnecessary to shew us debts on your books, unless you can also shew us how to make them effectual.

Whenever the balance of payments runs against a country, and, consequently, bills of exchange become in demand, and increase in value, then recourse is had to bullion; but bullion, being also an article of commerce, increases in value too, and, therefore, in those countries where the coins really contain the full proportion of metal, they are immediately picked up and exported as bullion.

This has already been taken notice of, as an inconvenience attending the use of coins, as a medium of circulation; and, were there no other reasons, it alone would be an insuperable objection against banks in this country being obliged to give guineas for their notes. In Great Britain guineas are issued of the full weight, so that, allowing the price of bullion to continue at par, that is the price it bore when the guineas were coined, it is equally advantageous to export guineas as bullion. But suppose circumstances should occur to increase the demand for bullion, and, consequently, to raise its price, then it must be evident that those who can get guineas to export will just gain the amount of the rise upon the price of bullion. If, therefore, the rate of exchange should run against Great Britain, for a length of time, and the Bank of England was obliged to continue to give gold for its notes, it would either be ruined or be forced to stop issuing altogether.

When a merchant orders goods from a foreign country, he takes his chance of the exchange being for or against him. When he receives the invoice, and knows exactly how it is, should it be against him, he just adds the difference to the price he sells the goods at; so that, in general, it is not he that suffers the loss, it is the public. But if, instead of buying bills or bullion at a high rate, he had it in his power to procure guineas from the Bank whenever he required them, he would save the charge of exchange to the public, if he did not put it in his own pocket; at any rate, it would land, exclusively, on the Bank. For, as long as the merchants could prevail on the Directors of the Bank to discount bills for them, they might make their remittances at an easy rate, by demanding guineas in exchange for the notes they received for the bills. And this might be done until the Bank was completely drained of guineas. When if it attempted to continue issuing notes, it would be obliged to bring back those guineas from abroad, at such an expense as would soon ruin it. Meantime, the mercantile part of the community would be thrown into great confusion and distress, for want of means to retire the bills the Bank had taken: the notes issued for them having been returned for guineas, which were exported, when these bills should become due there would be no medium to retire them with.

Should the Bank, instead of persisting, stop issuing notes altogether, the extent of the evil, in regard to it, would soon be known. Guineas might be demanded for the whole or the greatest part of the notes then in circulation, and, when that was done, the matter would be at an end as to the Bank: but the consequences to the mercantile world would be fatal. The notes being all retired and the guineas exported, when the bills the Bank held became due, the acceptors would have no mode whatever of retiring them; and, therefore, unless the Bank took goods in payment, or other bills, these acceptors

would be liable to all the distresses and horrors of bankruptcy, although their property might be much more than what they owed.

In this view the Restriction-Bill was one of the wisest acts that ever was passed, and one that has been of the most essential benefit to the country. By it the Bank was not only relieved from the embarrassing circumstances it was placed in, and from the danger of being obliged to give up accommodating the public with discounts, but it was at once enabled to enlarge that accommodation without any risk, and thereby to give a medium of circulation, to supply the guineas that were either exported or hoarded up. And yet this act was not only, at the time it was passed, reprobated and abused, but, after ten years experience of its beneficial effects, it is still the subject of attack; and many attempts have been made to have it rescinded, in order that the Bank might be obliged *to renew its payments in specie*. Should such a step ever be taken, it will be the commencement of the ruin not only of the Bank of England, and all the banks of the country, but of the country itself.

The writers in favour of this repeal argue, that, there being now no check to the issuing of bank-notes, they have been over-issued, so as to cause a depreciation; and that, in consequence of this depreciation, the rate of exchange with foreign countries had risen. These assertions have been already combated, and it is hoped, successfully.

But there remains one on the subject of exchange, not yet noticed, and a most extraordinary one it is. It was first started by Lord King, and from him quoted and enlarged upon by his followers, as an axiom from unquestionable authority; his lordship says, "the balance of trade alone "can never occasion any greater differ-"ence in the state of the exchange above "par than what will be sufficient to pay "the expenses and profit of the merchant

"who exports the precious metals to re-"store the balance;" and this expense and profit he fixes at eight per cent. from London to the continent of Europe, expressly declaring, whenever the exchange is above that, it must be owing to a degraded currency.

Upon what data his lordship went in fixing it so high, he does not say; it is well known that two or three per cent. for expenses and profit would be a sufficient inducement for a British merchant to export bullion, and that, therefore, if the doctrine were correct, the rate would never be above three per cent. But, in order to show that the doctrine was correct, his lordship ought to have mentioned one essential circumstance, which is, where the merchant is to find the precious metals to export. His lordship does not seem to have taken into consideration the possibility of a country being so far in debt as that all the precious metals the merchants could find to purchase would not pay. A community, like an individual, may run in debt beyond a possibility of immediately paying; and his lordship might as well tell an individual, who had spent all the funds he had at command, and was still in debt, that it was of no consequence, he had only to be at the trouble of putting his hand in his pocket, and at the expense of sending gold to his creditor.

In a country where there are no mines, an unfavourable exchange will soon exhaust the quantity of the precious metals at market; and they cannot be restored until the balance of payments take a favourable turn. This is a doctrine that has been supported by all the best writers on the subject, and seems even to be allowed by his lordship, in another part of his work, where he says, "A slight attention to the commercial relations of "Ireland must satisfy us that this uniformly unfavourable exchange against "Dublin must be, in a great measure, "nominal; and that it can, upon no "intelligible principles, have been pro-

"duced by an actual balance of trade "against Ireland. A *really* unfavourable "exchange would imply that there had "been, during all this period, a constant "excess of imports above exports, and a "constant remittance of bullion or "specie to pay for the difference; *where "a country does not possess considerable "mines, such a continued remittance of the "precious metals can only be made in consequence of corresponding remittances from "other countries*; and it therefore implies "a constantly favourable exchange in "some other quarter; but Ireland has no "regular course of exchange with any "part of the world, except through the "intervention of England." Here he certainly makes such an allowance as completely does away the axiom in question, so that he may be truly said to have contradicted himself. But that is nothing extraordinary; if necessary, many other cases of the same kind may be produced. Indeed, it is conceived that the above quotation is sufficient to prove that his lordship was ignorant of the first principles, and that he had been at no pains to inquire into facts, regarding the subject he wrote upon. In the first place, a very slight attention to the commercial relations of Ireland would have been sufficient to have shown the real causes for the uniformly - unfavourable exchange against Ireland at that time. In the second place, he ought to have known that a really unfavourable exchange never appears whilst bullion or specie can be got to export; and that, therefore, as long as a constant remittance of bullion or specie to pay for the difference continued, there would be no rise on the price of bills of exchange, consequently no appearance of an unfavourable exchange. And, in the last place, he should also have known that a very unfavourable exchange could never appear against any country, that, at the same time, had a favourable exchange against another, equivalent thereto, as the rise upon the price of bills of exchange is always in consequence of the general balance being against a country, not a particular one.

There is yet another doctrine advanced by these gentlemen, which requires investigation. It is, "that the rate of exchange can never continue long against "a country, because it will work its own "remedy immediately, by forcing exports from the country." Had they said that it would cause its own remedy, in process of time, by stopping or curtailing the imports, they would have been right. When a man finds that he cannot pay for goods, if he is an honest man, he will cease ordering; and merchants, who find that they cannot get payment for what they have sent, will stop sending more: the imports may thus soon be cut short. It is not so easy at once to increase the exports. To be sure, if goods are in a country they may be sent out of it; but, in general, an additional supply must first be created in the country, before the exports can be much increased; and these exports can never be increased to advantage, until a foreign market is found for them. Indeed, the demand ought first to proceed from the foreign market; an extra demand for goods always raises their price at home, and, unless the want of them in the foreign market is so great as to raise their price there too, they cannot be sent with advantage.

When the rate of exchange is much against a country, no doubt such merchants as have heavy remittances to make may be induced to export goods; but, if this is carried any length, what is the consequence? These merchants must themselves purchase these articles to export, if they be the rude produce of the soil, from the growers, if they be manufactures, from the manufacturers. The growers or manufacturers, whenever they find the demand increase, will immediately raise the price; and this the merchants will be obliged to pay. But, when they send these articles to a foreign market to be sold, no rise of price will take place there; on the contrary, the quantity at market having increased without the demand increasing, the price will fall; and that sometimes so considerably

as to cause the adventurers in these speculations to suffer heavy losses.

From what has been stated, it may be inferred, that when, in any country, bills of exchange are in great demand and fetch a high price, gold coins are scarce, and bullion risen in value; and, at the same time, the paper money passing in the country, not only readily goes in exchange for every other article of value, at the rate it has been issued for, but will, at all times, purchase these bills and bullion, at the exact value fixed upon them; then the balance of payments is evidently against that country. And this will receive an additional confirmation, if the gold coins, instead of being passed as the circulating medium of the country, are picked up and sold at a higher rate, that is to say, for some symbols, representing a greater proportion of the standard unit than those gold coins were originally issued to represent. Because that expressly shows that those coins have changed their nature, and, instead of being invariable representatives of the standard unit of the country, have reverted into bullion, in consequence of the urgency of the demand for foreign payments.

