AN ESSAY

ON THE

MANAGEMENT AND MISMANAGEMENT

OF THE

CURRENCY.

BY THE AUTHOR OF
"AN ESSAY ON THE RENT OF LAND."

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THE CURRENCY.

The jealousy with which the exportation of useful commodities, such as wool, corn, and most kinds of provisions, was formerly viewed, has latterly given place to a not more intelligent extreme. The number of producers bears a pretty near proportion to that of consumers in a trading community, in which both characters meet in almost every individual; and in an equal ratio is the necessity of disposing of produce. Of this the people are now so well convinced, that they have brought themselves to rejoice in the sum of their exports, without regard to the rational end of exportation, which should be to enrich the country with a more valuable return of foreign produce. Nay, in this view of affairs some have taken peculiar delight, since the goods sent out of the country have so rapidly exceeded the commodities brought into the country, as,—if not to establish the benevolent character of our commerce,—at least to feed the imaginations of these persons with the idea, that a favourable balance of trade is always begotten of this inequality. It seems now to be admitted, however, that the exchange of money has also been against us for a number of years, as well as the exchange of merchandize; and an alarm has seized upon the nation, not so much owing to the connexion of these circumstances, as to the simple fact of the parting with its money. A state of apprehension is not the best fitted to the nature of the inquiry now contemplated; but if in the course of this discussion it should be necessary to awaken some reasonable fears, it is not the less prudent to make way for them, by endeavouring to dispel one that is altogether unreasonable and absurd.

It cannot be too frequently repeated, that the importation and exportation of specie are more properly the consequences and remedies of evils, than evils in themselves. The countries do not lose by this traffic, but it is beneficial to those which engage in it. It may be in the power of a nation to be always so well provided with gold and silver, as never to experience those sudden emergencies which occasion the temporary fluctuations in their value; but to do so, it must devote a considerable portion of capital to their accumulation, that might be often more profitably employed. In the increase and decrease of trade, and in the varying forms which it assumes, there are continual mutations in its uses for money. At one time the quantity which it actually requires will be great, at other times it will be comparatively small; so that, to be prepared for every vicissitude, it would be necessary to lay by a much larger sum than is always or usually required. If other nations acted upon this principle, there is no doubt but we should be obliged to do the same; but such a practice would not be consonant with the common interests of commerce.

The trade of a country must be influenced by the same motive which directs its particular transactions, and that is the desire of gain; there is therefore a strict analogy between public and private interest. A manufacturer does not lay by the whole of his profits in trade, because he may one day find it necessary to enlarge his circulating capital; he does not abstain from improving his machinery, and extending his premises, because the price of labour and raw material may rise, or (which is exceedingly probable) he may require an extra quantity of both; and, if he cannot employ it better, he does not refuse to lend money on interest, lest he should not reserve enough for the demands of his business. On the contrary, he risks the temporary exigency of a small sum, rather than keep permanently by him a large sum which he may seldom require. But for this economy, which adapts itself to the general convenience, and is therefore more or less generally practised, the circulating medium of a country would need to be more ample; but for the adoption of the same economy by all countries, a larger quantity of the precious metals would have to be converted into money, or to be circulated in bars, in lieu of money. The expense of providing this extra quantity of the precious metals is therefore saved by the trade in money.

This analogy should instruct us why those periods are the most prosperous when the occasion for more circulating capital is felt, and when it can be supplied with a liberal, yet not a lavish hand. It will also show that, in this respect, it is safer to be frugal than profuse. If the circulating capital of a nation or individual be unwisely increased, two effects will usually follow—a superabundance of produce, and a rise in the cost of production; and the producer is compelled to part with his commodities at a reduced price, when a higher price was necessary to cover the expense of creating them: for it is admitted that the "rise in the cost of production," and therefore in the price of provisions, is immediate. To follow out the consequences of such extravagant speculations,—the first fruits are distributed among the consumers, to enable them in future to pay the higher nominal value which commodities will acquire; and this is the first evil that the producers incur—an unprofitable expenditure of capital. But if the additional money which is thrown into the circulation can be embanked* within a particular district,—an operation which has been effected by the paper expedient of modern times,—then the rise of prices will remain stationary within that particular district, and no where else, and its trade must of necessity be confined within the bounds which its imprudence has prescribed. But cut a channel through this embankment, and let out some of the floating money to purchase commodities of cheaper producers, it will raise their prices and reduce those of the particular district, until it comes into full competition with the neighbouring districts, and is prepared to participate in the commerce of the world. The height of its embankment was the former obstruction to its trade, and that obstruction would be proportional to its height, or rather to the disproportionate quantity of money which it included. After the same manner, a

* Hume probably first suggested the idea of an embankment, in illustration of this subject.

nation that employs an unexportible medium of commerce, banks up its trade in proportion to the excess of that medium above the excess or deficiency of the money circulated abroad.

It is at the same time desirable, that the profits of the trade in money should not be more than will induce a sufficient number of persons to conduct it; for the time and labour thus employed are so many subtractions from the saving which it is intended to effect. And if the large profits are allowed to be monopolised by a few, the case is so much the worse for the rest of the community.

It should also be recollected, that the nation that exports the specie which it at the same time needs, merely because some other nation needs it more, must import it again at its own cost, and perhaps also at a premium sufficient to defray the cost of its prior exportation; or, what is as bad, it may be under the necessity of restraining its further exportation, by some extraordinary inducement, such as a violent reduction in the prices of the commodities which are offered in exchange for it. The same effects are produced, and with greater certainty, by the use of one medium that is exportible, and another that is not; for the latter will take the place of an equal quantity of the former, which it expels from the country, notwithstanding it must again be recalled to maintain the credit of the unexportible medium, and it can only be recalled by displacing its substitute, and thus reducing the people to such a distress for the money which has been exported, as to force them to submit to any sacrifice in order to recover it.

Whenever these evils occur, it is usual to ascribe them to blunders in the management of the circulation; but its superintendents ought not to be liable to such a charge, and the fact of their being so proves something defective in the monetary system itself. It is the duty of the Government, so long as it retains the prerogative of coining, to provide the country with a perpetual supply of circulating medium; and, like the frugal merchant, it should at the same time see that no irregular interference is allowed to make the stock superabundant. The principle upon which the stock is supplied, if it does not answer these two purposes, must be founded in error. Let us inquire, how, to attain these ends, it ought to act; how, at present, it does act; and how, by correction, it can be made to act better.

1. A country, any more than an individual, has no occasion to lay up a store of money beyond its actual need, for no better reason than because it may be one day wanted. There is no necessity for its expending its labour and produce in procuring gold from distant countries, before it is required for use, while the same portion of labour and produce may be employed in importing commodities which are really desired, and which would therefore more immediately enrich the country. Still there is no method of adjusting, by any system of superintendence, the supply of money to all the vicissitudes of trade. Temporary deficiencies and superfluities will occur in the best regulated currency; and these are precisely the circumstances which it has been attempted to meet in the introductory remarks.

As it would be bad policy to provide against temporary deficiencies, so is the remedy for them very easy, whenever they occur, and by this test it may be known if they be temporary or not.

