A

LETTER

TO

THOMAS BRAND, ESQ.,

M. P. FOR THE COUNTY OF HERTFORD;

ON THE

PRACTICABILITY AND PROPRIETY

OF A

RESUMPTION OF SPECIE PAYMENTS.

"If a Paper Currency without a Standard be an Improvement, let it be proved to be so; and then let the Standard be discussed."

RICARDO.

BY ERICK BOLLMANN, M. D.

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A

LETTER,

&c. &c.

Dear Sir,

After so much light has been thrown on the nature of money and currency, by the discussions which it has undergone during the last twenty years; and after so much knowledge, and practical experience have been acquired by the changes which have taken place in the money concerns of several countries during the same period; it appears to me unworthy of this great nation, still to pursue the course of temporary extensions of the act, which restricts the Bank from paying their notes in specie. It is time, the situation, in which a succession of events have placed her money matters should be fully comprehended, and that such *permanent* measures should be adopted as may be shewn by sound reasoning, to be the best adapted to existing circumstances; and which, though forced upon the nation at present by these circumstances, may yet, by experience, be ultimately vindicated as radical improvements.

But measures of this description cannot be adopted with propriety, unless they are sanctioned by public opinion. The subject should therefore be so treated, as to be brought intuitively home to the public intellect; and for this purpose, I had proposed, for some time past, to attempt a thorough investigation, in all its details, of the question, *whether a resumption of specie payments on the part of the Bank of England is practicable; and if practicable, whether it is desirable?* An investigation the more deserving to be made with care, as the practicability, and propriety, of the resumption of specie payments in England is a question of importance, not only to this country, but to all Europe; and in which the interests of humanity are nearly as much concerned as those of the politician.

The pressure of my daily occupations has not left me sufficient leisure for the task; but, as the business is again before Parliament, I cannot refrain

from giving publicity at least, to a few remarks which have particularly forced themselves on my attention; and I take the liberty of addressing them to you, because I feel confident that you will read them with the same indulgence with which you have sometimes listened to me, when conversing with you on the same subject. They were chiefly called forth by some assertions, contained in *A Letter to the Rt. Hon. Robert Peel,* which have attracted a considerable degree of public attention, though they appear to me unsupported either by argument or experience,—and by the *Proposals for an Economical and Secure Currency,* by Mr. *Ricardo,* as commented upon by a writer in the last number of the Edinburgh Review. Proposals, which, on their first aspect, promise to accomplish whatever seems desirable, with regard to the currency; yet which I cannot help considering, notwithstanding the great ingenuity, and general accuracy, of their author, as founded upon an *illusion;* and which, on that account I fear, if acted upon, would entirely fail in producing the expected effects.

The author of the first publication alluded to, observes—" that a depreciating currency causes

" an advance in the price of commodities ; that " this advance reaches some commodities sooner " than others ; that the necessaries of life obtain " it before the superfluities ; and that he, who " can withhold his commodity, or dispose of it " where he pleases, obtains the advance before " him who must bring it at once to a given mar- " ket." And he continues, " both these princi- " ples bear with accumulated force upon the " class of labourers. The things which they " have to buy, are the necessaries of life, and the " only commodity they have to sell—their labour, " it is impossible they should keep back. They " come into the market, therefore, with a double " disadvantage, and the effect is found invariably " to correspond with this disadvantage. *A de- " preciation of the currency always depresses the " lower classes.* They *must* buy, and they *must* " sell, and that immediately."

Now that a depreciating currency causes an advance in the price of commodities is certainly true. It may be questioned, whether the necessaries of life obtain this advance before the superfluities ?

In the first place, the necessaries of life are

raised by such numbers, that the extent of competition will generally bring them down to the lowest price at which they can be afforded

This competition will be the more effectual, as a great proportion of these necessaries are of a perishable nature.

And the producers of these necessaries, being generally owners or renters of soil, who have few or no materials to purchase—the depreciation does not reach them except in the payment of wages,—which, according to our author, are the *last* affected by it—and therefore they have not the same urgent inducement to stand out for the advance as those engaged in other pursuits.

I doubt therefore much, whether the real necessaries of life, such as labourers consume, advance as rapidly in price as the author imagines. Choice meats, poultry, and other delicacies, become, on such occasions, dearer in our markets, before we observe any alteration in the prices of bread, potatoes, and cheese.

But suppose they should obtain the advance more rapidly than other commodities, still it would be erroneous, that *a depreciation of the currency always depresses the lower classes*, and argument, authority, and experience, will bear me out in this opinion.

The rate of wages, in fully-peopled countries, is always regulated by the competition among those who are anxious for employment; and as population in such countries always presses hard on the means of bare subsistence, the wages of ordinary labourers, let the value of the currency be what it may, are generally reduced to the lowest rates compatible with those means.

Of infinitely greater importance, therefore, to this portion of the community, than a steady and undepreciating currency, is *abundance of work*. If work diminishes, then there is for numbers no employment at all, and *low* wages are unquestionably better than *none*. Again, if there is abundance of work, labourers will not be backward in asking, and employers not indisposed to accord, an advance of wages, in order to have their work done more expeditiously and better; and as wages, and the prices of things advance, if *taxes* remain unaltered, the burden of these becomes the *lighter*.

But it is universally agreed, that a *depreciating currency* always induces in the community in which it happens, a state of *general excitement*,

and *redoubled activity*, from which there invariably results a great increase of work.

" It is of no manner of consequence," says *Hume*, " with regard to the domestic happiness " of a state, whether money be in a greater, or " less, quantity. The good policy of the magis- " trate consists only in keeping it, if possible, " still increasing; because, by that means, he " keeps alive a spirit of industry in the nation, " and increases the stock of labour, in which " consists all real power and riches. A nation, " whose money decreases, is actually at that time " weaker, and more miserable than another na- " tion which possesses no more money, but is on " the increasing hand. This will be easily ac- " counted for, if we consider that the alterations " in the quantity of money, either on one side or " the other, are not immediately attended with " proportionable alterations in the price of com- " modities. There is always an interval be- " fore matters be adjusted to their new situa- " tion; and this interval is as pernicious to in- " dustry, when gold and silver are diminishing, " as it is advantageous when these metals are in- " creasing. The workman has not the same em-

" ployment from the manufacturer and merchant;
" though he pays the same price for every thing
" in the market. The farmer cannot dispose of
" his corn and cattle, though he must pay the
" same rent to his landlord. The poverty, and
" beggary, and sloth, which must ensue, are
" easily foreseen *."

The effects which *Hume* points out in this passage, as attending the increase and diminution of gold and silver, belong to the increase and diminution of *currency in general*, of whatever nature.

The writings of *Sir James Steuart*, of *Adam Smith*, and other political economists, and historians, particularly when alluding to the first establishment of banks in Scotland, and to the Mississippi bank in France, are full of corroboration of the same fact.

In more recent times we have seen the same effects produced by the assignats in France, and by the introduction of paper-money in Russia and Austria. In the latter country the paper currency loses against silver from two hundred and fifty to three hundred per cent., and however much the

* D. Hume's "Essay on Money."

constantly fluctuating state of that currency is to be deprecated—however injurious it may prove in its consequences to the morality of the people in their general dealings; yet, there is not a dissenting voice, with regard to the great advancement which industry has experienced, and the prosperous condition of the lower classes, from its abundance and depreciation.