Since the year 1800, all those phenomena have taken place in Ireland, in a greater or lesser degree; and, upon the doctrines here laid down, it would have been at once concluded that the balance of payments had, during that period, been against that country. This, however, has been vehemently denied, and, in order to account for them, other causes have been brought forward; but which, if the principles stated in this work be true, could, and only did, exist in the imaginations of the assertors.

In the year 1803, the rate of exchange got so high against Ireland as to cause a universal clamour, to quiet which a parliamentary inquiry was deemed necessary; and, therefore, in the winter of that year, a committee of the House of

Commons was appointed to inquire into the causes thereof. Their report was most anxiously looked for, as it was expected that it would not only clear up at once all the difficulties that had previously attended the discussion of the subject of exchange, but that it would also provide some effectual remedy for the inconveniences at that time affecting the intercourse between the two countries.

The report at last made its appearance, but, unhappily, without effecting either of the good purposes which were expected from it. This appears to be entirely owing to the committee having allowed themselves to be misled. With seemingly the best intentions, and the greatest inclination to do all in their power to set matters right, from a diffidence of their own knowledge of the subject, and capability of judging thereof, they suffered themselves to be imposed upon by people who almost appear to have laid themselves out for that purpose.

In consequence, instead of attributing the high rate of exchange to the true cause, the great balance of payments against Ireland, they were induced, although in a very hesitating manner, to impute it to a supposed depreciation of Bank-of-Ireland notes, said to be occasioned by an alleged over-issue thereof.

This report very soon sunk into oblivion: but the doctrines supported in it have been, and still are, favoured by many. Indeed they have been quoted and founded upon by almost every writer on the subject, since that period; therefore it is deemed essentially necessary to expose them here, in illustration of the principles that have been laid down.

As the Bank of Ireland, in issuing its notes, follows exactly the same mode that the Bank of England does, it is conceived to be unnecessary to go over the same grounds, to prove the impossibility of that bank making an over-issue of notes. One particular must, however, be taken notice

of, which is, that the argument used, as to the bankers and merchants continuing to apply for discounts, during the time the depreciation was alleged to exist, bears infinitely more strong in the case of the Bank of Ireland than it did in the other; because, in Ireland, the depreciation, instead of being two per cent. was said to be ten per cent. Now, at the very time this said depreciation was alleged to exist, it is well known, but if required it can be proved, that the most wealthy and independent bankers and merchants in Dublin made daily application to the Bank of Ireland to give them notes for good and undoubted bills, having not more than two months to run, and for which bills they were certain of getting full value when due. If, therefore, this depreciation of ten per cent. did really exist on those notes, then these bankers and merchants were paying no less than sixty-five per cent. per annum, that is, ten per cent. six times over, and five per cent. discount, for the temporary accommodation they thus received from the bank.*

A noble writer, who supported this doctrine, conceives that he has accounted sufficiently for the possibility of the over-issue taking place, by stating that the Bank being obliged by their charter to discount at five per cent. per annum, while the private banks charged six, which is the legal interest in the country, every one wanting discounts pressed upon the Bank for them; and, by the Restriction Act, "the Bank was obvi-"ously exposed to all the ardour of soli-"citation, which must naturally attend "the practice of discounting at an infe-

* It is rather an extraordinary circumstance, that, at the very time these assertions were made in this country, it should be stated in the Moniteur that Great Britain and Ireland were on the eve of universal bankruptcy; for that, already, in Ireland, *money was borrowed at the rate of 66 per cent. per annum*, and matters were very little better in Great Britain. By most readers in this country this assertion was laughed at; but the above shows that the French took their data from ourselves, and that they were better calculators.

"rior rate of interest, whilst the check "on the extent to which the indulgence "might be carried was completely anni-"hilated." If this depreciation of ten per cent. had actually existed, at the time these people so ardently solicited discounts from the Bank, they might most truly have been denominated *penny wise and pound foolish*; as, in order to save one per cent. per annum, they were losing only sixty. Allowing that all the bills discounted for them had two months to run, on every transaction they saved one-sixth and lost ten per cent.

It was certainly unnecessary to have recourse to such a gross absurdity to account for the high rate of exchange against Ireland. A very slight consideration of the calamitous and untoward events that had afflicted that unfortunate country, for several years previous, must have convinced any impartial observer that that high rate was owing entirely to the natural cause,—a balance of payments against that country.

For some years previous to 1798, an unhappy spirit of insubordination and insurrection had spread through Ireland, and which, in that year, broke out into open rebellion. This, besides having the usual effect of stopping the manufactures and hurting the commerce of the country, bore peculiarly hard on its agriculture, from which a great proportion of the exports arise. This was, however, much aggravated in the ensuing year, when, by a general failure of the crops, instead of exporting grain as usual, it was found necessary to import grain of all kinds; and, in consequence of the stoppage of the distilleries, spirits also, and that to a very great extent, and a still higher amount; the price of both having risen enormously. This was followed by the union, which, however much it may be of service to that country in other points, was then against it, in so far as it tended to increase, at that critical time, the number of absentees who drew money out of the country.

To these principal causes might be added a number of lesser ones; such as the demand for provisions and linens, the staple exports, having decreased very much during the years 1801, 2, and 3; a partial drought during the summer of 1803, which, in many places, hurt the crops of barley and potatoes, and occasioned pretty large importations of these articles, &c. &c.

These events, pressing upon one another, had the obvious tendency of causing the balance of payments to run against the country, and, consequently, to raise the rate of exchange. Accordingly, in 1800, the gold coin in the country having almost all disappeared, the rate of exchange began to rise, and continued rising until 1803. Meantime, the public finding itself at a loss for a medium of circulation, to supply the place of the coins exported, the Bank of Ireland was induced to enlarge the issue of its notes; and this was the easier accomplished, because, when they did make an extra issue, the notes remained out, instead of returning to them almost immediately as formerly. As the exchange rose, the price of bullion got up; and, at last, gold coins brought a premium, as did Bank-of-England notes, and Scotch bank notes.

This will not appear at all extraordinary when it is considered that guineas, Bank-of-England notes, and Scotch bank notes, were all articles that suited, for a remittance to Great Britain, at least equally as well as drafts or bills of exchange; and, in some cases, as for small payments or for travellers, they answered better. Offices were, therefore, opened in Dublin, where these were all regularly bought and sold, at the current price of the day, according to the variation in the rate of exchange upon bills. But that price was always fixed at a proportion of the standard unit of the country; and, if Irish bank notes, representing that proportion

of the standard, were offered, they were immediately taken.*

It was well known at the time that these guineas, and Bank-of-England notes, thus bought at a high price, were not purchased to be employed as the circulating medium of the country, but for the express purpose of being either sent or carried to England. Now, if the debts due to the country had really been more than the debts due by the country, this never could have happened. For, in that case, bills would always have been plenty, and, consequently, cheap; guineas and Bank-of-England notes would have been poured into the country, and the latter,

* These sales of guineas, which were daily advertised, might have been produced as an evidence of the existence of a standard unit. For if gold had been really the standard of value, how could these guineas have altered their value? or how could they have been bought and sold? with what could they be bought and sold? An invariable standard of value, changing its value every day, is most assuredly a gross absurdity.

perhaps, sold for a discount, as bills of exchange have been in former times.

In regard to Scotch bank notes, they could only be purchased in order to be remitted to Scotland, as they would not pass in common circulation either in Ireland or England. They were, therefore, principally purchased by Scotch ship-masters, who had brought cargoes of coals, &c. to Ireland, and wished to carry home the proceeds in money.

This sale of coins was, at last, carried so great a length, that even such shillings as would pass in Great Britain were picked up for that purpose, and sold at a higher rate by the shop-keepers and retailers, who made a regular trade of it. In consequence, a scarcity of good shillings ensued, which was soon supplied by the coiners, who produced counterfeits in such abundance that they became a perfect nuisance, and were at last suppressed, in March, 1804, at a great public loss. The only part thereof that is not to be

regretted is, that which was sustained by those shop-keepers and retailers, who were, in a good measure, the original cause of the evil.

With all these circumstances fresh in view, it must appear very extraordinary that the committee were led to make the conclusion they did; and it will naturally be asked upon what grounds did they do so? This appears to have proceeded principally upon the evidence of one gentleman, high in office in the Custom-house of Dublin, who was brought over to state the official returns of the exports and imports of Ireland, and who seems to have been determined that not only the balance of trade, but the balance of payments, should appear in favour of that country. For this purpose, not content with producing an account of the exports and imports, as entered at the Custom-house, he exhibited to the committee a statement, drawn up by himself, of these exports and imports; and, having placed opposite thereto the amount of the annual loans negotiated in England, he showed upon the whole an apparent balance in favour of Ireland, from which the committee, taking the account at once as correct, were led to conclude *that the balance of payments was not against Ireland.*

Without disputing the grounds upon which this gentleman ventured to alter, so essentially, the amount of the exports and imports, it is proposed to show, in the clearest manner, from the data laid down by the gentleman himself, allowing them to be all correct, that no such conclusion as he has drawn follows therefrom. But that, on the contrary, during the six years stated by him, a balance *against* Ireland clearly appears of above seven millions and a half.

In the report given in by the gentleman, he states the payments by and to the country under six heads, and gives a distinct enough account of each of them. But, when he asserts that "the balance

"of debt, which was assumed to have "been favourable to Ireland at the time "of the suspension, has, since that event, "been very considerably improved," he ought to have shown fairly how that was proved.