A temporary deficiency happens when there is at the same time a superfluity in a neighbouring country, and the remedy quickly comes through the operations of the money-market. At such times the interference of

those who have charge of the currency would be attended with needless expense, by stocking the country with a superabundance of medium; and its effects would either be temporary or permanent,—injurious to some, and beneficial to others, or injurious to all alike: it would introduce into the country, at a dear rate, a surplus of specie, which would be so depreciated in our hands as to bear the expense of being deported by foreign countries; or perhaps it would also overcharge the commercial countries with an unnecessary quantity of the precious metals.

A permanent deficiency, or such as would be permanent but for the interference of those who manage the currency, is indicated by a regular drainage of the money-market, which empties itself into the swelling channels of commerce, either at home or abroad. Even this deficiency would in time be repaired by the operations of commerce, if commerce were allowed to be its own doctor; but here the state prerogative usually monopolises the remedy, and "till its nostrum be administered," the circulation must fail. The demand must be authorised by the State, before it obtains the required supply. In this case the currency is in danger of suffering from neglect, as in the former from unnecessary interference.

The superabundance occurs often through injudicious attempts to correct a deficiency, or through the decline of trade; and is permanent or temporary, according to the strength, perseverance, or duration of the cause.

These are the objects to which a regulatory system should be adapted: To guard against interference with the currency upon improper occasions; and to secure the currency from neglect at other times, when interference is required.

2. The superintendence which the Government has exercised over our own currency, does not deserve the name of system. It consists in occasionally renovating a worn-out coinage; and whatever more is done for the currency, is done at hazard, or in obedience to an over-ruling influence. Upon one commercial company is bestowed the power of creating superfluxes and deficiencies, whenever it thinks proper; and it uses this privilege freely, and as it is prompted by its real or imaginary interest. It is difficult to say how large a proportion of the currency is composed of paper, nor would it be very material to the present purpose to ascertain. Assuming that it is only three parts in four,—though it is perhaps nearer nineteen parts in twenty*;—this is surrendering to the Bank of England a mighty authority over the circulation.

The minor banking establishments of England do not fall within our notice. They can only act a subsidiary and inferior part to the Bank of England, in supplying the country with paper money: they cannot influence that establishment, but are influenced by it. If any of the provincial banks withdraw their issues, without being admonished to do so by the example of the Bank of England, they only make room for other competitors; but if the Bank of England stops the supply of its paper, the lesser banks are unable to transact their business to the customary extent. Therefore the whole paper currency of the country is at present under the dominion of the Bank of England; and the paper, forming so large a proportion of the whole, may be said to rule the rest of the circulation.

* The Bank of England and other bank-notes circulating in 1810, have been estimated at L.56,000,000; and the specie at only L.4,000,000.

To observe how the currency is conducted, therefore, we must turn our eyes from the blindfold operations of the Mint, and fix them upon the narrow-sighted manœuvres of the Bank.

This establishment does not fall within the ordinary rules of trade. If it were decidedly a public or decidedly a private establishment, its real interest could be identified with the public interest, inasmuch as the interests of all, rightly understood, conspire in promoting the public welfare. But—we believe it is no new remark—the Bank of England, partaking of the natures of both public and private establishments, exhibits that glaring incompatibility which has been often objected to in the union of offices, where it is to be apprehended that the public interest cannot be sufficiently or safely regarded by individuals who do business upon their own account. If the Bank were restricted to its public functions,—that is to say, invested solely with its charge of the public interest,—its reputation and emolument would be so closely allied to the public prosperity, that it would become at once a responsible agent of the public. If the Bank were placed upon the same footing as private establishments, it would not be in its power to make the public wealth subservient to its own ends. That it has this power—that, being of the nature of a private establishment, and transacting business upon its own account, it is also intrusted with a boundless control over the currency—is all that it is here necessary to show. It is needless to invoke the charity of human nature, in consideration of the weakness of human nature; or to question the probability of such a power being abused wherever it exists, and especially where its management is a secret falling within the sphere of the *private concern:* it is enough to expose the existence of this control, and the effects that result from its exercise.

According to the system of credit which has been established, a great deal of property, including specie, is represented by paper, which, being circulated instead of money, is necessary to make up the complement of our circulating medium. It has been already observed, that the amount required for this complete supply is an ever-varying quantity, suited to the variable wants of trade; and it follows, that a disproportion between the demand and supply is occasioned by an alteration in the state of trade, by an uncalled-for change in the amount of the circulation, or by the disparity or even contrariety of simultaneous alterations in both. So that, by an undue issue or an undue contraction of its paper, the Bank can at any time produce a superabundance or a deficiency in the circulating medium.

By examining the purposes to which this power can be applied, it will be seen what is the temptation to abuse it.

A surplus of circulating medium reduces the price of gold generally where the superabundance prevails; and more especially in those countries which have the largest surplus, in comparison with those which have the smallest. Gold will be exported from a country when it has a surplus large enough so to depreciate its currency, in comparison with that of another country, as that the difference will defray the cost and profit of transporting it to that country: therefore the largest surplus that any country can long retain, must be less than sufficient to create such a difference; and any country may have a surplus to this extent, without parting with its gold. By the same rule,

the price of gold is raised through a deficiency of circulating medium.

This control over the currency, therefore, can be applied to the raising and lowering of the price of gold; and to a dealer in that precious commodity, no greater advantage could be conceded. The Bank, on which this advantage has been conferred, is necessarily a very considerable dealer in gold, and can, if it thinks proper, extend its speculations beyond the demands to which it is liable, and buy and sell at markets of its own making.

But to this conclusion, it will be objected, that the Bank is unfortunately a seller of gold when gold is cheap. Though to a certain extent this should be admitted, yet, "beyond the demands to which it is liable," it may carry on a traffic in gold to a large amount, and at a profitable rate. If it engage, on the one hand, to deliver ten millions of gold at *some future time*, and on the other hand, to receive thirty millions of gold at a *given time*, it may very conveniently make gold cheap at the period of striking the latter bargain, though it should cause the ten millions, which it owes, to be instantly demanded. Though the Bank issues gold when it is cheap, it is its own fault if it does not also purchase it when it is cheap, or when the commodities which are exchanged for it sell at a high price; and as it obtains gold cheaply in exchange for those commodities when they are dear, so it raises the market for its surplus gold, to exchange it for commodities when they are cheap.

The fallacy of the objection consists in confounding the Bank's issues with its sales: for it will be observed that the Bank does not sell gold when it is cheap. When gold is dear, the Bank sells a description of paper which represents gold, and it very cleverly manages to deliver the gold when it is cheap; though upon some occasions, it must be confessed, that it both sells and delivers gold while it is dear, and by most dealers this would be considered no great hardship either.

The difficulty which presents itself to most minds is, to comprehend how the Bank should be at one time a buyer and seller of gold, when they must presume that it is not imported and exported at the same time. This has been shown to be unnecessary, although it may be sometimes partially the case. When the merchandize is money, there is no difference between the wholesale and retail—the merchant's and the selling-price; and the only profit to be derived from the speculation is that which can be made on time, and by the changes of value to which it gives birth, and of which the speculators are sometimes the cause. The Bank creates a low market for gold, and when it can be obtained so cheap that it is exportible, pays a small part of the sum which it owes, and purchases as much more as it thinks proper.