The same in this country. The lower classes were never in a more thriving condition than at the period when the premium paid for gold was highest; and it is well known, that the population has considerably increased since 1797, which is, generally speaking, a sure criterion of prosperity. On the other hand, the distress among the labouring classes was great, beyond example, in 1816, when gold was at par—when the new sovereigns lay at the bankers uncalled for, and when Spanish dollars sold at four shillings and threepence.

A high price of gold in England, and an *unfavourable* state of foreign exchanges—as it is rather improperly called, since a state of exchanges favourable to one description of merchants is always unfavourable to another, and may be considered as not very material to the country at large, always operates as a bounty on exportation, causes an increased demand for manufactured goods, and, consequently, an increased demand for labour.

But this is not the principal view of the subject. The exportation of manufactured commodities is known to reach in amount seldom more than one-third of the goods manufactured in the whole; and domestic consumption is therefore of much greater importance to the labouring classes, than demand for exportation. But a depreciating currency, and increasing prices, operate, as has been already observed, as a powerful stimulus on all those who are engaged in active pursuits, and who form in every country by far the largest part of the aggregate population. These not only *imagine* that they increase in wealth, when finding that they can obtain for their respective commodities higher and higher prices, but they often become richer in reality, because, well-managing people generally sell to a larger amount than they purchase; and the gradual, not sudden, augmentation in the price of the different commodities often furnishes the

active and intelligent, opportunities of purchasing them below their real value, in reference to the depreciating state of the currency, a value, however, which they never fail soon to acquire. Business, therefore, under these circumstances, is always brisk, consumption great, work abundant, industry flourishing, and the labouring classes are in a prosperous condition.

A *depreciating currency*, then, instead of *depressing the lower classes*, as pretended by the author alluded to, has, with regard to them, precisely the opposite effect; and the assertion, with the whole superstructure he has attempted to raise upon it, falls to the ground.

On the other hand, an *appreciating* currency, and sinking prices, from the natural operation of the principles which I have just developed, as certainly *check* industry, and *cause distress* among the labouring classes.

" The mischief," says the Edinburgh Reviewer of Mr. Ricardo's work, " occasioned by the " sudden restriction of paper currency, and the " consequent rapid augmentation of its value, " has been still *greater* than what was previously " caused by its increase. It is to this that the "late unprecedented destruction of agricultural "capital, and the wide-spread misery, by which "the farming class has been nearly overwhelmed, "is chiefly to be ascribed."

And, again, "All those taxes, too, which were "imposed when the currency was thus reduced, "must now, though not nominally, be *really* "increased; and it may be questioned, whether, "making allowance for the difference in the "value of money, the country was not less "heavily burthened in 1812 and 1813, than it is "at this moment, notwithstanding we have now "got rid of the income tax, and war-malt "duty*."

During the former state of things, the state of a depreciating currency,—all capitalists, deriving a fixed income from funds at interest,—all landlords, having disposed of their property on long leases,—all the holders of public securities,—all annuitants,—all men in office, *suffer*;—generally speaking, that portion of the community, who are best able to support losses, and a great many of whom—the large stock-holders—

* Edinburgh Review, No. LXI., p. 78, 79.

are very far from bearing their just share of the public burthens. But the trading, manufacturing, and labouring classes *thrive*.

During the latter state of things, the persons named, that is, chiefly, the rich become richer still; but the poor become poorer, and the labouring classes, overwhelmed with misery, for want of work.

During the former state of things, foreign commerce, as I have pointed out, is benefited, and domestic consumption increased; because, by far the greater part of the community consists of the lower and the middling classes, who are obliged to gain their living, or are endeavouring to improve their circumstances, by their exertions; and these, because prices and profits are on the advance, consume liberally; whilst the capitalists, notwithstanding their relatively diminished incomes, can afford to keep up their wonted habits, in which they are not very apt to make alterations.

During the opposite state of things, foreign commerce experiences a decline, and those who depend for their subsistence, or their comforts, on their daily exertions, find their resources diminished, become disheartened, and consume less, whilst the wealthy do not proportionably increase their expenditure.

The poorer, the larger, the most industrious, part of the community, therefore, ought to, and always will, prefer a circulating medium, which is rather depreciating, to one the value of which is on the increase; and it is somewhat remarkable that in the discussions on this subject in parliament, the *popular* party of the house have espoused the *aristocratic* side of the question, whilst the ministerial party seem more anxious to defend the interests of the public at large. It may be accounted for from the natural connexion which subsists with regard to the preservation of power between the interests of those in office, the maintenance of public credit, and an ample revenue, which latter depends on the prosperous condition of the nation in general, infinitely more than on the individual riches of the wealthy.

Fortunately, it seems agreed by both parties, that both conditions of society, that of a depreciating and appreciating currency, operate injuriously on one or the other part of the community; that both are fraught with more or less of inconvenience and *injustice;* that both are to

be deprecated as injurious to public morals; but that, in a political point of view, an *appreciating currency is the greatest calamity by far.*

The greatest attainable steadiness in the value of the circulating medium is *avowedly* the state of things the most desirable; and, starting from this fundamental point of agreement, I conceive that there must be a possibility of reconciling the contending opinions on this subject, provided the actual situation of this country, with regard to its currency, and that of Europe, with regard to the precious metals, be previously well understood; and provided also, it be admitted by either party, that in the ardour of defending their respective doctrines, they may occasionally have fallen into mistakes.

If then an *invariable value* of the circulating medium is the important point at which we ought to aim, the question occurs, how can it be attained? and whether we are right in selecting the precious metals, though no production of our own, for the material of our money?

At the first view, such a choice must at once appear very singular; for what opinion, for instance, should we form of the judgment of a great landholder, who, on stocking and arranging his farm, had determined to have all his means of conveyance, his waggons, wheelbarrows, carts, *&c.*, constructed of a particular kind of wood, only to be found in Ceylon, or in Japan!

The precious metals must possess surely some extraordinary qualities, that they should have been employed as money even by nations with whom they are a foreign commodity!

And it may be, that their character as treasure, their small compass, ready recognition, and imperishable nature, gave them for the purposes of money, with semi-barbarous nations, an eligibility which they possess no longer with us, who understand the subject of money better, and have more means than they had, of constructing our social fabric upon correct principles.

That the precious metals ought to continue to remain the material for money, merely because they have been so hitherto, is unquestionably a most paltry argument.

When watches were invented, and the art of printing, and gun-powder—when line of battle-ships came into use, and steam engines, and spinning jennies, and gas illumination, the progress of

society to greater perfection outstripped the knowledge of preceding ages; and there is no reason for believing that perfectibility should exclusively belong to certain branches of the general system.

"The introduction of the precious metals, for "the purposes of money," says *Ricardo*, "may "with truth be considered as one of the most important steps towards the improvement of commerce, and the arts of civilized life; but it is "not less true, that with the advancement of "knowledge and science, we discover that it "would be another improvement to banish them "again from the employment to which, during "a less enlightened period, they have been so "advantageously applied."*

It behoves us at least, particularly since this country has arrived at a singular crisis in these matters, to investigate on what grounds the continuance of the employment of the precious metals for the purposes of money, is so strongly, so peremptorily insisted upon by many, whose talents and integrity entitle their opinions to respect.