This could only have been done by stating, on one side of an account current, the whole amount of each item against the country, for each year, after the suspension; and, on the other, the whole amount of those in her favour, for the same years; and thus have shown how the balance really stood. Instead of this, however, he takes only two of these heads, and makes a statement with them, dismissing the other four, with barely saying, "no material incorrectness will arise "from the omission of the other four "heads, *as they have nearly the same effect upon every year in the statement.*" This last assertion may be true; but it is scarcely possible to conceive that he was ignorant what a difference they would have made upon the general statement, if they had been brought forward. As, however, he either was really not aware, or did not chuse to take notice, of this, it is necessary here to show it.

The first he takes is the amount of the imports and exports. Upon this head he acknowledges, after all his calculations and stretching, the amount of the exports certainly as far as possible, that there was, for six years, from 1798 to 1803, a balance upon the whole, against Ireland, of £2,063,532. This, therefore, must stand on the debit side of the account current of Ireland for these years.

The other head he takes is the remittances, from England, for the balances of loans during these six years, which altogether amount to £8,232,240. This goes to the credit side.

Striking the difference betwixt these two heads, no doubt, leaves a balance of above six millions in favour of Ireland during that period. But it must certainly

appear very strange indeed, that, in the first part of his report, he should place this sixth head, being in favour of the country, opposite to the other five which were against it, or, as he calls them, drains; and yet, in drawing up a state of the report, he should content himself with taking one of these drains, instead of bringing forward the whole, as he ought to have done.

This is not at all, however. In talking of these drains, he endeavours to insinuate, that, in the present discussion, it is only the excess or increase of them that falls to be taken into consideration, which is not the case. Although it be allowed to him that the general balance of debt was favourable to Ireland, at the time of the suspension, yet it is positively denied that it was so at the time of his statement, or had been so during the six years previous. And certainly, if he, in endeavouring to prove his assertion, takes *all* that can possibly be brought forward in favour thereof, he must also allow *all* that go against it; and, therefore, it is most assuredly the total amount of these heads that fall to be stated here.

The first of these heads is the drain by smuggling, that is to say, remittances for goods smuggled into the country. This, at the most moderate calculations, cannot be estimated at less than £200,000 per annum, being for six years £1,200,000, to go to the debit side of the account.

As he states nothing under the second head, it will be passed over.

The third head is, the remittances to absentees of all descriptions. This is by far the most important, and it is astonishing with what ease he gets quit of it. He does not mention what the amount of this head might be previous to the suspension, he merely states that it may have increased £500,000, the half of which sum, he says, is taken away by some payments that used to be made to England having ceased. Allowing this to have been the

case when he made up his statement, he certainly ought to have brought forward the other half. This is not the principal objection, however. In the mode in which he has summed up his statement, there cannot be a doubt that the *whole* amount of the remittances to absentees, for these six years, should have been brought forward. To say, that, because the country could formerly pay the sums then owing to absentees, it must be assumed that it was equally able to do so at that time, is absurd. It is begging, or rather prejudging, the question; it is taking for granted what has been positively denied; and the fallacy of the assertion must appear evident, when it is seen, that, in his eagerness to show a balance in favour of the country, he actually takes away the *whole* of the exports, and the whole of the loans, without taking the least notice of the payments to absentees; although these two articles are the only ones from which a farthing of these payments could possibly come. Thus, not only the old sum of these payments, but even the additional one is left entirely out. Could he *really* have dismissed them so easily, the country certainly would have been very much obliged to him; but it is probable the gentlemen absentees would not have been just so well pleased; and therefore, in this account, it will be necessary to bring them forward.

He gives no data to fix the total amounts of these payments, but the committee take it at two millions.* This is certainly within the mark; however, that sum, for six years, makes twelve millions, to go to the debit side of the account.

The fourth head, being the balance of remittances on account of the sale of es-

* It may be remarked, that the committee themselves most completely support this mode of stating these heads; for in their report they make up an account for one year, and, in doing so, they state the remittances to absentees at £2,000,000. It only appears extraordinary that it never should have occurred to them what an immense difference this mode of stating would have made on the gentleman's report for the five years preceding the one they pitched upon.

tates and funds, shall be taken at the lowest sum stated by him, £500,000, for these six years. This sum must also go to the debit side of the account.

The account, therefore, ought to have been stated thus:

Ireland Dr. to Sundries.

To balance of imports above exports, for six years, from 1798 to 1803 - - - -	£2,063,532
Amount of remittances for the goods smuggled, during that period - - -	1,200,000
Ditto, do. to absentees, &c. ditto - - - - - - - -	12,000,000
Ditto, do. for sale of estates, &c. ditto - - - - -	500,000
	£15,763,532
Contra Creditor.	
By remittances, from England, for the balance of loans - - - - - - -	8,232,240
Balance due by Ireland for these six years - - - -	£7,531,292

This is certainly the mode in which the account should have been stated, either by this gentleman himself or by the committee when they made up their report. Instead of doing that, however, the committee satisfied themselves with taking the particulars of one of those years, and of them making a statement, whereby a balance in favour of Ireland appeared; from which they concluded that the high rate of exchange could not be owing to any deficiency in payments from that country.

Without entering into any investigation of the extraordinary manner in which the exports of that year were swelled from five millions (the original amount in the Custom-house books) to nine millions, (the sum the committee take them at,) allowing the statement to be correct, and that there actually was a balance of £1,241,624 in favour of Ireland for that year; still this could not justify the committee in concluding that the balance of payments had never been against Ireland.

Had they only been at the pains to have made up similar states for the four years preceding that one, even from the data before them, they would have found an aggregate balance of above seven millions against Ireland, at the end of these four years. This certainly could not have been wiped off by the above sum of £1,241,624; and, therefore, they had no reason to be surprised, that, although Ireland might then be recovering herself, the exchange continued against her, in consequence of a heavy balance of payments being still due by her.

This conduct of the committee will appear still more extraordinary, when the rest of the evidence, given before them, is taken into consideration. After the plain, distinct, and convincing, replies, and statements, made by Messrs. Colville and D'Olier, from the Bank of Ireland, so completely corroborated by those of Messrs. Winthrop, Puget, Harman, Barnewell, Irving, &c. it was strange indeed that they should have adopted the conclusions of Mr. Marshall; more especially when a very slight examination of his data would have served to convince them that these conclusions had no just foundation.

In consequence of the committee having adopted these conclusions, however, they were quoted without examination by a number of writers, at that time, whose purposes they answered, and who, therefore, praised them highly, as being evidently the production of a man of ability and intelligence, and upon them founded many fine reveries, which they gave to the public, under the titles of Essays, Thoughts, &c. on the circulation and exchange of Ireland. In these, several dashing schemes for the immediate relief of that country were sported by people, none of whom appears to have been at all acquainted with the real doctrines of exchange, and some seem to have been ignorant even of the common rules of arithmetic.

One of these writers, a noble Lord, published two pamphlets, one immediately after the other. In the first, he laboured to prove "That the high rate of "exchange, against Ireland, must have "been entirely owing to a depreciation "of bank-notes, in consequence of their "over issue, *because the balance of payments was, and always had been, in favour of Ireland.*" The second was expressly written to "warn the manufacturers of Great Britain of the imminent "danger of this country being immediately over-run with all sorts of manufactures from Ireland, much cheaper "than they could be produced here, in "consequence of *the balance of payments being so very much against Ireland.*" Besides the praise of great consistency, his Lordship appears to have had the additional felicity of having been mistaken on both subjects. In the first, the inference is wrong, the fact it is founded upon being false. In the second, the fact is right, but the inference does not follow. Without entering into a particular discussion, to show this, it may be sufficient to remark, that Ireland, or any country, will always find it easier immediately to decrease her imports than immediately to increase her exports. However much his Lordship may be averse to *parsimony*, he will scarce dare to deny, that a man, who is spending more than his income, will, in general, find it much easier to mend that mistake by curtailing his expenditure than by increasing his means.

Many of the principal merchants, both in Dublin and in the other commercial towns of Ireland, could have informed his Lordship, that, when the exchange first began to get so high, instead of purchasing bills for their remittances to England, they had been tempted to purchase and to send both the produce of the soil and manufactured goods to be sold there on their account, and the proceeds applied to pay their obligations; and that they had been severe losers thereby. The prices having started in Ireland, in consequence of the increased demands, and

having been lowered by an over-stocked market in England, these consignments did not sell at prime cost, and very seldom were disposed of in time to answer the purpose principally intended.*

* One instance of this, which came within the author's particular knowledge, will be stated here.—In the autumn, or beginning of the winter, of 1803, a merchant in Dublin, having a large sum to pay in England, bought a parcel of butter, shipped it for this country, and desired his correspondents to sell it at prime cost and charges, and to apply the proceeds to retire his obligations, by which means he expected to save the exchange. His correspondents wrote to him, that, not being able to get so much for it, in consequence of great quantities having arrived at the same time, they had thought it for his interest to let it lie to wait a better market, and had, therefore, been obliged to draw upon him to enable them to retire his bills. This they did at a disadvantage of two to three per cent. Fresh quantities of butter being pressed into the market, the price fell daily, and this parcel lay over until the month of May, 1804, when it was sold nearly thirty per cent. below prime cost.

It may be remarked here, that this cargo of butter, and many others in a similar situation, would be included in the Custom-house report of the exports for 1803.