It does not signify whether the Bank's sales and purchases are performed by mercantile agencies or not; but to simplify the question, it is better to describe them as effected by the Bank itself. If it has to purchase gold, it must provide the exchangeable commodities with which to procure it, and these it will obtain for its first issues of paper. While capital is scarce, the markets for such commodities are generally bad, and the commodities are procured cheap. By its own purchases, and by advancing capital to other speculators, the markets for home produce and manufactures become more brisk. The prices rise, perhaps, until they check the spirit of commercial enterprise which

had begun to display itself, or at least prevent its further expansion; or if they rise more gradually, or keep within a moderate range, commerce may thrive for a while—in either case, if prices do not rise, it shall not be for want of a circulating medium. The Bank proceeds with its issues of paper, and the circulation is overcharged. Gold is depreciated so low as to be exported, and, according to the ridiculous phrase of the money-market, "the Bank takes the alarm:" in other words, it exchanges the commodities which it had purchased at the cheapest rate, but which have now risen in value, for gold that has become cheap, more or less of which it parts with and suffers to be sent abroad, or is not able to prevent it.

By rendering the assumed case in a form but a little more complex, it will be seen that, though it be necessary to provide the exchangeable commodities with which to procure gold, yet it is not necessary to store up those commodities until some operation be performed on the markets, in order to dispose of them to advantage. The inequalities produced by any great derangement of the currency, occasion bad and good markets for commodities, as well as for specie, to subsist at the same time, but in different situations. Money will be scarce and goods cheap in this country, when goods will be dearer, and money more plentiful in France; and the contrast may be still greater, if, instead of with France, we make the comparison with some other country. The Bank purchases the cheap goods in England with its paper, and exports them to the country that will give the highest price for them in gold, and lends paper to other speculators who make the same use of it. Owing to the circulation of the Bank's paper, and the exportation of English goods, the markets turn, money becoming more plentiful and goods dearer in England, and foreigners find it more convenient to pay their English creditors with the prices which foreign produce will fetch in this country, than to export any more specie for the purpose; and thus probably the Bank receives a quantity of the gold which its notes have displaced, in exchange for the goods which it had purchased with a lesser quantity of its paper, and this supply of gold arrives at the very time when the foreign market is demanding gold. Now, though the Bank is liable for the full sum of its paper issues, yet, being guaranteed to the amount of its loans, its real debt is only to the extent of its paper payment for the goods which it sent abroad, and for which it has received a higher price in gold. After paying this debt, therefore, supposing it to be demanded, it would possess an extra quantity of gold; and with this it may now go into the foreign market, not only with safety, but upon advantageous terms. The Bank's creditors may now begin to demand their share of the gold to speculate also in the foreign market, but it remains in the breast of the Bank whether they will be able to follow up its operations with any chance of success. It is evident that the Bank can, if it please, not only monopolise nearly the whole of this trade, but at the same time double its amount, since, for one million that its creditors would have been able to lay out in the foreign market upon equally advantageous terms, the Bank itself would be able to lay out two millions: for instance, assuming that France, for herself, and to make up the deficiencies of neighbouring countries, requires a currency of L.80,000,000, and has but L.75,000,000; and that England has a circulating medium to the

amount of L.75,000,000, and requires but L.65,000,000;—to equalize the exchange between this country and France, only L.7,500,000 would have to be taken from the currency of England to be added to that of France; and if the sum required by this country was L.70,000,000, instead of L.65,000,000, only L.5,000,000 would have to be transferred from England to France, in order to equalise the exchanges; but in the first case it would require L.15,000,000, and in the second L.10,000,000, to be added to the currency of France, in order to produce the same effect, if, instead of being deducted from the currency of England, it is taken from the stores of the Bank, or from any other stores disconnected with the circulation.

Now, supposing these dealings in commodities to be all conducted by mercantile agencies, the case will not be materially altered. Even assuming—what it is too much to grant, considering that the Bank Directory consists of merchants, who will traffic as individuals, if not as a corporation—assuming that the Bank of England restricts itself to the legitimate business of banking; still the result will be pretty nearly the same, as it affects the funds of the Company. Supposing that, instead of trafficking itself, it supplies the export merchants with its paper funds, upon terms proportionate to the scarcity of money, and the chances of employing it with success; if the loans be repaid in paper, the interest must be paid in specie: by this means, also, the Bank will acquire gold, and, through its faculty of rendering money plentiful or scarce, be able to fix the amount which it will acquire.

When specie has been reduced to an exportible price, it begins to operate on other countries; and, if there be any scope for commercial speculation in those countries, it may affect their trade before it depreciates their currency. However, the extensive operations of the Bank are calculated to keep the circulation of the neighbouring commercial countries, as well as that of its own, in a tendency to repletion. Such a country as France may receive a few millions of specie per annum, without having its currency soon reduced to a par with the price of gold in this country, though it should never be considerably above it; and, from its situation, it may be exporting gold to Spain, or some other country, at the time it is importing it from England; but it is not likely that it could ever receive many millions in one year, without the effects becoming visible; and, at any rate, the Bank of England, if its foreign speculations should fail, has the remedy in its own hands, of contracting its paper issues, and causing "its gold"—another phrase of the money-market—to be brought back to the country at the country's expense.

It is obvious, however, that those transactions of the Bank which occasion the exportation of gold, except it finds its interest in joining in the gold-export-trade, must place more gold in the possession of the Bank than is drawn from its stock, unless it pursues some course of policy that is beyond our comprehension, and inconsistent with the ordinary motives of commerce;—that the depreciation of the currency enables the Bank to obtain gold at a low price, while it also sends gold, but, properly speaking, not the Bank's gold, out of the country;—and consequently, that whenever the Bank wishes to stock itself with gold, it is its interest, and no doubt its practice, first to avail itself of the power which Parliament has conferred upon it, of rendering it cheap by overloading the circulation.

The evil of course does not end here: for, by contracting its issues, the Bank can very soon make a good market, if it be not already made, for the gold which it has purchased at a bad one. This, however, is not the sole inducement to the accumulation of gold and silver. The foreign and domestic loans are advanced from these and similar stores, which are therefore to be regarded as the money-merchants' stocks in trade, which are not necessarily returned to our circulation, but are emptied by wholesale into the most favourable markets at home or abroad.

Hume, in one of his commercial essays, celebrates the paper system as an ingenious contrivance of "modern politics" to banish money; but he did not perceive that it also facilitates the practise of amassing it, after a method of accumulation not less injurious to the nation, than the generous credit that deprives it of its circulating gold.

These stores, having been once accumulated, cease to affect the currency, with which they have no longer any communication, till such time as they are again poured back upon the market; and their effect is then seldom observed, because they never tend directly to increase the circulation, but to prevent its diminution. When there is a scarcity of circulating medium, it is seen that the Bank has a favourable opportunity for issuing its notes, and then of accumulating gold; but when the currency is depreciated, the gold which it discharges on the market, or sends abroad, not only establishes permanently the real depreciation to a greater or less extent, but prolongs the relative depreciation in respect to the currency of other countries, inasmuch as the sum taken from one market to equalise it with another, need not be half so large as the sum which would be required from a private store to be added to the market that is deficient.

Men in business experience the particular disadvantages which result from fluctuations in the currency, without always tracing them to the true cause; but scorned theorists, having but very little of what is termed "practical knowledge," can nevertheless see that the country loses money by the system, which is likewise so injurious to individuals; and that the expense of these unnecessary transmissions of specie from one country to another, is the price which the public pays for an infinitude of private inconveniences.