* Ricardo, Proposals, *&c.* p. 24.

The accumulation of treasure has become obsolete, because, living as we do, under the protection of the laws, we have discovered the folly of *hoarding;* and should there still be some, silly enough to wish to amass riches in a strong box, gold and silver bars will answer their purpose as well as coin.

In smallness of compass, ready recognition, general convenience, and cheapness, as commercial instrument, the coined metals are far exceeded by paper money.

Even their imperishable nature establishes not, with us, their superior eligibility for the purposes of money, since bank-notes have the advantage that they can be constantly renewed. The Public have, long ago, decided this point, for whenever coin and bank-notes, or other paper money, are equal in value, the latter are always preferred for use.

Nor has the universality, as far as it still prevails, of the employment of the precious metals for the purposes of money, any thing in it to recommend them for that purpose particularly. All nations have endeavoured to prevent the exportation of their *coin* by prohibitory laws; and *bullion* may

still be used to liquidate national balances, whether the currency be metallic or not. In itself it must be a disadvantage that money, this indispensable instrument of trade and commerce, should consist of a material in universal request, since every nation seems to have felt the importance of keeping it at home.

There remains no motive, then, why we should direct our choice to the precious metals in preference, as the material for money, except their *pretended great stability of value;* and, therefore, we shall have to examine whether this stability actually exists? *why* it exists? and whether a more convenient substitute cannot be made *to possess it very positively, more permanently, and in a still higher degree?*

At the very first blush of the question the great fact stares us in the face, that the value of the precious metals became reduced to *one-third* of what it had been before, by the discovery of the western world,* and the historians of the early part of the sixteenth century abound in accounts which prove the great disorder occasioned thereby

* Adam Smith, Wealth of Nations, Book 10.

in the money concerns of Europe. Yet, as we have seen that a depreciating currency does not oppress the lower classes, and gives, on the contrary, a great impulse to industry, this great fall in the value of the precious metals, and of the currency, did not produce any calamitous effects on the condition of the people at large. But suppose for a moment that this western world, in a financial point of view, were again to disappear; suppose that it were blotted from the commercial records as a warehouse of specie, and that a retrograde movement should ensue from the one experienced on its discovery; can imagination reach the extent of protracted pressure, accumulated distress, and spreading misery, that must ensue from the general want of money and falling prices, if the precious metals under such circumstances were still adhered to as the sole material for our currency! And what security do we possess against the possibility of such an event?

The bullionists, aware how important it is for the success of their doctrine to establish the superior stability of the value of the precious metals, pretend that their production will keep pace with the demand for them; an idea which I see, with

no small degree of surprise, gravely supported by the intelligent Reviewer of Mr. *Ricardo's* work.

"If the circulation of the precious metals," he says, in substance "is unrestrained, we need not "fear that there ever will be any considerable "and permanent increase in their value; because "value is regulated by the cost of production; "and since the precious metals, at their present "prices, pay for the expense and trouble of "bringing them to market, if the demand for "them should increase, much more capital, than "before, will be at once employed in mining, "and their production will be augmented till a "declining demand again makes it stationary."

Before I answer this argument, I have to observe, that I consider with *Adam Smith* all practical value as *directly* determined, in every given instance, by supply and demand, or, generally speaking, that all value depends *on the available quantity of a commodity in the world in proportion to its uses.* Mr. *Ricardo* and his reviewer, by relinquishing this simple idea of *Adam Smith*, and dwelling on the quantum of labour, required to bring a commodity to market, as the principal ingredient of value, rather embarrass and perplex the reasoning on this subject. Nobody will deny that the comparative quantities of labour necessary to bring commodities to market, essentially influence their value, but they assert this influence as far as they affect the supply, which will increase when the commodity can be brought to market at a less expense of labour, and the reverse. But practically, a commodity is always worth what it will bring, or, in other words, its value becomes *fixed* in the contest between purchaser and seller. The former always endeavours to obtain it at as cheap a rate as he can, and cares not whether the producer, and seller, gain or lose by the bargain. To the latter again, no profit will ever be too large; and, on the other hand, he often sacrifices a considerable portion of the cost of production, when obliged to realize his commodity, or when finding, from the overabundant supply of the commodity in the market, that a backwardness to sell would expose him to still heavier losses. When endeavouring to make the nature of value familiar to the public intellect, we cannot too carefully adhere to simple ideas, or avoid bringing into play, and on the scene of argument, as it were, all the different constituent items into which value may be ultimately resolved.

Considering it then as depending on demand and supply, I say, in answer to the reviewer, that a considerable degree of steadiness in the value of a commodity, notwithstanding an increasing demand, can only be expected when there are no *natural limits* to its production. Tokay wine, and other wines of superior excellence, could not be increased in quantity, let the demand for them be what it might; because their quality depends on the local peculiarities of the vineyards which produce them; their quantities on the extent of these, and on the favourableness of the season.

Even in cases where there exist no natural limits to production, a considerable degree of steadiness in the value of a commodity, from the circumstance that the supplies regularly adapt themselves to the demands, can only take place when increased production is able *promptly* to increase the supply, and this can be made *as promptly* to meet the increased demand. I say, a *considerable degree* of steadiness of value, because it is necessary that some augmentation of price should always *precede* increased supplies, as stimulus to an enlarged investment of capital, and augmented production.

When any description of corn—wheat, rye, or barley, for instance—experiences a considerable advance of price, the progress of this advance will soon be checked by increased production; because the production is annual, and may, for argument's sake, be called universal. The additional stimulus to production, and investment of capital, cannot fail, in this instance, to be *promptly* productive of a commensurate effect.

It would be the same with the precious metals if they were spread universally over the globe, at a certain depth below the surface, and could every where be brought up *within a short period*, provided their price pay for the cost of digging for them, and leave some profit.

If they werespread everywhere, but at *such a depth* that it would be the work of a number of years to open a new mine, and to render it productive—demand and price might continue on the increase for a length of time, before its future progress could be checked by increased production; and again, a mine once opened, and in a state of exploration, would continue to be worked for a considerable period, though declining prices should render the business less profitable.

If the precious metals lie not only at a great depth below the surface, and require the preparatory labour of many years to be brought to light; but if, moreover, the countries and situations where they are to be found at all, are comparatively *few* on the globe, and the most abundant in mines are situated at a great distance from their principal markets,—the check of increased production to augmenting value will be still more precarious and slow in its operation.

Independently of this, we learn from *Alexander Humboldt*, and other writers, that mining, particularly in America, is of all pursuits one of the most unsteady and lottery-like in its returns. When a rich vein of the precious metals is met with, the profits are large, are enormous sometimes, whether their market value be greater or less; and again, the owners will often go on for years and years, actually *sinking* money, in hopes of finding, at last, that rich vein, which shall repay them for all their losses, and make their fortunes besides.

"Mines," says *Adam Smith*, "are more un-
"equal in their production than the corn-fields.
"When any person undertakes to work a new

" mine in *Peru*, he is universally looked upon as " a man destined to bankruptcy and ruin, and " is, on that account, shunned and avoided by " every body. Mining is there considered in " the same light as here, as a lottery, in which " the prizes do not compensate the blanks, " though the greatness of some, tempts many " adventurers to throw away their fortunes in such " unprosperous projects."

