A

LETTER

TO THE

RIGHT HON. R. PEEL.

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A VERY SHORT LETTER TO THE RIGHT HON. R. PEEL.

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LETTER.

IN the Report which you have delivered to the House of Commons, on behalf of the Committee appointed to enquire into the affairs of the Bank, you appear to me to have committed the error of taking for granted a theory, which it should have been your main object to investigate and prove; namely, that the prices of goods have been affected by the amount of Bank Notes in circulation.

It appears by a document inserted in your Appendix, that the Bank Directors do not think your theory true. During the twenty-two years of the restriction their attention has been directed to this point; and, in a full Board assembled, they gravely inform the Committee of the House of Commons, that they have never been able to perceive that the amount of Bank Notes has had any effect on prices.

It seems truly hazardous to legislate on a principle, the truth of which is denied by those most competent to form a judgment

In the Report you call Bank Notes a measure of value. As there seems to me to be a fallacy in this expression, which lays at the bottom of the subject, I will

endeavour to explain it. We have no idea of value in trade, but by means of the figures expressing price; by means of figures the price or value of one thing may be compared with the price or value of another thing, as in the common price current, the relative value of all sorts of merchandise is expressed in figures; so that if, in strictness, there can be said to be any measure of value, figures are that measure. Bank Notes and Gold, in common with all other things, having just that relative value which their price expresses; it follows, that if Bank Notes were issued here to excess, and were not returnable to the Bank for value, they would fall in price—that is, they would not pass at par. It is because they have always hitherto passed at par, with the denomination of merchants accounts, that the error arises of calling them the "measure," instead of the figures, for which they are only the mere counters. In all the countries where paper-money has fallen in value, its price has expressed that fall.

In the infancy of trade, before the precious metals were coined, they were bartered by weight, and it is obvious that a greater or less weight of them would exchange for any given thing, in proportion as they were plentiful or scarce. Modern writers on the subject seem to reckon that money, as it is now used, is liable to the same increase and diminution of its exchangeable value that the precious metals were then, before they were made into money. But this is overlooking the important step which was made in the affairs of trade when coining took place;

from that time the denomination of the coin, expressed in figures, became the measure of relative value, the fluctuations in the value of the precious metals themselves were thenceforward expressed in this way, and trade has gradually become entirely a matter of figures; every transaction in trade is expressed in figures; and although those figures bear the appellation of money, they are not money itself. Much confusion has been introduced into this subject by using the general term, money, for the three distinct ideas of counters or currency, of capital, and of figures.

Hume's Essay on Money is a remarkable instance of this confusion; and Mr. Harman's evidence before the Bullion Committee is equally remarkable for keeping the ideas distinct. When I say I have twenty pounds in my pocket, I allude to currency; when I say I am worth a thousand pounds, I allude to capital; when I say my stock of wool has fallen in price five pounds per pack, I allude to figures. It is suprising how little money actually passes in some of the large operations of commerce (those which principally regulate prices) and sometimes none at all; as when I sell my wool to a clothier, and take payment in cloth, the arrangement is then entirely in figures, the number of pounds of wool, being multiplied by the price, is charged in my book to his debit, and the number of yards of cloth, being multiplied by its price, is carried to his credit, *viz.*

Dr. Charles Clothier,	to	William Woolseller, Cr.
To 1200lb. Wool, at 3s. £180		By 144 Yards of Cloth, at 25s. £180

When an actual barter does not specifically take place, still the whole of trade being a general bartering, each transaction partakes circuitously of it, and only a comparitively few counters pass at the final adjustment, the bulk being settled by transfers of figures.

Thus, in the usual course of trade, a purchaser, on receiving any goods, receives also an account of their amount expressed in figures, which account becomes a matter of future arrangement, according to the credit agreed upon, the vender only expecting that the purchaser is responsible and regular, and that any order or draft he may give on his banker, or acceptance binding himself, will pass in the money market, and be ultimately paid. Now the mode in which this purchaser pays, is this:

he passes into the money market (pays into his bankers,) a similar order or draft on a banker, or acceptance of a trader, with which he is provided from some sale he has made, and by the adjustments of the bankers, or money dealers, those drafts or acceptances nearly cancel one another, so that there is not coin or Bank Notes pass for more than one tenth to one twentieth of their amount. This is the description of the London arrangements; but nearly every transaction partakes, more or less, of a similar curtailment of the quantity of currency used in trade.

It appears, from the accounts of the bankers in Lombard Street, that there is about four and a half millions per day, or one thousand four hundred millions per year, amount of

transaction, which are adjusted there without being represented in Bank Notes; and by giving each other a day's credit from day to day, the bankers might settle the whole of the business done there without using any Bank Notes at all.

What are the real functions of money in these transactions? Are we to consider trade as a general barter and interchange of merchandise, the relative value being expressed in figures, and money being merely the counters by which to adjust balances? Or are we to consider that in each particular transaction the currency (whatever it may be, Bank Notes if you will,) is measured against the merchandise, and the price adjusted more with relation to the quantity of currency, than the quantity of merchandise? If the Committee had consulted practical men on this important part of the subject, they might have thrown some light on it. I have never met with one who could explain how the quantity of currency operated on prices. It is certain that a merchant is not conscious of any other consideration than the relation of the supply to the demand of his merchandise.

Plenty of money, as it affects trade, is more frequently plenty of capital, than plenty of currency; that is, it does not depend entirely on the quantity of currency, but does depend entirely on the quantity of capital. If there was perfect unanimity in the world, the whole system of transferring merchandise might be conducted by transfer of figures, or credit, from one to another, without the interven-

tion of any currency, as explained above respecting the clearing office. *If currency, then, is not essential in trade, is it certain that it regulates prices, or measures value?*

The immediate effect of plenty of money is activity in trade and general advance of prices; but then the same plenty of money and high prices draw goods to the market in such quantities as soon to lower the prices again; and whoever has watched trade steadily for any length of time, will have observed it made up of these ebbs and flows.

It seems a tremendous experiment, while so much hangs on the prosperity of trade, totally to disorganize it, and break up that confidence by which it subsists, by telling us we have had false standards of value, variable measures of value, and so forth, and to enact laws in the dark, on the strength of a theory denied by practical men, while you have left unexamined facts which would afford an unerring test; namely, the prices of our exportable commodities as compared with our amount of circulation and rates of foreign exchange.

Since writing the above, I see, by the Morning Chronicle, you are reported to have said, that when "gold was at £5 2*s.* per oz. it did not command more of any other article than in former times," meaning, I presume, than when it was £3. 17*s.* 6*d.*: if, however, you had looked

at the price current, or examined our manufacturers, and others who have knowledge respecting our exportable commodities, their evidence would not have authorized your assertion; for, in point of fact, our exportable commodities have been generally lowest in price when gold has been high.

FINIS.

J. ROBINS AND SONS, PRINTERS, TOOLEY STREET.