3. In seeking out a remedy for the evils which have been traced to the present superintendence of the currency, it behoves us to proceed with caution, lest we confound the tests of an economical management, with those of an abuse of the circulating medium. The difference is extremely wide, but there is a processory resemblance, which subjects the one to be mistaken for the other, where the causes are hidden, and the ultimate effects too desultory to be closely observed. It has been already said, that the temporary inequalities of the circulation should be left to be remedied by the money-market; but that such as are of a permanent character should be repaired in good time by those who have charge of the currency. Under the present system, these inequalities are not to be distinguished from the effects of the Bank's speculations. The permanent superfluity drains the country of its gold; and the permanent deficiency brings it back again, or at least as much of it as the country can afford to import. With the facility of circulating paper, the latter evil, a deficiency of medium, never need occur, and never would but for the niggardly apprehensions, or viler confidence of the Bank, to which we are indebted for the occurrence of the former. The temporary inconveniences that have been alluded to, are only to be distinguished from those which are permanent, by the shorter continuance of the price of gold above or below the par of exchange: they would sometimes occur in the natural course of trade, but there is at present no knowing when they so happen, and when they result from the operations of the Bank, though, while the temptation continues, it is natural to conclude that they oftener proceed from design; but there is this certainty with respect to the permanent inconveniences, that we know they can only happen through the influence of the Bank. Now, the exportation and importation of specie are the remedies for temporary superfluities and deficiencies of the circulating medium, against which it would be impolitic to provide, and therefore ought not to be condemned; but it is desirable that we be not exposed to these inconveniences, as well as to their remedies, through the mismanagement or avarice of those who have charge of the currency; and that the evils, when they do occur, be not unnecessarily or designedly prolonged by the same causes. The system that would best secure us from these dangers, is that which we should be willing to espouse. To this end we shall endeavour to adjust what is further to be said upon the subject.

There can be no doubt that the circulating medium ought to be adequate to the commerce of the country, and that persons who have property should be subject to as little embarrassment or difficulty as possible in converting it into money. It is equally obvious that it ought to be a substantial and secure medium. If it be not commensurate with the wants of commerce, it hardly serves the end for which it was invented; and if it be not secure, it is a greater evil than any that it was intended to remove. There is now-a-day no difficulty in keeping up a supply of medium; therefore our principal object should be to obtain a secure instrument of exchange, and, what is of equal importance, its secure management. How, therefore, can the supply be kept up with the greatest security? That is the question at present.

By a secure instrument of exchange is to be understood something easily transmissible, that possesses an intrinsic value at all times equal to its denomination, or that of all things is the least subject to fluctuation. Gold, being found to possess these qualities in the greatest perfection, proves the best material for the instrument of the higher denominations, and inferior metals are generally employed for that of the lower; and there is but little difference of opinion as to the form in which the metallic medium ought to be circulated.

The issue of assayed gold in bars of a certain weight, has been recommended; but this plan is not entirely free from the inconveniences of barter, since it would oblige people to carry scales for weighing gold; but a coinage, in a tolerably perfect state, guarantees the weight as well as the assay of the metal. Nevertheless the transference of assayed ingots has been found very convenient for the payment of large sums which can be more easily weighed than counted and examined in tale.

And in coining there should be some care in fixing the seigniorage, to see that it covers the whole expenses of the Mint, and that it does not considerably exceed them. In the one case there is danger of its disappearing, and in the other, if not of its accumulating too fast, yet of its being thrown back upon the country in too considerable quantities, after a temporary disappearance; but there is not the same danger with ingots of gold, which have not a fixed, as well as a fluctuating value.

The only assignable reason for investing the chief magistrate with the management of the coinage, is, that it may be duly authorised and assayed;—that the circulation should not be indiscriminately increased by admixtures of uncertain value, as would be the case if every person were allowed to issue money at pleasure. The privilege was therefore circumscribed as much as possible; and for the same reasons the prerogative ought not to be farmed by a commercial company, who would be frequently tempted to depreciate the currency.

Of that portion of the circulating medium which, though consisting of paper, is constituted by law an irrefusable tender of money, it has been very properly urged that it should be issued, if at all, by the Government. Indeed, the reasons for the Government's superintending the currency, apply more strongly to this part of it than the other, because of its facility and the utter worthlessness of the instrument. Within a limited district, perhaps, the known credit of the issuers is the best assay which can be given to such money; but then, unless convertible into gold, the security is deteriorated, and the circulation of paper unduly expanded beyond the simple notion of credit. Paper convertible into paper, that can only be converted into gold at a great expense to the creditor, is the farce which has been often, and cannot be too often decried. Every part of the national currency—a currency compulsory on the nation—ought to be under the same control as the coins of the realm. In this respect, however, the regal prerogative has been mocked beyond example. In former times, we read, the privilege of coining was claimed by "divers Bishops and Monasteries;" but even then it was only permitted to be carried on under the instructions of the Mint. Here we see the privilege of substituting paper for coins, carried to an extent that necessarily directs the operations of the Mint, for the Government cannot do less than coin the gold of the Bank, or permit that establishment to pay its notes in bars, on representing the demands against it to exceed the quantity of coined gold in the country.

As to the expediency of a Government paper currency, whole or part, little need be said. Its adoption might prove beneficial; but, as *credit* requires a solid foundation, one would like to have the best opinion of the Government to be entrusted with so much. In that case it would be preferable to debts and Exchequer-bills, bearing interest. In other respects I see no necessity for it; and as a part of the currency, I do not foresee its utility, because the circulation of paper would be always sufficiently extended by the private banks. On this head, therefore, we have only to concur in the common opinion, that the privilege of the Bank of England should be allowed to expire; and that, for the better security of the public, the number of partners in private banking companies throughout the whole kingdom should be unlimited, and their notes payable in gold. This being accomplished, the currency would again fall under the regulation of the constituted and responsible authorities.

But some better security should be required for the management of the currency, than merely transferring

it from the hands of the Bank to those of the Government, though in that measure alone would be comparative safety. It is probable that the Legislature will one day see the expediency of proposing, not to say imposing, some restrictions upon whoever has the charge of the national currency, whether metallic or paper. The issues should be governed by some indicia of the wants of trade, such as the course of exchange with foreign countries, and the price of bullion. There should be times when it would be illegal to make any new issues, and others when it would be illegal to delay it; and these seasons have been already pointed out in a branch of this essay.

A little more caution is requisite in issuing, than in abstaining from issuing. When it is evident that gold is being exported, it is obviously the only safe course to abstain from adding to the currency, and to allow the superabundance to be sent abroad; but when gold is flowing into the country, it would be well to ascertain whether it proceeds from a temporary or permanent cause, to observe its effects upon the general exchanges of the Continent, and to compare these with the natural value of the precious metals, before venturing to interfere. In a country whose currency consists principally of paper, more especial precaution is required, because it is the more difficult to discharge the country of a superabundance. If the currency consisted entirely or principally of metal, the superfluity would speedily vanish, and the state of the money-market would adjust itself to the state of trade; but when paper has been substituted for gold in all the internal commerce of the country, the superflux may continue, notwithstanding the exportation of specie, and cannot be discharged without a very serious contraction of the paper issues, such as would be sufficient to recall some portion of gold for the purposes of our inland trade. It can be shown, that a slight contraction of the Bank's issues, has not been sufficient to correct a depreciation of the currency, which has continued for some time.