But the quantity of the precious metals brought to market is not even regulated by the quantity of ore containing them, which is produced or producible from the mines. It is well known, that the only cheap, convenient, and expeditious mode of separating the precious metals from their ores, in the large way, hitherto practised in America, requires quicksilver, of which the annual consumption, therefore, used to amount to upwards of twenty-five thousand quintals. Of this enormous quantity, from five to six thousand quintals were formerly drawn from the great quicksilver mine at *Huancavilico* in *Peru*. But, as the principal works of this mine fell in about thirty years ago, *Peru* yields now hardly more than three thousand quintals, which are far from

being sufficient for its own consumption*. Spanish America is consequently dependant on Europe for its principal supplies of this most essential commodity, which supplies the Spanish government has reserved exclusively to itself. It formerly obtained the quantities of quicksilver required, partly from its own mines of *Almaden*, and partly from those of *Idria*, on the banks of the *Adriatic*.

The late disturbed state of Spain must have deranged the working of the mine of *Almaden*, and still more the conveyance of regular supplies of quicksilver to *America*; and mining industry, from the operation of this cause alone, cannot otherwise than languish in that country. An attempt was made some years ago, under a knowledge of the circumstances mentioned, to furnish *America* with quicksilver from the *Adriatic*, without previously conveying it to Spain, and four thousand quintals were for that purpose transmitted to *Jamaica*. But the introduction of this substance into the principal mining districts of the Spanish main was found impracticable, not-

* Alex. Humboldt's Essay on New Spain, Vol. III.

withstanding the great want of it; since it does not, like other commodities, circulate freely in the country, after it has once passed the frontier; but is seizable, wherever found, unless it has been furnished to the consumers by the agents of government. This quantity, therefore, after lying at *Jamaica* for a considerable time, was disposed of to a mercantile house in the *United States* for the China market.

To this difficulty, under which the mining industry labours at present in those regions, we must further add the general insecurity, so fatal to similar pursuits, in consequence of a raging civil war, carried on by all parties with unusual ferocity, and attended with great destruction of property. What metallic treasures are still obtained from the mines are, moreover, impeded in their conveyance from one place to another; so that some attempts which were made lately to obtain dollars in some of the principal sea-port towns, have entirely failed of success; and even the viceroy of *Peru* is stated, in the most recent accounts, to be in great distress for money, and driven to extraordinary expedients, in order to procure it.

And in such a state of things, how can we expect that the production of the precious metals should adapt itself to the demand, and thereby preserve the stability of their value? Surely, it would have been difficult to bring forward, in support of this stability, an argument more lame, or more irrelevant.

Another idea, not less extraordinary, advanced by the same author, is his assertion, that an increase in the value of the precious metals will be further checked by the circumstance, that a quantity of *plate* cannot fail to find its way to the mint, as soon as the demand for gold and silver increases. The owners of plate are not generally people that would be influenced by a rise of even fifteen or twenty per cent. in the value of its material; particularly as the value of the workmanship, which is considerable, is always *sunk* in the process of melting plate down, a circumstance which will effectually prevent the taking of any corresponding advantage from a fall of the price of the precious metals, in replacing the plate. Those, on the contrary, who have a handsome supply of plate would prize it the higher, the more its possession, on account of the increasing scarcity of those metals, should be placed beyond the reach of the people at large.

But, if neither any peculiarity attending their production, in consequence of which it should adapt itself with superior facility to the demand; nor the alternate conversion of plate into coin and of coin into plate, will satisfactorily account for a certain steadiness of value, which, notwithstanding, seems to belong to them;—if, on the contrary, the unequal distribution of their ores over the globe, the great skill in subterraneous architecture required to enable us to search for them in safety, the precarious reward of long-protracted labour in this search, the great depth from which they must be brought up, the tribute of various regions and continents, indispensable to enable us to manage these ores after they have been brought to light, and many similar causes, appear rather calculated to effect in their value a fluctuation more than common,—to what circumstance shall we look for an explanation of this mysterious steadiness?

We find this explanation in the very circumstance of their having *become the material for money*. It was not in consequence of their steadi-

ness of value that they were coined into money; the steadiness of value was, in fact, the *consequence*, not the *cause*, of their coinage. Having acquired the character of coin, their value became independent of those circumstances which generally produce fluctuation.

This truth is most simple and obvious, though it has not, I believe, been sufficiently noticed by political economists, and it is of vast importance in its application.

We have seen that value generally becomes *fixed* in the contest between the purchasers and venders of a commodity, and *fluctuations* of value spring from the same source. When applications for purchase increase, or become more urgent, the holders of a commodity, thus sought after, require a greater inducement to part with it; whilst, on the contrary, they feel anxious to dispose of it, even for an inferior consideration, when the demand for it lessens. The circumstance, that *large masses* of the precious metals, in the form of coin, floated and circulated among the civilized nations of Europe, placed them, in this respect, in a different situation. The demands for them, as merchandise and commodity, bore but a small proportion to the quantity of them within reach. These demands were satisfied *silently*, and, without requiring a formal application to special holders, by taking, in the form of coin, the metal which was wanted for other purposes. No contest ensued between purchasers and venders; and, instead of being subject, like all other commodities, to rapid and constant fluctuations of value, from the unsteadiness of demand, their value became gradually, and insensibly regulated, by the proportion which *the general floating stock of them in Europe, bore to the aggregate amount of the functions which they had to perform as money, or instrument of circulation and transfer.*

But it follows also from these considerations, that the floating stock of the precious metals in Europe cannot be considerably diminished; and particularly, that they cannot *cease to be money*, without their losing, with regard to steadiness of value, the character of pre-eminence which they had acquired, and without their becoming assimilated in this respect, to all other commodities; some of which, in point of uniformity of value, may afterwards even rank higher than the precious metals themselves.

While the floating stock of them is large, any

abstraction from that stock for consumption in the arts, or for the purposes of luxury and commerce, will be felt as little and produce as little effect, as would the abstraction of water for culinary or manufacturing purposes, from a river or a lake. But, when in consequence of their ceasing, or having ceased to be money, their floating masses are greatly reduced, then those abstractions cannot fail to become perceptible; a circumstance of which those who happen to possess any quantity of them, will surely avail themselves in order to enhance their price.

It is, therefore, of importance to investigate, as far as we are able, *what is the situation of Europe at present with regard to the precious metals;* whether it is still the same which it was previously to 1797, or, whether there is reason to believe that it has undergone a considerable change?

Directing our attention to this inquiry, we perceive at once that three large empires, and several smaller states, have totally ceased to circulate with coin; whilst in a neighbouring country, which used to circulate with coin exclusively, the business is now performed, partly with coin and partly with convertible paper.

In *Great Britain, Austria, Russia, Denmark, Sweden*, and *Norway*, the precious metals are, in fact, no longer money. In *France*, the convertible notes of her bank circulate together with coin. In the *United States of America*, which may be considered, in this respect, as belonging to the European family of nations, the money-concerns are in such a state of horrible confusion, that it would be difficult to give an account of them; but we may there also consider circulation as almost exclusively performed with paper.

And what effect must these circumstances have produced on the floating stock of the precious metals in Europe?