The only mode in which the exports of the country could have been immediately enlarged to advantage would have been, instead of allowing the factors and agents of the absentee landlords to insist upon the tenant's paying their rents in gold, to have obliged them to receive these rents in the produce of the soil, at the market-price of the day, and to have caused them to send that produce to their employers in England, leaving them to make the best they could of it there. Were this really practicable, it is, on many accounts, the best thing that could be done. These folks have been, if not wholly at least in great part, the cause of the distresses of the country in this respect, and it is they alone who should suffer for it. Were the income-tax doubled upon all absentees from Ireland, except members of parliament and public officers, who are obliged to come to England, it would serve two good purposes; it would keep a number of them at home, and it would increase the revenue of the country.

It was fortunate for Ireland that government was too wise to adopt any of the hasty and harsh quack measures that were proposed for the immediate cure of those inconveniences. It followed the good and wholesome advice of Mr. Wenthorp, who, in his examination before the committee, related the answer of the merchants to Monsieur Colbert, the French minister, "Just let us alone;" and the event has justified its caution. Ireland is slowly, but gradually, recovering from these evils; and, if new calamities do not throw her back again, the great internal resources she has will, in time, enable her to get completely over them.

If the Restriction-Bill was of service in England, it was of ten times more in Ireland; as, without it, the Bank of Ireland, instead of extending its issues of notes, would have been obliged to have stopt them altogether. This must be evident, when it is considered, that, if it had been obliged to give guineas for the notes, at all times, when demanded, and continued to issue these notes, it would have had to furnish guineas for the whole remittances from the country, to the amount of, at least, ten millions; as nobody would ever have gone to 'Change, and given ten per cent. premium, or any premium, for bills, as long as they could have carried the notes to the Bank, and got guineas at par. Neither would the bills have been one iota cheaper; they would rather have been higher: for, in order to provide the guineas, the Bank must have bought them all up at whatever price the holders chose to put upon them. Meantime, the public must have suffered severely for want of a circulating medium; as the notes, as soon as issued, would have been returned for guineas, which would have been immediately exported.

All this was prevented by the Restriction-Bill. By it the Bank was enabled to increase its discounts and enlarge its issue of notes, and thereby to be of the utmost service to the country, if not, at the time, its complete salvation. The

only fault the directors appear to have fallen into was the allowing themselves to have been swayed by popular clamour, and thereby prevented from extending their discounts and issues so far as they might have done, with advantage to the public in general, and the mercantile world in particular.

During the whole of the year 1809, and the two first months of 1810, the exchange with the continent of Europe was very much against Great Britain; and the price of gold and silver, in bullion, and foreign coins, rose very high.

In February, 1810, a committee of the House of Commons was appointed to inquire into the cause of the high price of gold bullion, and to take into consideration the state of the circulating medium, and of the exchanges between Great Britain and foreign parts; and to report the same, with their observations thereupon, *from time to time, to the House.*

This committee, having continued their labours until the month of June, produced their first report only a few days before the end of the session. This report was ordered to be printed for the members, and it was also printed and published for the information of the public, who had been anxiously waiting for the result; as they naturally expected, from the great abilities of the gentlemen composing the committee, from the long time they had set, and from the great attention they were known to have given to the subject, a complete elucidation of all difficulties.

Never was disappointment more complete. Instead of endeavouring to establish some first, just principles, and comparing these with the facts laid before them by the evidence, and with the present extraordinary political and commercial situation of Europe, and from the whole drawing a fair and just conclusion, the committee unfortunately commenced their task with their minds prepossessed

in favour of the same erroneous doctrines which misled the gentlemen of the Irish committee, whose labours they acknowledge their obligations to, and whose report they appear to have taken as a model. Had they followed its example in one respect, it would have been much better for the country. The report of the Irish committee was only printed for the use of the members of the House of Commons, and was allowed to lie quietly on the table. Their report was brought forward a few days before the house rose for a long vacation, and being ordered to be printed, it was also published, and most industriously circulated through the country, and that at a time the most unfortunate that could possibly have occurred. One good effect has, however, resulted therefrom: by thus making their report public, the committee laid themselves open to public criticism, and they have not been spared. Never were so many pamphlets published on the subject in so short a time; and, if public opinion is to be judged of from their general tenor, never was it so decidedly against any measure as that recommended by the committee. Of all the works that have appeared since the report was published, scarce one is in support thereof; for, under this head, the publication of a member of the committee cannot be ranked. It is only a commentary and illustration of the report, and ought to be bound up with it.

This opposition will not appear surprising, when the extraordinary conclusion drawn by the committee is taken into consideration. "According to the best "judgement your committee has been "enabled to form, no sufficient remedy "for the present, or security for the fu"ture, can be pointed out, except the "repeal of the law which suspends the "cash-payments of the Bank of Eng"land."

It has been observed by a very able writer, that the committee have, in this sentence, gone completely beyond their

powers; they had no authority to form a judgement at all, they were only to "re"port to the House, *from time to time*, "the evidence laid before them, with "their observations thereon."

But what is still more extraordinary, the committee have formed this judgement, not only without giving any grounds for doing so, or pointing out that part of the evidence which led to it, but actually in the very face of the strongest, most respectable, and most unexceptionable, evidence to the contrary.

In thus exceeding their powers, and recommending to parliament a measure which the evidence laid before them did not sanction, and which they themselves acknowledge to be a hazardous step, and one pregnant with danger to the Bank, and consequently to the commercial prosperity of the country, it might reasonably be expected that they had very strong and unanswerable arguments to produce in support thereof. No such thing, however, appears in their report. The only reasoning at all applicable to the case is in page 38, where they say: "The evil has been that the exchange, " when fallen, has not had the full means " of recovery, under the subsisting sys- " tem. And, if those occasional depres- " sions which arise from commercial " causes are not, after a time, succes- " sively corrected by the remedy, which " used to apply itself before the suspen- " sion of the cash-payments of the Bank, " the consequences may ultimately be ex- " actly similar to those which a sudden " and extravagant issue of paper would " produce. *The restoration of the ex- " change used to be effected by the clandes- " tine transmission of guineas, which im- " proved it for the moment, by serving as a " remittance;* and unquestionably also " in part, probably much more exten- " sively, by the reduction of the total " quantity of the remaining circulating " medium, to which reduction the Bank " were led to contribute by the caution " which every drain of gold naturally ex-

" cited. Under the present system, the " *former* of these *remedies* must be ex- " pected more and more to fail, the *gui- " neas* in circulation being even now ap- " parently so few as to form no impor- " tant remittance; and the reduction of " paper seems, therefore, the chief, if " not the sole, corrective to be resorted " to. It is only after the Bank shall " have for some time resumed its cash- " payments that both can again operate " as they did on all former occasions " prior to the restriction."

From this it would appear that the committee propose that the Bank should be obliged to give guineas for their notes, not because guineas are wanted for the circulation of the country, but in order to enable the foreign merchant to make his remittances in guineas, and thereby to save to himself the premium he would otherwise have paid on the bills, until the exchange rose. This bugbear of an unfavourable exchange, and the fatal effects attending thereon, must have operated most dreadfully upon the minds of the gentlemen composing the committee, before they could have brought themselves to recommend to parliament to repeal one law, for the avowed purpose of enabling the people to break another. It would have been infinitely better for them at once to have recommended the passing a law to oblige the Bank to furnish the foreign merchant with bullion, at the mint price, and thereby to save all the expense and trouble attending the coinage of guineas and smuggling them out of the country. That this is really what the committee meant may be inferred from what they say in page 31.—"Your committee have here considered *cash* and "bullion as forming a part of the general "mass of exported or imported articles, "and as transferred according to the "state both of the supply and the demand; forming, however, under certain circumstances, and especially in "the case of great fluctuations on the "general commerce, a peculiarly commodious remittance."

It is to be seriously lamented, that twenty-one most respectable members of the House of Commons should have sat down to the consideration of so momentous a subject, with their minds previously biassed to such a degree as to lead them to give a report thereon, displaying so complete an ignorance, not only of the subject itself but of the existing laws in respect thereto. They do not seem to have been aware of the difference between coin and bullion, nor of the existence of laws, strictly prohibiting the exportation of the one and allowing that of the other; for they have, upon all occasions, confounded them together as one and the same, which they certainly would not have done had they known better, for it cannot be supposed that they wished wilfully to mislead parliament. They are little less blameable, however, when, having the means of information before them, they neglected to make use thereof.

Did it never occur to these gentlemen to inquire for what purpose it was that the government had been at such a heavy expense in coining guineas. It certainly never was done with any intention of furnishing a "peculiarly commodious remittance," because the same government has repeatedly passed laws, strictly prohibiting the exportation of these guineas, and ordering confiscation and a severe penalty in case of a discovery of an attempt to evade these laws. The express purpose of coining guineas was to give a commodious circulating medium; but, to insure this to the country, it was absolutely necessary to prohibit their exportation, because they, as coins, not being liable to the fluctuation in value bullion is subject to, whenever bullion rises in price, they would otherwise be immediately used to pay foreign debts.

The absolute necessity of a circulating medium in a country, the importance of a well-regulated one, and the advantages derived from the use of Bank-of-England notes for this purpose, have all been allowed and acknowledged by the com-

mittee. Yet they have come forward and recommended a measure, the adoption of which, *without modification*, would go far, not only to unhinge, if not completely overturn, the present circulating medium of the country, but even to annihilate it, without any other ostensible reason for so doing than to lower the rate of exchange, and to please the *foreign merchant*.