From the annual returns of the Bank, as prescribed by the Act 55 George III. c. 184, to be delivered to the Commissioners of Stamps, it appears that the contraction of its issues since 1823 has been little more than one million*; yet during the same time the gold exported was at least six millions; some say a great deal more; and it is not known how many millions were taken off the market by the Bank during the same

* I may be allowed to refer to the communications which were made by the Governor of the Bank of England, at the last half-yearly Court of Proprietors, (held 22d Sept. 1825,) merely for the purpose of expressing my belief, that they support the theory maintained in this Essay.

In answer to several questions from a proprietor, (Mr Young,) the Governor stated, that the amount of the Bank's notes in circulation was then L.18,200,000, about L.400,000 less than it was that time twelvemonths; consequently there had not been within the last year any great change in the amount of the circulation.

That there had been very little increase or decrease in the sale of Exchequer-bills—a subject upon which the public had been very much deceived. During the last year the Bank sold only to the amount of about L.670,000, and that sale occupied a space of nearly three months.

That the amount of the Bank's advances upon mortgages did not exceed L.1,400,000: [for it had been supposed that this new practice had caused the discounting system to be materially restricted.]

That the advances upon stock were misstated on a former occasion at L.500,000 and L.600,000, when they were only L.480,000; and that the subsequent increase had not been much.

To the following question—"What has been the principal occasion of the recent extraordinary fluctuations in the market?"—the Governor *would not plead ignorance of such matters;* but he declared, that whatever fluctuations had

period, before gold advanced above its lowest price in relation to paper or specie, viz. L.3, 17s. 6d. per ounce. The depreciation of that period, therefore, is very evident, and was far beyond the Bank's remedy of contracting only a million of its paper—a contraction, besides, which has, in this case, been almost counteracted by an increase of some hundred thousands in the issues of the country banks; which proves that there had been no reduction in the country circulation of the Bank's paper, at least none to impede the business of the provincial banks.

Some persons have included the exportation of silver in the argument; but this is an error. Paper is not a substitute for silver, but for gold. Silver has no substitute: therefore, if its quantity become deficient, a fresh supply must be speedily had; as, if superabundant, it will be diminished by the speculations in bullion. However, the augmentation of the gold or paper currency makes occasion for and introduces more silver change; and the diminution of the former renders superfluous a relative quantity of the latter; therefore

prevailed, had not been owing to any conduct of the Court of Directors. However, it seems like the knowledge of an abettor, if not that of an actor, not to be ignorant of such matters. It has been shown, that the immediate effect of some acts of the Bank is not perceptible either in the money-market or in the state of the circulation. The Bank can take the earliest advantage of a good market for its gold, which it abstracts from stores that had been collected some time before. By this means the depreciation of our currency relatively to that of some other country, which creates the good market for gold, is only less speedily corrected than it otherwise would be; in other words, the exportation of gold continues for a longer period, than if the sums which are sent to France were taken immediately off our market, or deducted from our circulation, for in that case an equilibrium in the currency of both countries would be sooner attained.

silver, by its increase or decrease, does not depreciate or enhance the currency, but merely conforms to the general state of the circulating medium, and partakes of its depreciation or rise. The depreciation is caused by the addition of paper to gold, or by the multiplication either of gold or paper; but the increase of silver is only a collateral effect, and does not conspire causatively with the increase of gold and paper, or with either, to depreciate the currency.

The exportation of specie, in consequence of its depreciation, naturally reacts upon its value in our market, by making it scarcer; and accordingly it is observed, that the price of gold generally rises as the rate of exchange declines, and falls as the exchanges rise. Still, however, the rise and fall of gold have not been proportional to the rise and fall of the exchange*, which helps to show that the influence of the exchange is opposed by some tendency to depreciation in the currency. The course of exchange is probably affected by the operations of the Bank, sometimes inciting speculators to greater or less purchases of foreign goods than the exports of our manufactures will balance; and the influence of an unfavourable course of exchange should be to raise the price of gold, or to promote the exportation of domestic produce; yet sometimes we observe that the price of gold falls, and that at other times it does not rise, upon the fall of the exchange †, while at some of

* When gold was £4, 3s. per oz., the exchange on Paris was from 23f. 35c. to 70c.; when gold was at £3, 17s. 10½d, the same exchange fluctuated between 24f. 90c. and 25f. 70c.; while gold was at £3, 17s. 6d., the exchange on Paris was generally from 25f. 15c. to 85c.; with gold at £3, 17s. 9d., the exchange on Paris was at 25f. 5c. and 12½c.; and with gold again at £3, 17s. 10½d., the exchange on Paris fluctuated from 25f. 5c. to 12½c.

† In November, 1819, gold was at £3, 18s., and the exchange on Paris from 25f. to 25f. 5c.; and the exchange

these periods our exports, except those of bullion, have rather declined than increased*. That we have foreign payments to make in money, and not in goods, should be a convincing proof that the currency is depreciated; but the proof is so much the stronger when the transmission of money fails speedily to equalize or turn the course of exchange.

Upon several occasions I have felt disposed to avail myself of the clear and skilful expositions by Major Torrens; but upon this question of depreciation,

was the same in December, 1819, 1824, and in March, June, and July, 1825, when gold was at £3, 17s. 9d., and £3, 17s. 10½d.; and the exchange was only 25f. 15c. dis. to 25f. 20c. in July, 25f. 20c. to 25f. 15c. in August, and 25f. 10c. dis. to 25f. 12½ in October, 1824, during all which time gold was only £3, 17s. 6d. per oz., at which price it had continued since May, 1822, while the Paris exchange had stood pretty evenly from 25f. 40c. to 25f. 85c. In December, 1818, the Paris exchange was 23f. 70c. to 65c., and gold at £4, 3s.; but in March, 1819, gold had fallen to £4, 1s. 6d., and the exchange had also fallen to 23f. 55c. and 60c.

* The unfavourable exchange with Paris commenced in July, 1824, with gold at L.3, 17s. 6d., when gold gradually rose, first to L.3, 17s. 9d., then to L.3, 17s. 10½d., the Mint price, above which it will not go. During the unfavourable exchange, and the consequent exportation of gold, the relative quantity of goods imported was continually increased, instead of being diminished: for instance, In 1824 the excess of our exports above our imports was L.6,307,438, 11s. 9d. of official valuation less than in 1823, L.4,012,081, 18s. 1d. less than in 1822, even L.2,921,272, 15s. 2d. less than in 1818, and a trifle less than in 1819; and the quarter ending March, 1825, exhibited a similar result.

Another important coincidence is, that while foreign produce naturally rose under its extra demand, with the exportation of gold, and while our own produce has also risen in price, perhaps owing to the depreciation of money, no higher price seems to have been obtained for that part of our produce which has been exported; for the official value was to the declared value of our exports in 1823, as L.53,464,122, 9s.

as upon some others*, I have differed very decidedly from that perspicuous, though fallacious writer. In particular, I disagree with him as to the comparative advantages of an increase of money, and an increase of goods. It is certain that neither would be an advantage, if it happened not to be wanted; but Major Torrens contends that in this case an increase of money would be more advantageous than an extraordinary supply of other articles, because it "would necessarily reduce the value of money; or, in other words, would raise the money price of all other commodities; and the rise of prices would produce all the benefits to trade and industry, which have already been described†:" namely, advance the prices of commodities and of labour,—an ad-

3d. to L.36,968,964, 9s. 9d.; and in 1824, as L.52,408,277, 7s. 2d. to L.35,458,048, 13s. 6d.