We learn, from the careful researches of *Alexander Humboldt*, that the aggregate amount of the precious metals, which had flowed into *Europe* from *America*, since the discovery of that continent up to the year 1803, a period of three hundred and eleven years, was one thousand one hundred and sixty-six millions of pounds sterling*. The actual circulation of specie in Europe at the close of the last century, has been estimated, by the

* Essay on New Spain, Vol. IV.

most able politicians, at about three hundred and fifty millions of pounds, which incontestably shews that there are *drains* in operation, which have absorbed during the period stated, upwards of eight hundred millions of pounds, independently of the precious metals received from *Africa*, and furnished by the mines of *Europe and Siberia*, during the same period.

These drains are, the consumption of the precious metals for plate, lace, gilding, *&c.*, and their exportation to *Asia*.

The consumption for plate in *France* amounted in value, in the year 1809, to one million two hundred thousand pounds; and Mr. *Humboldt* thinks, that the amount of the general annual consumption for plate in *Europe*, cannot be estimated at less than five millions of pounds. He adds, "I shall not discuss what portion of these " metals is derived from the melting of old plate; " but I believe, we may conclude from the data " which I have laid down, that the quantity of " gold and silver, extracted from the mines of " Europe and Siberia, is *very far* from replacing " the mass of the precious metals annually em- " ployed in Europe, in plate, lace, and gilding,

" or dissipated by an extreme division, or actually " lost *."

The same author, after a diligent examination of the various estimates of preceding writers on the same subject, states the annual exportation of the precious metals from *Europe* to *Asia*, round the *Cape of Good Hope*, at four millions of pounds sterling; and that from the *Russian* empire, by way of the *Caspian* sea, at one million of pounds. Mr. *Playfair* rates the annual exportation round the *Cape of Good Hope*, from *Great Britain* alone, at two millions two hundred thousand pounds.

On the other hand, the annual importation of the precious metals from *America*, amounted in the first years of the present century, to about eight millions of pounds; so that the absorption by consumption and exportation, was little more than compensated *at that period*, by the annual importation.

Since then, the trade round the *Cape of Good Hope*, from this country, as well as from the *United States of America*, has been rapidly increasing, and must, of course, have caused a proportion-

* Alexander Humboldt's " Essay on New Spain," Vol. IV.

ably augmented exportation of the precious metals. At the same time it is well known, that the use of plate has, of late years, become much more general than it was formerly; and from both these circumstances we may conclude, that the drains of the precious metals from circulation, by their investment in plate, and other articles of luxury, and by their exportation to the east, have been recently in more vigorous operation than ever. But, we have also seen, that their *influx* from the New World must have greatly diminished during the last ten years, in consequence of the political disturbances prevailing in that portion of it, which most abounds in mines, and the check which thereby mining industry must have experienced in those countries.—A great reduction of the floating stock of the precious metals in *Europe* cannot have failed to result from these causes.

This position, that the floating stock of the precious metals in Europe, has become greatly reduced during the last ten years, needs not even the support of actual information, which it would be very difficult to procure. The fact of such reduction, under existing circumstances, was *possible*, and therefore it must be *real*. The movements of the commercial world are regulated by general laws, on the efficiency and steady operation of which we may rely with perfect safety, as long as commercial activity remains uncontroled, and is suffered to follow unmolested the sure and vigilant guide of interest. The mercantile spirit, now so generally pervading the most civilized nations of Europe, will not suffer any transportable commodity to lie idle and unproductive, while there remains on the surface of the globe an accessible region where it may be exchanged to advantage. Half the European world, which formerly circulated with coin, now circulates with paper, and so much coin as this paper has supplanted, must have become superfluous, and having become superfluous, it must have been removed. This removal must have taken place, whether there has been in the annual supplies of the precious metals from America a considerable reduction or not. If a considerable one, the removal will have been effected by the undiminished operation of the usual drains alone. If inconsiderable, the operation of these drains will have become more active,

and the total sums of the precious metals, removed from circulation by consumption and exportation, must have been greater than common; because with us there will be always some employment for the precious metals, and any available quantity of them can never remain on hand long. There is no check to mercantile enterprise in this respect, or to the ingenuity of our artists, except their becoming unavailable, that is to say, not procurable, unless at an expense which would destructively encroach upon the profits at which they aim. If the million of people, who inhabit this metropolis, have each of them two guineas in their pocket, mercantile enterprise will not easily meddle with these two millions of guineas; because, being out of sight, they tempt not to speculation; and being a convenience to those who have them in their pockets, they cannot be had, without offering them a compensation for parting with this convenience, which compensation causes expense. It is quite different if you supplant them in the pockets of the people with one and two pound notes; for when these are discovered to be equally as useful, and more convenient than the guineas, the latter will find their way to the bankers, and, collecting there in heaps, and causing a loss of interest, they will stimulate enterprise, till they have assumed the shape of plate or trinkets, or lost themselves among the semi-barbarous nations of *Asia*. Therefore, all writers on the subject agree, that paper-money never fails to drive out of the country as much coin as it supplants. To pretend this was not so, would be pretending that the ocean is impassable, or that our merchants are so dull as not to have been able to discover a spot where gold and silver, in the form of plate, or trinkets, or coin, or bullion, would exchange for other commodities, which, on being brought home, will pay a commission and a freight.

We may, therefore, take it for granted, that the floating stock of coin in Europe has diminished to the amount of the quantity of paper, which has been brought into use to supplant it, during the last twenty years. It might easily be shewn, that this diminution cannot have fallen much short of one-half of the former stock; or, in other words, that it probably exceeds one hundred millions of pounds, if this were of any importance to the main argument.

Whether the several nations who dispensed with the use of the precious metals as money, and had recourse to paper circulation, acted wisely; and whether they might have avoided this measure without abandoning the cause for which they struggled, is a question not now under my consideration; though I cannot help remarking, that when a nation goes to war, we must take it for granted, it goes to war for a just cause,—for the attainment of a national object worth the cost. We must take this for granted, because all political reasoning, particularly in a free country, is founded on the supposed existence of a predominant portion of virtue and wisdom in the public councils, without which there could be no longer any reliance of the nation on itself; and, in such a state of things, no political doctrine could be considered as resting on a solid basis. But, if the attainment of great national objects must, on such occasions, be presumed at stake, an organization of society would seem defective and unworthy of our enlightened times, in which an efficient exertion of the energies of the nation should be rendered dependant upon the *precarious supply* with a foreign commodity, or upon its *successful retention* in the country. The want of money, whether it occur with governments or individuals, always proves most embarrassing to those who are actuated by principle,—who have a regard for moral obligation; and least so to those who know not such restraints. "I cannot "support," said the famous General *Wallenstein*, "an army of ten thousand men; but one of one "hundred thousand will take care of itself." Conscription is an easier mode of recruiting an army than enlistment. A prince who considers all property within the reach of confiscation as his natural prey, or scruples not to make coined copper pass for silver, refusing afterwards to receive it in payment himself, often is able to conquer difficulties under which a government, conducted upon correct moral principles, must sink; and it would be curious enough to turn over the records of history, with a view to ascertain how often the mere want of money has occasioned the bad cause to triumph, and the good one to fail. If an inviolable regard for the sacredness of contracts, and a correspondent consistent moral conduct of the government throughout, is the most permanent foundation of public

prosperity, one of the most essential features in the fabric of a sound and durable system of national polity, will be the *independence* of the currency of casual adverse contingencies.