Had this report proceeded from any common source, it might have been declared to be vague, unsatisfactory, and, in many instances, contradictory of itself; but the rank of the noble authors forbids such language to be used, and therefore it will only be stated, that it bears every appearance of having been composed in very great haste. It possibly may be pleaded as an excuse for this, that they had spent so much time in receiving information, and hearing evidence, that they had little left to form their conclusions and make up the report.

One strong instance of inaccuracy flowing therefrom is to be found early in the report, in discussing the subject of the balance of trade. Although this committee follow the Irish one, in concluding that the rate of exchange has very little dependence upon the balance of trade or payments, yet they deemed it necessary to follow the example of that committee also in endeavouring to show that, during the period of their inquiry, the balance of trade and payments had actually been greatly in favour of the country. In their eagerness to do this, they appear to have fallen into an error, or mis-statement, very similar to the one the Irish committee allowed themselves to be led into.

Having applied to Mr. Irving, Inspector-general of the Customs, for information, that gentleman furnished them with tables of the exports and imports for the five years preceding; but, knowing that these tables were only the quantities of the goods calculated at rates fixed above one hundred years ago, and consequently bearing very little resemblance to the pre-

sent prices, he thought it necessary to accompany them with other tables, calculated, as nearly as he could, to the present rates:—the first he called the official value, the latter the real ones; and it must be evident that, by so doing, he fully intended to direct the attention of the committee to the latter, as the true criterion to judge from. The committee, however, have taken the table of the *official* value of the exports and imports of Europe to insert in the body of the report; and from it they argue, that the balance of trade with Europe was, during these five years, in favour of their country, above thirty-six millions. Now, if they had taken the table of real values, they would have found that, during the two first years, the balance was actually against this country, and that, upon the whole, the balance in favour of the country was under nine millions; whilst, during the same period, the bills drawn upon the treasury, for foreign expenditure, amount, as per table in their appendix, to fifteen millions, thus leaving a heavy balance of payment against the country. This, the committee may argue, was made up by the balance of trade with the rest of the world being greatly in favour of this country. But it is not meant to go into a long dissertation, to shew how this may be refuted and done away. Enough has been already stated, to shew of how little consequence Custom-house accounts and balances are; and the above has been taken notice of, merely because the committee appear to have laid a good deal of stress upon a result which has foundation only in their own inaccuracy.

As they were instructed to report to the House, *from time to time*, and have only made one report, it may be presumed that their labours were not at an end, and, therefore, it is to be hoped that they may be re-appointed; or may ask leave to sit again this session, in order to finish. Should this be the case, they will have an opportunity of acquiring information on many important points, some of which

they appear to have totally misconceived, and some of which their former inquiries did not extend to. They may also benefit by the numerous publications their report has given rise to. Should all this have the effect of clearing their minds from the mistaken and erroneous pre-conceived ideas under which they appear to have commenced their former labours, it is probable that they may discover,

1st.—That the par of exchange betwixt two countries is *not* that sum of the currency of either of the two, which, in point of intrinsic value, is precisely equal to a given sum of the currency of the other; that is, contains precisely an equal weight of gold or silver of the same fineness, but is merely founded upon a fixed comparison betwixt the standard units of the two countries, and is not affected by any alteration in the quantity of metal in the coins of either.

2dly.—That the position: "That the

"difference of exchange resulting from "the state of trade and payments be-"tween two countries is limited by the "expense of conveying and insuring the "precious metals from one country to "the other," has neither been long settled nor understood as a principle, being, in fact, a gross mistake, that is contradicted in practice every day.

3dly.—That the position "That there "cannot be for any long period either a "highly favourable or unfavourable ba-"lance of trade, because the balance no "sooner affects the price of bills than "the price of bills, by its re-action on the "state of trade, promotes an equalization "of commercial exports and imports" is one that, though less exceptionable than the last, is only true in particular cases, and cannot be adopted as a fixed and general rule.

4thly.—That, allowing those two positions were really indisputable, they could

only apply to the regular and established intercourse which formerly took place betwixt the commercial nations of the world.

5thly.—That, therefore, they cannot with any propriety be brought forward in reference to the present commercial situation of this country, cut off as it is from all direct intercourse with the continent, and obliged to adopt circuitous modes of disposing of its produce and manufactures.

6thly.—That, in investigating the causes of the high rate of exchange, instead of assuming these two positions as fixed principles, and arguing therefrom, to do justice to the subject, it would have been absolutely necessary to have made particular inquiries into the real situation of the country in regard to her connection with the continent, the facilities or obstructions of her trade, her foreign expenditure in subsidies, and support to her armies, &c. &c.

7thly.—That if this method had been followed, it would have appeared that, for near two years previous, Great Britain had been completely shut out from all regular commercial intercourse with the continent of Europe; that, during that period, her foreign expenditure had been very great, and the importations, which were immediately to be paid for, had been unusually large. So that real circumstances, fully sufficient to account for the alteration in the rate of exchange, and consequent high price of bullion, were to be found without having recourse to fictitious ones.

8thly.—That gold bullion, so far from being the standard of value in this country, is perfectly incapable of being so, being merely an article of commerce, and, as such, subject to frequent fluctuations in its comparative value.

9thly.—That the gold and silver coins issued by government only pass as representatives of commodities, according to

the established standard of value in the country; and, as long as they do so, they continue fixed and invariable in their value.

10thly.—That, when these coins are carried out of the country they are issued in, they cease to be representatives of the standard, and, reverting to the condition of bullion, become liable to all the fluctuations of value incident thereto.

11thly.—That gold and silver bullion, being articles of commerce imported into this country, in return for manufactures exported, the higher price they are sold at so much the better is it for the importer in particular and the country in general.

12thly.—That the daily exchanges of property in the country are now so immense, that it would be perfectly impossible to effect them with gold and silver coin alone, and, therefore, a paper circulating medium has become absolutely and essentially necessary.

13thly.—That the notes of the Bank of England have been found to answer this purpose perfectly well; and, being issued on a principle that effectually precludes the possibility of an over-issue, the directors ought not to be interfered with or overawed by government.

14thly.—That to oblige the Bank to be ready, at all times, to give guineas in exchange for these notes is doing away the very intention and purpose for which the Bank was established, and running the risk of depriving the country of the convenience thereof.

15thly.—That the mint-price of gold and silver bullion, in this country, has continued the same for one hundred years past, whilst it has been rising on the continent; the consequence of which is that coins issued here, being of the full weight, according to the mint-rate, will, at all times, command a higher price on the continent.

16thly.—That, if the mint-price were raised so as to make it equal to what the price of bullion is on the continent, and the government were to issue a coinage equivalent thereto, the guineas would then remain in the country, and the Bank might safely give them out, without any danger of their being carried off.

And it is possible that they might discover that the honourable member, who moved for the committee had attached an importance to the price of bullion which it was by no means entitled to, as he might more properly have moved for a committee to inquire into the high price of "Campeachy logwood and Cuba fus-"tic." These two articles having, at that very time, risen in value 150 in place of 15 per cent. in consequence of a demand for them from the continent; and, being articles of very considerable consequence in our manufactures, had the export continued, the country might have been put to a good deal of inconvenience; whereas, were all the gold and silver bullion exported, nay, all the gold and silver in the country annihilated, the country might continue to flourish without it.

As these positions may appear to many to be wild, and even absurd, it is deemed necessary to give a detailed account of the principal, and the reasoning on which they are founded.

The first is one which has already been taken notice of, and the fallacy of the assertion, "that the par of exchange is "that sum of the currency of two coun- "tries, which contains an equal quantity "of gold or silver of the same fineness," has already been pointed out. But, as the committee assume it as a truism, and, as it appears to be the great stumbling-block over which most of the late writers on this subject have fallen, it is of great consequence to endeavour to clear it completely up.

The error appears to have proceeded from the very mistaken ideas that have

been entertained of the functions of the precious metals. Considering these as the standards of value in every country, it very naturally followed that the par of exchange, or comparison betwixt the standards of two countries should be supposed to depend entirely upon the quantity of them contained in each standard. But, whenever it is ascertained that there exists, in every country, a nominal or imaginary standard, of which the coins are only symbols, then it will be evident that the par, or point of comparison, betwixt the standards cannot depend upon the exact quantity of gold and silver employed to represent each, because that may and has often been altered, but upon some agreed rate, originally fixed by the people in each country, and which does continue invariable. Thus we find, by the passage already quoted by Mr. Park, that when the Africans assumed a bar of iron as their standard, the English fixed the comparative value thereof in their own, at two shillings. Now this could not at the time have been done with reference to the exact quantity of gold and silver contained in the currencies of each, because the blacks actually had then no currency. And, although they should have afterwards made such advances in civilization as to have a circulating medium of gold or silver coins, representing a certain number of bars, it would have made no difference what quantity of gold or silver they put into these coins, the comparison with the English standard would still remain the same, and two shillings would always be the par value for a bar.