The exchange has since been restored to par, and gold has again fallen to L.3, 17s. 9d.; and if the exchange continues for any time at or above par, there is a chance that gold will again descend to L.3, 17s. 6d. the ounce.

* Upon the bullion question, I have embraced the opinions of Mr Ricardo, as I believe, to the farthest practicable extent. Major Torrens, however, approves of a coinage, because it is less exportible than bullion; which, in my judgment, appears its only inconvenience—one that I am resigned to by its greater utility in other respects—the advantages, more than balancing this disadvantage, of the *small* pieces being coined.

Also, the preference which this author, in common with the Earl of Lauderdale and others, has pronounced in favour of a silver standard, appears to me unfounded. If it could be proved that gold is more, or even so much given to fluctuation in its real value as silver, then it would be time to lend an ear to the only other objection—the difficulty it creates in calculating the foreign exchanges; but while its former apparent fluctuations are justly ascribable to other causes, which they have not survived, I cannot help thinking that this difficulty in the exchanges, if it be deemed sufficiently serious, would be better obviated by foreigners adopting our standard, than by our adopting their's.

† "*Essay on Money and Paper Currency*," Chap. 2. p. 26.

vantage that I cannot comprehend, unless it can be shown that it would improve the real wages of labour, that is, advance the price of labour, without advancing the price of commodities.

Major Torrens admits, that "the value of every thing is regulated by the proportion which exists between the supply and the demand."* How, then, shall we know if an increase of money be valuable or not, or if it be demanded or not? When there is a demand for money, money could be added to the circulation without being depreciated, and without raising prices, for its demand would proceed from an increase of other productions. If that increase resulted from new facilities of production, prices may not require to be sustained by an increase of money; but if it results from an increased application of ordinary means, the additional money will be demanded to enable the producers to keep up the increased supply of commodities, without a reduction of prices.

But, in a subsequent work, Major Torrens has carried his doctrine a little farther: for he there denies that a depreciation can result from any other causes than the following:—"If, while the precious metals retain their customary relation to other things, the coin should be clipped, or worn, or adulterated, its value would sink, and it would be in a state of depreciation. Again: if a diminution of commercial transactions, or the introduction of greater economy in the use of currency should diminish the demand for money, then the coin would become redundant with respect to bullion; though of standard weight and fineness, it would, to the full amount of the labour and risk required to re-

* "*Essay on Money, &c.*" Chap. 2, p. 26.

store it to the state of bullion, lose a portion of its exchangeable value; and, therefore, in this case also, it would be depreciated."*

Here the price of bullion, determinable in a depreciated currency, is assumed as the standard of value; and the difference between the value of coin and that of bullion, is taken as the measure of a depreciation in the currency. Whereas the only measure of value or of depreciation is the relative quantity of one commodity that can be obtained for others. Bullion can be no more this measure of value to the currency, than flour is to bread, or sheep to mutton: but if the one is depreciated, so will be the other, and the difference in their price can be only to the extent "of the labour and risk" of converting the same substance from one state into the other, as the occasion may seem to require.

The same authority adds—"But when an unfavourable balance of foreign payments diminishes the supply of the metals, and raises the market price of bullion above the Mint price, the effect is very different. In this case, the value of money is raised, instead of being lowered."*

The value of money is undoubtedly raised in proportion to the quantity exported; but if it had not been previously depreciated, probably none would have been exported; and it will still continue depreciated, until a sufficient quantity has been exported to restore the value of that which remains. That bullion is enhanced in relation to money, does not prove that both are not depreciated, but renders it probable that they are; because gold, when it is dear, will only be exported

* "*A Comparative Estimate of the effects which a Continuance and Removal of the Restriction on Cash Payments would produce.*" p. 21.

upon very extraordinary occasions. Such is not the balance of trade, which may be the effect of a relative depreciation in the currency of one nation, compared with that of another. A foreign loan is hardly an exception, because, if it be not advanced from private stores, the probability is, that the whole or greater part will be transmitted in commodities best suited to the market of the country in which the loan is to be paid. A deficient harvest is no certain criterion, because, when the currency is not depreciated, goods may be a more eligible payment than money, for an extra supply of corn; since the country which is able to increase the sale of its raw produce, will be able to consume a larger quantity of hardware, cloth, and other manufactured commodities. And, with one exception, all the other criteria mentioned by Major Torrens*, as exhibited during the restriction of cash payments,

* "This conclusion,"—that gold had experienced a temporary elevation,—"would be strengthened if, at the same time, silver, the next eligible article with which to balance an extraordinary foreign debt, rose in a less proportion than gold. And if those finer articles of commerce which contain the greatest value in the smallest bulk, experienced a graduated elevation, whilst the coarser and more bulky commodities remained nearly at their former price; if, with the principal foreign markets, the real, as well as the computed and apparent exchange, was against us; and if the issues of the Bank were not unusually enlarged, or were rather diminished than increased; then should we possess a resistless chain of circumstantial evidence; proving that the fluctuations of foreign trade had given to gold a temporary elevation above the level marked by the cost of its production." The principal error is in applying these tests to a wrong period, during the Bank restriction, when they may very well have marked the progress of a depreciation in the currency, instead of an elevation of gold; and in supposing them to be also exemplified in "the history of our currency before and after the passing of the Restriction Act." See *Comparative Estimate,*" p. 33, 47-48.

more accurately indicated a depreciation of the currency than the reverse. The exception to which I allude is the following:—"If the issues of the Bank were not unusually enlarged, or were rather diminished than increased." Generally, I admit the influence of this circumstance to bear against the inference of a depreciation; though I still contend, that it cannot have any such influence, if the issues of the Bank, while "not unusually enlarged," become from any cause too considerable for the state of our trade, or if they be not at proper times sufficiently "diminished." Upon this head Major Torrens is not well supported by his facts.

Major Torrens observes*,—"In the year 1795, we incurred, in consequence of our contributions to the Continental struggle, a great foreign expenditure, while a deficient harvest at home caused our imports of grain, to exceed our exports by 1,900,000 quarters. The consequences were, that as the Bank directors declared†, the market price of gold rose to L.4, 3s. and L.4, 4s. the ounce; and that silver, which in the beginning of the year had been to gold as 1 to 14.94, became only as 1 to 15.24. At this time the amount of Bank paper in circulation was L.11,000,000. From this period to the year 1799, our foreign expenditure diminished, and more favourable harvests reduced our annual importations of grain by half a million of quarters. The consequences were, that the market price of gold fell something below the Mint price; and that silver, in reference to gold, became as 1 to 14.30, and even as 1 to 14.09; though, while those events were in process, the amount of Bank paper in circulation amounted to L.14,000,000."

* *Comparative Estimate*, p. 47.

† Secret Committee of the House of Lords, p. 152.