But to return to my subject. I think I have shewn, that the floating stock of the precious metals in Europe must have experienced during the last twenty years a great reduction, which occurrence renders it doubtful, at least, whether, under the actual circumstances of the world, and, particularly of this country, the precious metals may not have lost, in a great measure, that advantage of a superior steadiness of value which once recommended them, and with it their claim to a superior fitness for the purposes of money? This leads me naturally to the consideration of the *practicability and propriety of the re-establishment of a connexion between the currency and the precious metals*, whether it be effected by a return to specie payments, such as they existed previously to the Restriction Act; or, by rendering the notes of the Bank of England convertible at the Bank into bullion, on the plan proposed by Mr. *Ricardo*. A subject, to the careful examination of which I feel the more anxious to invite your attention, as many gentlemen, of decided talents, lofty sentiments of independence, and great respectability, have formed upon it opinions, which I cannot help regarding as hasty and dangerous.

The best mode of proceeding in this inquiry will be to ask, what previous steps would the Bank have to take, in order to prepare themselves for a resumption of specie payments?

The Bank for this purpose, in the first place, would have to withdraw from circulation an amount of bank-notes, sufficient to raise their value to a par with gold!

I shall refrain from reviving here the old discussion respecting the depreciation of the notes of the Bank of England. The author of the letter to the Right Honourable *Robert Peele* has brought forward again the long, stale string of arguments, which have been so often before the Public, intended to *prove* the depreciation; and he has revived them, couched in terms of asperity, with regard to those of a contrary opinion, which are always improper, and are particularly unbecoming a writer, whose production, in many passages, exhibits very contracted views, and a mind to which

the topics of political economy seem to be far from familiar.*

Those arguments, most impartially considered, prove nothing after all, save that the value of gold and bank-notes remained no longer uniform, when convertibility ceased! and who will deny this? But whether gold rose in value, or paper sunk, or both—that is the question, and that question remains undecided.—That gold *may have risen*, the

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* "Thus," he says, for instance, page 52, "the very term of "exchange has no meaning, except on the supposition of the "transaction, which is awfully deprecated (viz., the transmission "of currency from one country to another). It is *not exchange* "of *commodities*, nor *exchange* of *bills*, but *exchange* of *the currency* "of *one country for the currency of another*, as the name originally "imports, which is the *basis of all commerce between civilized na-* "*tions*, and without which no intercourse, but that of barter, could "take place between them." Now, unfortunately, no intercourse but that of barter hardly ever takes place between them, which is sometimes effected directly, and sometimes circuitously. The actual transmission of currency forms always a most insignificant part of the general transactions. Is there no trade between this country and the United States of America? The tables will shew an annual exchange of property to the amount of eight millions of pounds and upwards. Yet who has ever seen, except as objects of curiosity, guineas and English bank-notes in America, or eagles and American bank-notes here? It behoves an author, apt to make such gross blunders, to be guarded at least, and modest in his expressions, and not to treat with consummate disrespect those who have the misfortune not to share his sentiments.

ablest writers on the subject no longer deny.—That the Bank may have extended their issues rather too far, is not improbable; and the truth in this, as in so many similar instances, lies probably between the contending parties. Indeed, the appreciation of gold, during the war, in consequence of the great demand for it, both to pay immense armies, and to replace the chasms in the means of circulation, caused by the want of confidence and credit, and the disappearance of their transferable signs, promissory-notes and bills of exchange—is now generally admitted by men of superior intellect, like Mr. *Ricardo**; and the doctrine of the *exclusive* depreciation of bank paper, is only maintainable, by ascribing to the precious metals a *legal* and *metaphysical* inalterability of value, which we all know they do not possess in *reality!*

If, by some volcanic convulsion, the principal mines of the precious metals in the world were to crumble in, or fill, irrecoverably, with water; and, in consequence of it, a sixpenny piece should have in future to perform the functions of a shilling; or, if by the discovery in Europe of some vast bed

* Proposals, &c. Sect. III.

of virgin gold, its quantity in the world should suddenly multiply ten-fold—would the author of the letter to the Right Honourable *Robert Peele* still contend, that the value of gold was unalterable, on account of the proclamation of the fourth year of King George the First?

Mr. *Ricardo's* reviewer, in the Northern Journal, when alluding to the fact, that, in 1815 and 1816, the price of bullion fell, and the exchange came to par, notwithstanding the continuance of the Restriction Act, admits, that this fact would be conclusive evidence against the depreciation of Bank of England notes, if it could be shewn, that when this fact occurred, there were as many notes in circulation, as at the period of the greatest depression of the exchange. "But," he continues, "it would be worse than idle to set "about proving by argument, a fact so notorious "as the prodigious diminution of Bank paper, "in 1814 and 1815. Two hundred and forty "country banks in that period stopped pay-"ment, *&c**."—Well! and what does this prove? Certainly, that there was in the country an excess

* Edinburgh Review, No. LXI., p. 65.

of Bank paper, but not that there was an excess of the *notes of the Bank of England!* It proves that the country bankers had traded beyond their capitals, and issued their notes to excess; but, by no means, that the *Bank of England* had done so. As the country bank notes were convertible into Bank of England notes on demand, these, before the failure of the country banks, were certainly involved in the depreciation. *Gold* itself would have experienced, if I may be allowed the expression, the same calamity, if the Restriction Act had not existed. Mr. *Edward Thornton* has fully shewn, that an over-issue of convertible paper may depress, not only the value of such paper, but also that of the *coin itself, which circulates along with it*. The Edinburgh Reviewer acknowledges himself the truth of this fact repeatedly, in the Essay referred to; and, with this fact before our minds, when we see gold fall, the exchanges rise, and Bank of England notes recover their former value, without any material diminution of their amount in circulation;—when we see all this, as soon as the country banks, who had overtraded themselves, disappear; does not this circumstance go far towards establishing

that with regard to Bank of England notes, an over-issue may have never existed!

Leaving the question of depreciation to take care of itself; I repeat, that the Bank of England, in order to prepare for the resumption of specie payments, in the first place, have to withdraw from circulation an amount of bank notes, sufficient to raise their value to a par with gold.

As the difference between their value and that of gold is hardly more at present than six to seven per cent., the withdrawing from circulation of a sum in bank notes, from one and a half to three millions of pounds, probably would suffice for that purpose.

The abstraction of this sum from circulation could not fail to produce some distress. "The "very great perfection," says *Ricardo*, "to "which our system of economising the use of "money has arrived by the various operations of "banking, rather aggravates the peculiar evil of "which I am speaking, (the distress for money "previously to the payment of the dividends,) "because, when the quantity of circulation is "reduced, in consequence of the improvements

" which have been adopted in the means of " effecting our payments, the abstraction of a " million or two from that reduced circulation, " becomes more serious in its effects, being so " much larger a proportion of the whole circu- " lation*." Yet, if nothing more were required on the part of the Bank to proceed forthwith to the resumption of specie payments, than the withdrawing from circulation a sum in bank notes of the amount stated, the measure could not be considered as pregnant with insurmountable difficulties. The pressure, after the lapse of a few months, would subside; and business would proceed in its usual course.