It is conceived that the same method has been followed in originally fixing the par, or comparative value, betwixt the European states. It is possible that, at first, some attention was paid to the supposed quantity of gold or silver employed to represent these standards; but, after the par was once fixed, it must have remained invariable, and could not be affected by any alteration in these quantities, because, although this may be done

in consequence of an alteration in the value of gold or silver, yet should each coin continue to represent the same proportion of the standard unit, each standard would still remain the same in comparison to all articles in each country, and therefore they must continue to bear the same proportion to one another. Whereas, should the par depend upon the comparison of the quantity of metal contained in the coins, then it must be perpetually varying, as in most countries on the continent the coins have been repeatedly altered. Besides, it has been already shown that coins do not pass, in the countries in which they are issued, according to the exact quantity of metal in each, but according to fixed proportions of the standard unit; thus remaining always invariable, although the price of gold and silver bullion should alter. As coins are issued in some countries of the full weight and fineness, according to the price of bullion, and, in others, with a deficiency of weight and fineness, no durable, proper, or fair, comparison could be made of the standards by them.

2d.—The second position has also been taken notice of, and its fallacy pointed out; but, as it is brought forward so strongly by the committee, it will be proper to enter more fully into a refutation thereof. They state: "It appears to "your committee to have been long set-"tled and understood as a principle, that "the difference of exchange, resulting "from the state of trade and payments "between two countries, is limited by "the expense of conveying and insuring "the precious metals from one country "to the other; at least, that it cannot "for any considerable length of time ex-"ceed that limit. The real difference of "exchange resulting from the state of "trade and payments never can fall "lower than the amount of such expense "of carriage, including the insurance." The inference to be drawn from this statement is, that if a country import goods

to the amount of five millions, and export only to the amount of four, the balance is immediately made up by exporting one million in the precious metals,—is this the fact? Can the committee prove, from the evidence laid before them, that such is the common practice? The only true way of proving a general rule is by particular application. The term country, as here used, must imply the trading part of a community, which is composed of a certain number of individuals; the practice and usages of these individuals is, therefore, the criterion to ascertain the practice of the country. Now, can the committee produce the evidence of one individual in this country, who is in the habit of settling his differences with foreign countries, either by remitting or receiving *cash* or bullion? or, can they produce an individual foreign merchant, who has been in business any length of time, who has thus had all his balances liquidated, so that he neither owes any thing abroad nor has any thing owing him there? What is not true in detail cannot be so in general.

The fact is, this favourite position was originally grounded upon the doctrine of a balance of trade, which was supposed to be always settled by the transmission of the precious metals. This doctrine having been long exploded and refuted, it is very strange that the committee should have fallen into the error of bringing forward and supporting, so very strongly, a conclusion only drawn therefrom.

Had they only gone a little more into practical detail, they would have found that very few balances are ever paid by a direct remittance of the precious metals; the thing is absolutely impossible. These metals exist in any country, only under two tangible forms, coin and bullion: if, therefore, a balance is to be remitted for in them, it must be under one of these forms; and coins, being of an invariable

value, would certainly be first chosen for this purpose; but, as there is very seldom any great superabundance of them in a country, should a large substraction be made to pay a foreign debt, a considerable inconvenience, proceeding from the want of a circulating medium, would immediately be felt. To guard against this, all governments have prohibited, very strictly, the exportation of coins, and have annexed very severe penalties to the doing so. Recourse must, therefore, be had to bullion; but that being an article of commerce, and, consequently, of fluctuating value, an extra demand for it will immediately raise its value, and thus place it on the same footing with bills of exchange, the price of which is only limited by the demand.

The third point is another that has already been discussed, and its fallacy, in regard to an immediate effect upon the balance of payments, having been shown, it is deemed unnecessary to enlarge upon it farther, more especially as, under particular circumstances, it may, *in course of time*, have in part the effect attributed to it.

On the four following, viz. the 4th, 5th, 6th, and 7th, it may be generally remarked, that it is very extraordinary that the committee should have assumed the two last-noticed doctrines as uncontrovertible, and have reasoned from them, without paying any attention to the present state of the country, in regard to foreign trade, or the possibility of applying these doctrines; taking it for granted, that they were just and true. To talk of the exchange with Hamburgh being against this country, and to impute it to a depreciation of Bank-of-England notes, because, if it had been owing to the balance of trade or payments, it would have been immediately rectified by the exportation of the precious metals, and of goods; whilst, at the time they wrote, it was notorious and well known, that, so far from being able to send goods to that place, not even a letter could be

sent to it direct,—appears to be an insult upon the understandings, not only of the honourable house to whom the Report is made, but of the country at large.

The 8th, 9th, and 10th, have been completely discussed in the course of this work, and are deducible from the reasonings therein employed.

The 11th will require some elucidation, as it is so completely opposite to the opinions of the committee, who seem to think the high price of bullion a most dreadful evil, and which is to be the ruin of the country. Gold and silver bullion are not the growth of this country, they are articles of foreign produce, and, therefore, can only be procured by giving some article of value in exchange for them. Since the discovery of America, Europe has been supplied, almost totally, from the Spanish and Portuguese settlements, the mines there being so much more productive than the European ones. To procure this supply, it is necessary to send out goods; and, as Great Britain furnishes the greatest part of these goods, the principal part of the returns, more especially of late years, have come to her. Now, if a merchant or manufacturer sends out the manufactures of this country, and has them sold there for a certain number of dollars, or millreas, and receives in return a quantity of gold or silver bullion, which is delivered to his agent at a fixed rate of so many dollars or millreas per pound,—certainly, when that bullion arrives in this country, it is much more to the advantage of that merchant or manufacturer to dispose of it here, at the rate of 90*s.* per oz. of gold, or 5*s.* 9*d.* per oz. of silver, than to sell them at 78*s.* and 5*s.* 2*d.* — the difference is a handsome profit, and would be sufficient to induce people to export goods, if they were certain of getting only prime cost and charges there. Thus, by encouraging exportation, the country at large would be gainers in general, as well as the individual exporters in particular.

This argument may be carried farther. Great part of this bullion is re-exported; when it is so, it is certainly of greater advantage to send it away at the high rate than the low. Should grain be wanted, and the people on the continent determine to receive nothing in return for it but gold, the price of that grain being fixed at a certain rate, say, so many francs per quarter, it would surely be better for this country that the gold should be taken at the rate of 105 francs per oz. than at only 95; as, in that case, a greater quantity of grain, nearly a tenth more, would be received for the same quantity of gold.

Upon the 12th, it is conceived there can be no difference of opinion. The trade of this country has become so great, and the daily exchanges of property so multiplied, that it would be perfectly impracticable to carry it on by the intervention of coins alone. Unless gold was so plenty in the country that government could afford to coin pieces of value, from 100 to 5000 guineas, it would be impossible for bankers or merchants to make their daily payments; and, even if they had such pieces, they would not, on many accounts, be so convenient as bank-notes. Nay, so far from coins being capable of performing this office, the bankers in London were under the necessity, nearly forty years ago, of introducing an improvement even upon bank-notes, or, what may be called, an abridgement of the use thereof. They established a daily mutual exchange with one another of the drafts drawn upon them; only paying the difference in bank-notes. It appears, from the evidence, that the daily amount of these drafts is, on an average, £4,700,000, and the notes used to pay the balances, about £220,000. Had the bankers to pay all these drafts in bank-notes, it would require an immense number more in circulation; and would give the bankers a great deal more trouble. Had they to pay them in guineas, it would be utterly impossible for them to carry on their business. Even if the small balances, at the clearing-house, were to be

paid in guineas, it would be a very great inconvenience; each banker would have to send there, on an average, 5000 guineas, and the counting and receiving them would be a great additional labour.

The 13th and 14th have already been fully discussed.

The subject of the 15th and 16th has already been taken notice of. But as it is diametrically opposite to the opinion of the committee, and is considered to be of very great importance, it will be necessary to say something more upon it.

It has already been stated, that the mint price of gold and silver was originally merely a rate fixed upon them, according to the market-price, at the time of the different coinages, and that it was from the first always calculated according to the standard unit of the country. But that, most unfortunately for the last hundred years, it had been continued at one rate, although the market-price of the metals had, during that time, frequently varied. This has not only subjected the country to repeated great inconveniences, but has given rise to the idea, that the mint-price is the standard by which the value of all articles in the country is regulated, and, therefore, that it must remain invariable. As long as this opinion continues to be entertained and acted upon matters will remain in confusion. It has now, it is hoped, been successfully combated and refuted: indeed, had the committee attended to the evidence before them, they must have been convinced of its fallacy; and, instead of deprecating any alteration in the rates at the mint, it is probable they would have recommended, in the strongest manner, that the price should be made equivalent to what it is on the continent, and a new coinage correspondent thereto issued. If, in addition to this, a small seignorage was also deducted, there is little doubt that the Bank might then very safely give guineas, when required, as they would only be asked for their legitimate employment

as a circulating medium. But this would not answer the views of the committee, who seem to think that they should be issued expressly for the purpose of exportation, as there would be no farther temptation to smuggle them away, at least, until the price of gold should rise again on the continent, when the same inconvenience would again take place.