I must here repeat, that the rise of the market above the Mint price of gold, is no sign of its real elevation in value. If the currency was depreciated in 1795, and not depreciated or less depreciated in 1799, gold may have been cheaper at L.4, 3s. to L.4, 4s. in the former period, than at L.3, 17s. 10½d. in the latter. This appears to have been the case. In 1795 there was a forced exportation of gold in aid of the Continental struggle. That corn was imported at the same time, may or may not have been owing to its nominal dearth, in consequence of a profusion of money. All this time there was no doubt a run upon the Bank for gold, until its exportation declined from money becoming scarcer. To relieve the Bank in future from the inconvenience of a demand for gold while Government was at the same time sending gold out of the country, the Restriction Act was passed in 1797, less than two years afterwards. In four years afterwards, (1799,) when gold no longer constituted a necessary part of the home circulation, and when there was a call for money, in consequence of the extension of trade, L.14,000,000 of Bank paper may have been a very moderate complement of circulating medium; and it is not at all surprising that gold then fell something below the Mint price, or, in other words, that paper had become worth the quantity of gold which it purported to represent. No other instrument of exchange could then be insisted upon; no other was therefore demanded. Bullion consequently had become cheaper in relation to paper and coins, because paper and coins were more easily convertible into goods; and, with this preference for specie and paper, goods had become cheap in relation to bullion, as well as to specie and paper. Instead of being demanded for exportation, therefore, it was now freely thrown upon our market, in exchange for paper or specie with which to purchase goods, and we find that this sudden return of gold produced an immediate effect upon the bullion-market. The premium which it offered for paper caused an additional issue of L.1,000,000 by the Bank, which, together with the increase of gold, must have so rapidly depreciated the currency, and raised the prices of domestic produce, as to exhibit the following effects:—

"In 1800, our foreign expenditure again became considerable; while the very deficient harvest of the preceding year, caused our imports of grain to exceed our exports by 2,089,608 quarters. The market price of gold now rose to L.4, 5s. per ounce, and the amount of Bank of England paper in circulation was L.15,000,000."*

The depreciation of the currency was again contrived to enable our Government to export gold; and the corn imported, which in the previous year would have been more conveniently paid for in goods, would this year be more conveniently paid for in money. "From 1802 to 1808," continues Major Torrens, "our foreign expenditure, and our importations of grain were considerably reduced, and consequently the market-price of the metals fell; though the amount of Bank of England paper in circulation rose to L.17,000,000."* That is only one million in six years, notwithstanding the exportation of gold. No wonder that the metals again rose in value, which is consistent with a fall in their exchange with current coin or paper. Besides, Major Torrens has omitted to notice a very important coincidence,—that the official value of ex-

* "*Comparative Estimate*," p. 48.

ports during the same period generally increased; but the exports to the Continent alone, whither bullion was still sent, though not in such large quantities as at some other periods, gradually diminished.

But we find that when the circulation was really augmented by the issues of the Bank, the currency was as certainly depreciated, and gold attained an extraordinary market-price in relation to that depreciated currency. When, by the increase of a paper currency *not convertible into gold*, a country has been so drained of its bullion, that its price in the depreciated currency renders it a less eligible article of export than some other commodities, the preference will naturally be given to the latter: this seems to have been the case in several succeeding years, when the exports rose 9 or 10 millions, and even those to the Continent rose 8 millions in the two following years. In those years, 1809 and 1810, the amount of Bank paper was increased by 5 millions: gold rose to L.4, 11s. In April, 1814, L.4,280,220 had been added to the circulation by the Bank, and gold rose to L.5, 5s.—a most extraordinary elevation, from which it fell in a most extraordinary manner, in July of the same year, to L.4, 11s., notwithstanding the Bank had increased its issues of paper by 7 millions more within that short period. This fact, however, has been very completely explained. The Bank had provided large quantities of bullion for the Government, but in consequence of the termination of hostilities on the Continent being more sudden than had been expected, the gold happened not to be needed, and therefore the Bank was sustaining its market price, by depreciating the currency as much as possible; but the exportation and accumulation of gold in April must have more than balanced its extraordinary issues of paper in July.

But the theory of Major Torrens has been sufficiently refuted by what has occurred since the repeal of the Restriction Act. Come what will now—extraordinary dearth, extraordinary importations of produce, extraordinary foreign loans and exportations of gold and silver —the market price does not rise above the Mint price of gold.

Some people say, gold cannot be depreciated at present, because it sells at the Mint price, L.3, 17s. 10½d. the ounce*. And what is the value of L.3, 17s. 10½d? Answer: An ounce of gold! The value of a commodity cannot be measured by the number of its constituent parts. We convey no idea of the price of cloth by saying, that a yard of serge is worth 36 inches of serge; and if we say that four yards of serge are worth $3\frac{17}{160}$ yards of serge and 1lb. of flour, we only state the value of $\frac{143}{160}$ of a yard of serge=1lb of flour. Therefore, to say that an ounce of gold is worth three sovereigns and 17s. 10½d., is only to communicate the value of the difference between three sovereigns and an ounce of gold, *i.e.* 4dwt. 15grs. of uncoined gold, and the value of which is 17s. 10½d. as determined by the Mint; and even the value of this part of the ounce is measured by a fixed quantity of other metals, which, if gold be depreciated, must partake of the depreciation.

But it is evident that a fixed price can be only another denomination of the article. If, by carrying an ounce of gold to the Mint, one can always receive back 3 sovereigns and 17s. 10½d., it is unlikely that any person will take less for this price than an ounce of gold, and bear the expense of its carriage to and from the Mint,

* It has since fallen in price. See note, p. 28.

though it is possible that some may be induced to give more; yet, if it be exported at this rate, and foreigners adapt the prices of their goods to the quantity of gold which they want in exchange for them, then, by whatever term we choose to designate our ounce of gold, assuming a fixed term for it, that does not prove that our gold is not depreciated.

When gold is really depreciated in our market, it is understood that the same quantity of other commodities is not to be had for it as before the depreciation; when it is relatively depreciated, that is in respect to the foreign market, the price of bullion should rise in relation to our specie, because it is in a state more convenient for exportation; and when gold is both really and relatively depreciated, neither the same quantity of spscie nor of other commodities can be obtained in exchange for it as before the depreciation.

Gold lately sold in our market at L.3 17s. 6d. the ounce, which, in relation to the Mint standard, seems a fair price for bullion. At this price it becomes a profitable speculation to strike it into sovereigns. To this price it can be reduced by a diminution of the currency; but when it is thus reduced, it is only depreciated in relation to money, for it would be exchanged for a larger quantity of our produce than before; but having first to be converted into money, before it can be currently exchanged for our produce, it is less valuable than money in proportion to the difficulty or trouble of its conversion. Here, then, is the inducement to convert it into currency, either paper or coins; but that inducement is lessened when L.3. 17s. 9d. will be given for it uncoined, and it ceases altogether, when the currency, by its increase has been reduced to a par with the price of bullion, and L.3. 17s. 10½d. will be given for the ounce, which recently obtained only L.3 17s. 6d. At this period both bullion and coin are really depreciated, because the former is only enhanced in relation to the latter, but neither the one nor the other could be now exchanged for so large a quantity of home produce, as when gold bullion sold at L.3 17s. 6d. the ounce.