But it is a great mistake to imagine, that the return to specie payments could be effected so easily. The Bank have not, in all probability, at this moment, in their vaults, a greater specie capital than one and a half to three millions of pounds; perhaps, not even so much as the first of these sums. But suppose it to be *three* millions; will any one who is in the least acquainted with

* Proposals, &c., page 39.

the principles of banking say, that a paper circulation of twenty-five millions, even under the most favourable circumstances, may be safely supported with a specie capital of only three millions?—No idea could be more *wild*. To act upon it would exhibit an unpardonable conduct, totally incompatible with those principles, and at variance with a due regard for the preservation of the character and credit of an institution, with the high standing of which, the very capability of the government punctually to fulfil its engagements, and the prosperity of the whole country, are intimately connected. To suggest such an idea, therefore, and still more to defend it as expedient and proper, would appear to me deserving of censure; if I saw not, among its advocates, gentlemen, for whose intellectual powers I have too much respect not to feel somewhat diffident of my own, when I have the misfortune to differ from them in opinion.

For several years previously to the year 1797, the amount of Bank of England notes in circulation fluctuated between ten and eleven millions of pounds, all of which were for five pounds and upwards, and the Bank kept in their vaults an average stock of specie of about two millions and a half.

As the bank always lose the interest on the specie thus kept, it cannot be imagined that after an experience of upwards of a century, they should have kept in their vaults a larger sum of specie than prudential considerations, that is to say, a due solicitude for the solidity and credit of the institution rendered indispensable.

At present, the amount of their notes in circulation is from twenty-five to twenty-eight millions; and yet the same small specie capital is to be adequate to maintain them in circulation when rendered convertible!!

Before 1797, the country was stocked with specie. A capital of twenty millions and upwards floated in the country in the form of gold coin, and all the paper of the Bank in circulation scarcely amounted to one-half of that sum.

At present, no such specie capital exists in the country at all, and Bank notes have increased to nearly triple their former amount.

Before 1797, the Bank was itself only the largest reservoir in the system of general circulation, into which reservoir specie was always flowing, and

from whence it again issued. When an unusual call for specie manifested itself, the Bank had only to curtail their discounts, that is, to diminish their issues, and the floating specie capital of the country would at once receive an impulse in an opposite direction—would flow back to the Bank in the discharge of debts, due to the institution, and replenish its coffers.

In the present state of things, a similar measure of self-defence would entirely fail in its object, because there exists not in the nation a floating specie capital, the tide of which could be turned. If the Bank, in this situation, were to attempt a great reduction of their issues, great pressure and distress, and, perhaps, augmented calls on the Bank for specie, would be the consequence; but the coffers of the Bank would remain as empty as before. They could not command any specie, except what they should procure by actual purchase.

Before 1797, the Bank was a convenience to the Public, and the accommodation of the Public proved a source of emolument to the Bank; but they may be considered as having been independent of each other: the Bank, with their small circulation, feeling themselves at liberty to contract their business, whenever they chose; and the Public, with its twenty millions of coin, though inconvenienced, perhaps, by such proceeding on the part of the Bank, yet could submit to it without any vital derangement of its concerns. At present,—such is the dependance of the Bank and the Public on each other, that the same measure on the part of the Bank, which was formerly a measure of self-defence, and was effectually resorted to as such, now put in force to any extent, would imply self-destruction on the part of the Bank, and involve the country in ruin.

A specie bank, in a country destitute of a specie capital, seems to me a glaring misconception, falling little short of a downright absurdity.

"Nobody wants specie when bank-notes are at par!" is the feeble argument of those arrayed on the opposite side of the question; and it has, unfortunately, acquired too much influence over their minds. But, were the Bank never exposed to any runs upon them, when their notes were convertible? Was there not, on the contrary, in 1797, a run so great, that it was feared the usual measure of self-defence, resorted to by the Bank on such occasions, would prove unavailing!—And

what gave rise to such runs?—The Public was formerly provided with guineas, as it is provided with one and two-pound notes at present, and could have no occasion for any great additional quantity for the purposes of circulation. If, notwithstanding, the call on the Bank for guineas was sometimes urgent, it could only proceed from two circumstances—either, a general alarm, and fear of some unknown danger, caused them to be sought for as a valuable commodity, to be treasured up as a resource in evil times, or, an increased demand for them abroad, and an unfavourable state of exchanges, made them an object of mercantile speculation.

And is there any security against the recurrence of similar circumstances? Does the public prosperity rest on a more safe foundation than it did formerly? Is the national debt diminished? Will a less revenue suffice for the necessities of the Government? Are the general affairs of the world in a more settled state than they appeared to be forty years ago, previously to the revolution in France? or is not the reverse of all this the case?—And, particularly in a financial point of view, has not the floating-stock of the precious metals greatly diminished? and is not the continent from whence the principal supplies of them are derived, in a state of anarchy and confusion? Have we not seen, within these few weeks, that demands for comparatively small sums of specie, in a neighbouring country, now the best stocked with specie of any in Europe, caused there a run on the Bank, obliging them rapidly to reduce their issues; and has not this measure produced a depression in the French funds, a great distress for money, failures, and a stagnation—a gloom in the commercial world, from which it has not yet recovered? Suppose specie payments resumed in *Great Britain*, in the way the advocates for this measure propose, and that a war were then to break out, for instance, with Russia—Financial warfare being so much better understood at present than formerly, suppose the Emperor of Russia should then think it good policy to sacrifice, on the other side of the Channel, a few millions in the purchase and abstraction from circulation of as large a sum of specie as could be procured at such a sacrifice—what would be the effect of such a measure on this country?—If Restriction Acts are to become a general war-measure, what good purpose can

their revocation answer, during the intervals of peace?

To render the resumption of specie payments *practicable* and *safe*, the country must first be replaced in the situation in which it was previously to 1797; that is, it must be *re-stocked* with specie—an operation which can only be performed by the Bank themselves.

And how have the Bank to proceed for this purpose?

They must purchase bullion to have it coined! Then the further questions arise, *Wherewith* can the Bank purchase bullion? How much have they to purchase? and in *what manner is the Public to be supplied* with the gold when coined?

The Bank obviously cannot purchase bullion *with their notes*, because it would imply an increase of their issues, and a decline in the value of bank-notes in exchange for gold; which, with the augmenting scarcity of the latter, in proportion as the Bank take it out of the market, would prove ruinous to them, and be absolutely inconsistent with the attainment of their object in view.

In order to make this point more apparent, we must at once direct our attention to the *quantity* of gold, which the contemplated measure of re-stocking the country with specie, as an indispensable preparative to the general resumption of specie-payments, renders it necessary the Bank should *purchase*, and not only purchase, but *lock up in their coffers*.

For this purpose, it is not sufficient for the Bank to purchase a certain quantity of bullion—to the amount, for instance, of two or three millions of pounds—to have it coined into sovereigns, and to begin to issue them.—*All attempts to effect their purpose gradually must prove abortive.*

For, on the one hand, there is no motive why the people should keep sovereigns, after they have discovered, that one-pound notes go as far in use, and are more convenient; and, on the other hand, the continued purchases of gold, which the Bank are compelled to make, in pursuance of their general plan, will cause a demand for gold, which cannot fail to offer the holders an opportunity of parting with the sovereigns to some advantage. The Bank, therefore, will, in this case, purchase, coin, and issue, the same gold over and over again;

and, after continuing this operation for years and years together, they will not be nearer their object than they were in the outset.