The committee exult very much upon having made the discovery, that the price of gold had not risen on the continent for five years preceding, from which they infer that the demand for it could not have been increased. But they do not seem to have been at all aware that the price of gold in France has been, for above twenty-five years past, from seven to eight per cent. higher than in this country. They have paid no attention to what Mr. Greffulhe stated to them on this subject; at least, they do not appear to have thought it of any importance. He expressly says, "that, in the year 1785, the then government of France ordered, that "thirty-two louis-d'ors should be coined "out of the same quantity of gold that "used to be made into thirty only." Now, as these louis-d'ors, when issued, passed in common circulation at exactly the same rate the old ones did, represented exactly the same number of livres, and, in short, answered every purpose *within France* the same as the others did, it must, at once, be evident, that the mint-price of gold in that country was then altered; being raised about 7½ per cent. and this, without any apparent inconvenience; on the contrary, it had the good effect of retaining these coins in the country. This alteration in price has continued ever since; and the difference occasioned thereby, betwixt the price in France and in this country, appears to have borne nearly the same proportion. For these five years past, gold has been in France almost stationary, at 105 francs per oz. and the prices in this country have risen or fallen as the rate of exchange fell or rose, so as to leave very nearly a difference of 7 per cent. at all times. When,

three years ago, the exchange was at 24 livres per pound sterling, gold, which could be bought here at 77*s.* 6*d.* produced in France equivalent to 83*s.* As the exchange fell, the price here rose, so that when the exchange fell to 20 livres per pound sterling, at which rate, by Mr. Greffulhe's calculations, an ounce at 105 francs would be equal to 99*s.* the price here was 92*s.*

As long as the merchants in this country had it in their power to send produce and manufactured goods in return for the goods they imported from France, the profit on these being generally very great, they found it their interest to do so; but whenever a stop was put to the importation into France of produce and manufactures from Great Britain, gold bullion was then substituted, and, as it produced a profit, though smaller, it was eagerly bought up for that purpose; and such guineas as could be procured, were clandestinely exported. This is an inconvenience attending the use of the metals, as a circulating medium, which can never be totally avoided, but may partly be guarded against by the proposed measure,—raising the mint-price, and deducting a seignorage, so as to make the quantity of metal in a coin rather less than its price in the market.

Thus has an attempt been made, to point out the real foundation upon which the theory of money and the existence of a circulating medium depends; as also to explain the nature of the circulating mediums employed in this country, and of the exchange with foreign countries.

If there really exists a standard unit, by which the relative value of all articles is ascertained, then the greatest part of the reasonings employed by the writers on this subject, more especially of late years, must necessarily fall to the ground; the data they were founded upon being so

diametrically opposite to the real state of the case.

This will appear very evident, when it is taken into consideration that these writers have attached, not only to the article of money itself, but to the metals it is generally composed of, an importance to which neither are found to have any real pretensions.

For, what is money? Money is just an article, to which the people of a country have been pleased to affix a value, in order to employ it in simplifying and facilitating their mutual intercourse.

When a country emerges out of barbarism, new wants arise amongst the inhabitants, and a greater interchange of commodities takes place. It has already been shown, that, when barter, or the exchanging one article for another, is carried any length, a standard unit is required, whereby the relative value of each is at once fixed, and the exchange is thus facilitated.

Still the being obliged always to give one article for another was found a complete bar to the farther extension of the intercourse, and, therefore, some article of general value was fixed upon, to be employed as an intermediate. In this way coins came into use; they, being formed of the precious metals, not liable to decay, and passed to represent a certain proportion of the standard unit, were found of the greatest convenience.

But these coins, or, as they are called, money, or the circulating medium, are not really employed as articles of value, but merely as representatives of value. A man who has wheat, and wishes to exchange it for beef, instead of hunting about for a beef-holder, who is willing to exchange beef for wheat, applies to the first person he meets wanting wheat, gives him wheat for these representatives of value, and then goes directly and gives them for what beef he wants; and so, through all the intercourses of society. By this means he may take only that quantity of

any article he may want; and, in exchange for one article, he may get twenty different ones, instead of being obliged to take the whole value in one. These services coins, no doubt, do, but they do so merely as representatives of the different articles in the exchange of which they are employed; and it may be remarked, that, before a man can get possessed of them, he must have some real property to give in exchange for them, or rather for which he receives them in exchange, and only retains them until he meets with some real property to give for them again.

The circumstance of coins being supposed to be of exactly the same value they are passed for has already been pointed out as one of the principal causes of this mistake; but the introduction into use of paper money, an article of no intrinsic value, and which is, notwithstanding, found to answer all purposes of money equally with coins, ought to have opened the eyes of the public on this head; and to have convinced them that a circulating medium merely acts as a representative of value.

In this way paper money passes from hand to hand, not upon the confidence that it can, at all times, be converted into gold, as has been erroneously supposed, but upon the confidence that each man has that it will pass from him at the same value he took it at, in consequence of the first issuer being, at all times, ready to receive it back again, in payment, either of obligations or taxes, the two securities upon which it was originally issued.

The distinct properties of gold coin and paper money having been discussed in the former part of this work, it is now proposed to take a comparative view of their advantages and disadvantages, as circulating mediums.

From what has been stated of the nature of each, it may be inferred that gold is the proper medium to be employed in

the early ages of any nation, when the people are rude and uncultivated,—paper in those that are highly civilized.

In rude and barbarous countries, every man is afraid and jealous of his neighbour. He, therefore, will not part with his property unless he receives an equivalent of exactly the same value; thus gold is there essentially requisite. When a man receives gold, he knows that he has got an article that will bring him nearly the same value in all quarters of the world, and so he is sure that, for the property he parted with, he has got value, which he retains in his possession, and of which he cannot be deprived without violence;—to this man paper money would be of no value.

But in a country where public confidence and credit abound, and whose political existence depends, in a great measure, upon their cultivation, paper money is found of the most essential benefit.

In this country, paper money appears to answer all the purposes of internal circulation equally with gold, and in the following particulars to have the advantage of it:

1st.—The commercial intercourse carried on in Great Britain is now so great and extended, and the daily exchange of property so vast, that it would be impossible for it to be effected with the assistance of gold coin alone, without the intervention of paper, in all the large payments: this has already been pointed out and proved.

2dly.—Although gold coin may be, and is, advantageously employed in the lesser interchanges of society, yet, even there, it is subject to an inconvenience, from which paper money is free; that is, the being liable, whenever the balance of foreign payments run against the country, to be carried off to assist in paying that balance of payments. This has already

been shown to be the case, and there is little doubt that, if paper currency had not been ready to supply the deficiency, the want of a circulating medium, proceeding from this cause, would have been, several times, severely felt in this country during the last twenty years.

3dly.—But what appears to be the greatest disadvantage attending the use of gold, as a circulating medium, is its great expense. In a commercial state, a strict attention to economy is, at all times, requisite; when, therefore, an article of little or no comparative value can supply the place of one of great value, it certainly ought to be preferred, although attended with some inconvenience. But if that article, of no value, supplies the place of the other most completely, it would be madness in the extreme to find fault with, or refuse to use it; more especially when the pressure of the times calls so imperiously for the strictest economy in all points.

Gold is an article of intrinsic value, not produced within the country; so that, before it can be employed as a medium, real property of some sort must be exported to be given for it. Besides, in using, it imperceptibly loses in weight, and, consequently, in value. All this is completely saved by the employment of paper, which, being an article of comparatively no intrinsic value, after it has answered the purpose for which it was issued, is returned to the issuers, and, by them, committed to the flames. Nay, on this head, paper money has another advantage; so far from the coining or making, or it being a heavy burthen upon the public, it is both a direct and an indirect source of revenue.

The principal objections to the use of paper money, and the disadvantages said to attend it, have already been discussed; there remains one, however, still to be taken notice of. It was incidently mentioned, that, at one time, a premium had

been paid for collecting guineas, *for the purpose of hoarding up, in case of an invasion.* This certainly was declaring, in pretty strong language, that, in case of an invasion, bank-notes would be of less use than gold, or rather of no use at all.

As the probability of an attempt being made at invasion is as great just now as ever it was, it is thought necessary to be particular in the examination and refutation of this point; and that the more especially, as many most erroneous and most unfounded assertions have been employed in talking of it. The public have been told, that then the bubble would burst, the Bank of England would blow up, the notes be worth nothing, &c. &c. and all this said to be, in consequence of the directors having abused their trust, in allowing themselves to be led, by a prospect of great profit, to take advantage of the Restriction-Act, and, under the shelter of it, to issue a greater number of bank-notes than the circulation of the country required.

The impossibility of an over-issue of notes being made, even although the directors were willing, has already been shown under the proper head. The arguments brought forward there, were, however, merely such as bore directly upon the question: one strong collateral one, upon the latter supposition, may be mentioned here.

It is well known that almost every respectable, wealthy, and independent banker or merchant, in the city of London, is a partner of the Bank of England, that is to say, holds shares thereof; out of the principal of these the directors are chosen. All these directors are men who have great and extensive concerns of their own to attend to, consequently they have had a character, and a high one, previously to support; but when they accept the office of director, this responsibility is increased, as then the eyes of the whole country are upon them. Therefore, when such men are accused of erring wilfully, and from lucre of gain,

the proofs thereof should be very strong indeed.

The absurdity of the charge will appear still more, however, when it is taken into consideration, that the share each of these gentlemen holds in the Bank, and consequently in the profits, is very small in comparison with his private concerns; so that any additional profit they could have made by such conduct, would have been very trivial, and would even have been more than counter-balanced, by what they would have exposed themselves to lose in their private trade. And they know that, if they did err, the gain would go into the pockets of many, the blame would land on them alone.