But there must have been a period when gold coin was really (for it is never nominally) depreciated, while gold bullion sold at L.3 17s. 6d. the ounce: as the influx of gold would not cease until the discontinuance of the home demand had been ascertained. Besides, it was the depreciation of our money that caused the bullion to rise. Some will say it was an extra demand for bullion; but then it was the depreciation of our money that occasioned that extra demand, and a depreciation of money never effects a rise in the prices of commodities by any other means. The increase of our circulating medium caused bullion to be demanded for exportation, and it was the home and foreign demand united which raised the price of bullion to L.3 17s. 10½d.

But then it may be asked, upon the relaxation of the home demand, after the rise, why did not the price of bullion return to L.3 17s. 6d.? This question is easily answered. The exchange of bullion with foreigners is not for money, but for goods; and as the extra demand for bullion raised its price, so, in the meanwhile, the extra demand for the goods with which the bullion is purchased has raised their exchangeable value; and the exporter of bullion receives no more goods for his gold now it sells at L.3 17s. 10½d, than when it sold at L.3 17s. 6d. the ounce; and he cannot afford to sell his gold for the latter price, when he can transmit it in payment for goods that, clear of all trouble and risk, will yield him the former.

In the first place, it must have become as eligible for our merchants to send bullion abroad in exchange for foreign goods, as to sell it at home for L.3. 17s. 6d.; but by this extra demand for bullion they raise its exchangeable value, first to L.3 17s. 9d., and afterwards to the Mint price, just as the markets for foreign produce rise in at least a corresponding degree;—is the real depreciation of our gold less after than before the rise? Do we obtain a larger quantity of foreign goods for a given quantity of gold than before? And this alteration in the nominal value of gold is not inconsistent with the continuance of its depreciation at home. Not only our money is less, but our capital and produce will be also diminished. Our capital and produce being diminished, the prices of the latter continue in the same relation to the bullion-market as before the rise of gold from L.3, 17s. 6d. to L.3, 17s. 10½d. per ounce. L.3, 17s. 10½d. will purchase no more foreign or domestic produce than L.3, 17s. 6d. did before. The real value of gold is therefore unaltered in this country; and it is because its value is unaltered relatively to the foreign market, that it continues to be exported as briskly as ever, so long as it can be obtained for L.3, 17s. 10½d. the ounce, and the foreign bullion-market is not reduced below the proper level by receiving it.—Why, then, should the prices of gold and of goods be raised at all? This would be a good question, if only two countries were parties to the trade; but though France may get no more British money for a given quantity of her merchandize by the rise of her prices, yet, by making that money the medium of a higher exchange at home, she may be able to receive a larger quantity of produce in return for that which she exports to other countries. Besides, our merchants would be content to make an additional sacrifice, beyond the 4½d. per ounce, if they did not raise the price of their gold to the Mint standard, because the foreign produce would rise at any rate, in relation to money, owing to the extra sum with which it is demanded.

However, it is not necessary to take such an extreme case. The depreciation of our currency may continue, even while the prices of our manufactures decline in proportion to the rise of the bullion-market, (which, it will be admitted, is not a necessary consequence;) and it may continue so long as the reduction of our prices is insufficient to cause an extension of trade, but is merely the effect of its contraction; and so long as our merchants can find a better market for foreign produce, though it thould have advanced with the price of bullion, than for home produce at prices insufficiently reduced. The foreign countries have more money than before, but it is inadequate to their trade; while, on the other hand, though we have parted with some of our money, we may not have full occasion for that which remains.

Whether this depreciation is caused by over issues of paper, or by the diminution of trade, or by both, the one sometimes occasioning the other, are questions which can only be decided by special circumstances; but whatever be the cause, the fault is in permitting the effect to continue. An entirely metallic currency is allowed to be the easiest managed of any; for when supplied on the true commercial principle, of satisfying every demand that is consistent with the cost of production, it will readily adapt itself to the varying conditions of trade, without any calling in, except for the purpose of renovation, an amount that has once been issued. Hence the necessity of as nearly as possible assimilating to it in principle the paper currency, if a paper currency should be still persevered in. Of course, therefore, it ought to be convertible into gold at the will of the holders; and for the same reason, it ought not to be a compulsory tender in payment of debts, seeing that, at a distance from the place where it is payable, its conversion into gold must be obstructed by the cost of transmission. No peculiar sanction should be lent by Government to the issues of a private company; and if the Government itself should be permitted to issue paper money, and more especially if its paper should be compulsory on the nation, some means ought to be devised to prevent an excess, since the superabundance cannot be exported, and its contraction, from being liable to be carried to the opposite extreme, is more difficult, and infinitely more dangerous, than to guard against an imprudent and superfluous emission. But a paper currency of this description, even under the best control, can never be considered a perfectly safe experiment. There would be always the danger of its superabundance from a decline of trade, which may be too sudden for human vigilance to foresee, and for which a contraction of paper is the only remedy. There would, besides, in the best circumstances, be always some risk even in trusting our public authorities with such an instrument.

Upon due reflection, therefore, we cannot but think, that if the whole matter should ever become one of sincere economical or constitutional legislation, the idea of a national paper currency would be abandoned; and though this result should be too successfully resisted, we are nevertheless disposed to hope, that when the subject shall be again brought under Parliamentary revision, some of the now prevailing influences over the currency will be restricted or destroyed, and the interests of commerce placed under the guidance of a monetary principle that will prove a comparatively safe and unfluctuant standard of value.

NOTE.

On revising this essay, I find that allusion is frequently made to the real and apparent exchanges indifferently, under a common term; but the context will show when the real exchange is signified, and the *Course* is usually referred to, when only the apparent exchange is understood. For instance, in p. 2, the real exchange is very obviously spoken of, as also in the note to p. 27, where a case was supposed,—that if the exchanges continued for any time at or above par, the price of gold, which had then fallen from the Mint price to L.3, 17s. 9d., would be further reduced to L.3, 17s. 6d. This supposition has since been realised, though, if the apparent course of exchange is all that should be attended to, without regard to the commercial par, below which gold is sent out of the country, some may assert that the exchanges have not been reduced to par during the period of observation included in the essay, and some months previous. It is certain, however, that during the first nine months of the past year, (1825,) the estimated par was the most nearly approached, and the real exchange had actualy fallen below it, as gold had advanced to L.3, 17s. 9d. and L.3, 17s. 10½d. ℔ oz., in consequence of its exportation. In October the exchanges experienced a small advance, and the price of gold fell to L3, 17s. 6d. ℔ oz.—the demand for exportation having ceased, owing to a prudent contraction of the discounting system by the Bank of England; but, with its subsequent haste to relieve the commercial distress, which its necessary, and I believe involuntary, prudence had occasioned, trade was resumed as before, and upon the same foundation. The renewed demand of gold for exportation again raised its price gradually to L.3, 17s. 10½d., at which it continued from the beginning to the end of November, when the Bank met with another relapse into that prudence which renders it so obnoxious to the mercantile classes; and gold suddenly fell to what appears its natural price, L.3, 17s. 6d., at which it has continued up to the close of the year 1825.

Also, to prevent misapprehension, it may be as well to add, that by the expressions *cheap* or *dear gold*, I never mean its value in another description of money, but in the quantity of other commodities which will be given for it, except where the market price of gold is distinctly referred to.

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