The real fact is, that, if the directors have erred at all, it has been in issuing too few notes; and the consequence has been, that these notes, instead of being depreciated, have very frequently, if not always, borne a premium. This may be thought a strange doctrine, but that it is a true one, is referred, for the first part, to the testimony of every banker or merchant, who has had occasion to apply to the Bank for discounts, during these last ten years; and, for the second part, to the daily advertisements of money lenders, who avowedly take a commission for the loan of money,—of private sales where goods are to be got ten to fifteen per cent. under prime cost, for money,—and of public sales, where it is said they may be had twenty to thirty per cent. under value, also for money. And, what is this ready money so much desired?—Why, it is just Bank-of-England notes.

Should an attempt at invasion be really made, no doubt the country will be thrown into confusion; but, so far from Bank-of-England notes becoming of no value, it is conceived that they will become of more value, and be more in demand; because the Bank will, it is probable, immediately stop issuing more notes; it will discount no more bills, but it will rigorously demand payment of those it has on

hand; so that every banker, merchant, or dealer, who has bills becoming due, will be put to the greatest distress to procure funds to retire them with. The Bank will only take their own notes or gold in payment; and, though there may be notes out, nearly sufficient to retire the bills held by the Bank, yet these notes are so scattered over the face of the country, that it will be impossible for these people to collect them, in time, to retire their bills when due, even although they were to give their goods for them at half-price. As to the bills held by private bankers or merchants, there does not appear any possibility at all of their being retired.

Of an invasion there can only be two results,—the invaders will either be unsuccessful or successful; that they will ultimately be unsuccessful, it is conceived, there can be no doubt entertained. It is very probable, however, that, if they accomplish a landing, they may over-run a part of the country; in that case, wherever they do go, the first demand will be, *your money*. If, in return, a bank-note is offered, it will be rejected with disdain; but a golden guinea will be seized with avidity. Allowing for a moment the possibility of their being successful, this argument would be much stronger, for then gold would be demanded all over the kingdom, and every one would be obliged to bring it in. The conqueror might also demand from the Bank of England its gold, but the bills and notes would be left to their own operations; he would probably squeeze the Bank, but he would have too much policy to crush it altogether.

The danger that bank-notes would be increased in value, to those who might be so unfortunate as to be in absolute want of them, that is to say, to those who had heavy obligations to retire, appears so clearly, that, it is conceived, government ought to make a previous arrangement to prevent its taking effect. For this purpose, perhaps, an act of parliament might

be passed, enacting, that, in the event of an invasion of the country, all payments should be suspended, in so far as that no proceedings at law could be had upon their non-performance; and the running of all bills not due should also be suspended from the day the invaders attempted to set foot in the country, until the day they were completely expelled; when matters might return to their usual course, and all pecuniary obligations be exactly on the same footing they stood on the first day of invasion.

It may be objected, perhaps, to this, that all these things are virtually provided for, by the power vested in his majesty of suspending the laws in force, and declaring the country under martial law, in the event of an invasion or insurrection. This may be true, still it is conceived, that it might be of great service, and would tend much to quiet the minds of the public, were it explicitly stated, and understood before hand; more especially when it is considered, that it would have the good effect of allowing the whole of the mercantile and trading part of the community to turn out in the defence of their country, not only without running any risk of their individual concerns being hurt thereby, but with their minds perfectly at ease thereon. A man will leave his home with a very bad grace, even to fight *pro aris et focis*, if he has the smallest idea that his pecuniary matters may thereby be thrown into confusion, or that there is any chance of his finding, upon his returning victorious, that his goods have been seized upon by the harpies of the law, and himself made a bankrupt. It therefore behoves the legislature of the country, to take every prudent step in their power to banish all idea of the bare possibility of such things happening.

Paper money having been shown to be superior to gold, in many cases, for the great internal circulation of this country, it is conceived unnecessary to enlarge upon the propriety of its being continued in that capacity, and supported therein

by every proper assistance that government, or the public in general, can give it.

Although the arguments that have been employed in this work have been exclusively applied to the notes of the national Banks of England and Ireland, yet it must be evident that, in general, they may be equally well applied to the notes of all the private banks of the three kingdoms; these notes being issued exactly on the same principles, and the banks following the same rules. And there is no doubt that these private banks have been of very great service to the country in general; indeed, it is conceived, that the vast and unexampled extension of the manufactures and commerce of Great Britain, during the last hundred years, have been, in a great degree, owing to the introduction of paper money and increase of banks and banking. These private banks are, therefore, fully entitled to a share of public support. Still it might be proper, in order effectually to secure the safety of the public, and, thereby, to increase the confidence requisite to be put by it in these banks; that some additional checks and regulations, in regard to them, should be established; but these do not properly come under the plan of this work, and another opportunity may, perhaps, be taken to enlarge thereon.

It is hoped, however, that it may not be deemed irrelevant to say something here on the lesser coins at present circulating in this country. Although paper-money is indisputably the best medium for all the larger transactions of society, yet it ought never to be issued for a less value than one pound; all below that should be gold, silver, or copper, coin. These lesser coins have, for some years past, been excessively bad, and the country has not only been put to great inconvenience thereby, but has suffered great actual loss.

The silver coinage of Great Britain is,

at present, dreadfully miserable; a great proportion of the shillings that pass in common circulation, more especially in London, appear to be those with which Dublin was inundated, in 1803, and which, when they were run down there, in March 1804, instead of being sold for melting, at fourpence-halfpenny or fivepence each, were smuggled over to this country, and slipt into circulation at their full value.

The copper coinage is on an equally bad footing. The pieces made by Mr. Bolton are excellent, and nothing could be found to answer the purpose better; but, unfortunately, they have been issued in too small quantities; and the mode necessary to be followed in procuring them is too troublesome to be universally followed. In consequence, in many parts of the country, where nothing else will pass, the smaller intercourses of society have been most dreadfully cramped for want of them. At this moment, in London, very few of them are to be seen; in the change of a shilling, not above one or two, the remainder are generally the most infamous raps possible; counterfeits that, after having been thrown aside in the country towns, were bought at forty, fifty, or perhaps sixty, for a shilling, and then brought up to London, and passed at full value.

Amongst the rich and great, these things are of no consequence; they care little what pence, or even shillings, they receive at the linen drapers, mercers, &c. or at the coffee-house, because they are certain that, when they return next day, these will be taken from them again without any scruple. But to the industrious tradesman and hard-working labourer, it is of the utmost importance to have good tokens given them; they know well, that every shilling, nay, even every halfpenny they offer, will be scrupulously examined, and, if at all doubtful, refused, and to them the refusal of a single shilling is a serious affair. The begging poor are still worse

off; many a blessing did Mr. Bolton get from them for his penny pieces; these having almost totally disappeared, the halfpence now in general given to them they can do nothing with; and, when they are offered to them, they often say, "we have got plenty of these, but we "can get nothing for them." Their only resource is, to carry them to some of the small shops, where they are taken at half price, or four for a penny, and from whence they are, by degrees, put into circulation at full value, by which means the miserable poor are deprived of one half of their wretched earnings.

The new half-guinea and seven shilling pieces, introduced of late, have been of very great service; and what appears now to be principally wanted are, a complete new coinage of shillings and sixpences, and a very large addition of the penny and halfpenny pieces. As government are, by the free use of paper money, relieved from the very heavy expense attending the coining of guineas, they can the easier afford to give a new silver coinage; and it has been long understood, that their attention to the wants of the public has led them to make preparations for that purpose. It is therefore conceived unnecessary to say any thing farther on the subject here, except to take the liberty of recommending, in the strongest manner, the deferring the issuing of it, until there is such a quantity ready for delivery as will enable the public, at once, to put a complete stop to all the pieces at present in circulation. The great mistake, in regard to the issuing of both silver and copper coinage, of late years, appears to have been, that a small proportion only of new coins was given at one time, and that was generally accompanied with a recommendation, to continue in use the best of the old. This advice the people, finding a deficiency of new coins, were induced, for their own convenience, to follow. The consequence of which invariably has been, that those who held the old coins, instead of melting, or selling them, at a heavy

loss, retained them, and whenever a new one came into their possession, they laid it aside, and slipt one of the best of the old in its place. By degrees, the public finding new ones grow scarcer, become not so scrupulous about the old, until, at last, the new completely disappear, and the old occupy their former ground. This is a natural consequence, for few people will be so patriotic as to sacrifice their private interest to public good; as long as a man has any chance of passing a piece at full value, he will never dispose of it at a heavy loss, and therefore, in these circumstances, the old coins will always be kept up, and the new ones withdrawn; the latter being generally sold to the coiners, who employ them in making new counterfeits. The only effectual mode of preventing all this is to supply the public, at once, with such a quantity as will serve for the whole circulation, and after having thus driven the present pieces out of the field, to keep them out by giving, from time to time, small fresh supplies of the new, so as to enable them to keep their ground. These coins should have only the quantity of metal in them equivalent nearly to the value of silver at the time; but they should be stamped with as handsome an impression as possible, so as that it might be no object to counterfeit them. And the propriety and necessity of using no other tokens should be strongly impressed on the public. Indeed, it is conceived, that it is the want of good coins alone that causes the bad ones to pass; were there plenty of good ones, nobody would take a bad one, and the business of the coiners would be at an end.

THE END.

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