" The fate which attended the late issue of three " millions of sovereigns," says the Edinburgh Re- " viewer of Mr. *Ricardo's* work, " *not one of which* " *remained in circulation three months afterwards*, " will, we should hope, prevent any further at- " tempts to make gold coins of legal weight and " fineness, circulate in company with inconver- " tible paper."

It is against the nature of things that *two currencies*, of equal denomination as to value, but of different intrinsic qualities and different convenience, should circulate in the market at the same time; particularly if the *less* valuable be at the same time the *more* convenient. The more valuable and less convenient will disappear from circulation; the less valuable and more convenient will prevail. *Bank-notes*, as such, are circulating medium only, even if their price have been brought to a par with that of gold; whilst *coined gold* is both money and valuable commodity. If there be any where a demand for it as commodity, it will be melted down, and sold, and the performance of circulation will be left to the paper, which is fit for nothing else.—If there be no immediate demand for gold as commodity, the *sovereigns* will be left at the bankers', and the paper will be still preferred on account of its greater convenience—but the gold coin will not remain long at the bankers', because its accumulation, occasioning a loss of interest, they will not fail soon to discover some means of disposing of it to advantage.

To succeed in re-stocking the country with specie, the Bank not only have to issue the coin, but also to take the proper steps *for keeping it in circulation*. One step for this purpose, which has been already noticed—will be to preserve their paper on a par value with gold;—the other—to take away from the Public the more convenient, and therefore preferred, substitute for gold coin—the one-pound notes. And further, as we have just seen, that it is impossible to maintain in circulation, at the same time, two descriptions of currencies, of equal denomination, but different intrinsic qualities—such as sovereigns and one-pound notes—it becomes indispensable for the Bank, in order to be consistent, to effect the exchange of the one for the other, in the same way

in which the exchange of the new for the old silver coin was effected lately—that is, *at once throughout the whole empire*.

But sovereigns, to be exchanged, must first be *had*, and the amount of one and two pound notes in circulation, being about eight millions of pounds, the Bank, in the first place, must purchase gold to nearly an equal amount, have it coined, and keep it in readiness in their coffers. They will then be able, in some degree, to place the country in a similar situation, with regard to specie, to that in which it was previously to the passing of the Restriction Act, in 1797.—I say, in some degree in a similar situation—because the sum of gold coin circulating in the country previously to that period, was unquestionably much larger, and has always been estimated at twenty millions of pounds, and upwards.

We must further keep in mind that the Bank, independently of the eight millions of one and two pound notes, have also in circulation, from eighteen to twenty millions of notes of a higher denomination. Supposing even that they reduce their circulation by two or three millions, still from sixteen to eighteen millions will remain;

and, according to the well-known rules of banking, prudential considerations, in ordinary times, would require that a specie capital of one-third of that sum, or of six millions of pounds, should be provided, in order to support them in circulation. But, I beg you to reflect well, how different will be the situation of the Bank of England, when resuming specie payments, from that of a specie bank, established in a country possessing a specie capital, like France is at present, and as England was formerly. In such a country the Bank not only naturally receives a large portion of metallic treasure in *deposit*, but there is also a considerable daily influx of specie into the Bank, in the rotation of business, and the course of the daily payments made to the institution. The capability of a bank to support their notes in circulation; that is to say, their ability to give to the holders of them specie in exchange when demanded, depends greatly on the general amount of these *deposits*, and on the amount of specie daily received in the rotation of business; and, as the Bank of England, when first resuming specie payments, will have no such deposits, and cannot depend on receiving in the course of

business any quantity of specie worth naming, their situation will be, by that much, the more precarious; and they could not well consider the credit, and solidity, of the institution as beyond the reach of accident, unless they were to start with a specie capital of at least half the amount of their notes in circulation. This would be nine millions, three of which, I have presumed, they have in their vaults already.

The Bank, therefore, in due preparation for the great measure, ought to procure, have coined, and keep in readiness, gold to the amount, at least, of fourteen millions of pounds.

" If the Restriction Act should now be repealed," says the often-quoted author in the Edinburgh Review, " and the Bank of England " obliged to pay its notes in gold coin, at the " pleasure of the holders, it would be necessary " to purchase from twenty to thirty millions' worth " of gold bullion. *" It cannot be denied, that the floating-specie capital of this country, previously to the Restriction, was probably equal to that sum. But I shall consider fourteen millions

* Edinburgh Review, No. LXI., page 68.

as sufficient for the object which the Bank have in view, in order to avoid the appearance of wishing to exaggerate difficulties.

Now, in what manner are these fourteen millions of gold bullion to be purchased, provided they can be had?—Certainly not with bank-notes, issued in addition to those already in circulation at the time. On the contrary, we have seen, that their amount in circulation must be diminished, in order to elevate their market value to a par with that of gold. The purchase can therefore only be effected, by selling, at the same time, a corresponding amount of other property; so as again by that means, to withdraw from circulation as many notes as were paid away in the purchase of gold. This property could be no other than Government Securities, *viz.*, Stock and Exchequer Bills.

Let us examine the consequences of these steps, with regard to which, as we have seen, the Bank have no choice, if the resumption of specie payments is earnestly contemplated.

The withdrawing from circulation of two or three millions of Bank-paper, in order to elevate this to a par value with gold, as a preliminary to

the further operations of the Bank, will already cause some scarcity of money, some stagnation in business, and a decline of prices.

The pressing into the market at the same time, millions after millions, of Stock, and Exchequer Bills, must cause the general decline of prices to affect this species of property more than any other.

The purchases of gold abroad, made directly, or indirectly, by the Bank, cannot fail considerably to depress foreign exchanges. This will not be doubted when it is considered that the amount of gold wanted—fourteen millions of pounds—is nearly equal in value to the total yearly exports from Great Britain to the Continent of Europe.

This depression of foreign exchanges, as far as it will operate as a bounty on exportation, would rather have a tendency to animate industry, and to benefit the labouring classes, but, unfortunately it is tantamount to a further depression of the currency, relatively to gold; and, as the contemplated great measure imperiously demands, that the value of the paper currency should be kept on a par with that of gold, a further reduction of the issues of the Bank is required, which will counteract this beneficial effect of the depression of foreign exchanges, reduce still further the price of stocks, increase still further the stagnation of business, and make the distress for money *extreme*.

To what extent these different effects would go, it is difficult to calculate, since much will depend on the time the Bank may take to accomplish their object, and on contemporaneous commercial contingencies. But, supposing that by good management the depression of foreign exchanges would not exceed ten per cent., even then, to keep Bank-paper on a par with gold, a further abstraction of such paper from circulation to the amount of two, or three millions, would seem to become indispensable.

The *immediate* and *direct* losses which the Bank, and, in some measure, the Public, would sustain, in consequence of these preliminary steps towards a resumption of specie payments, may be vaguely estimated as follows:—

Loss per annum of 5 per cent. interest on 14 millions of stock sold....	£.700,000
Carried forward	700,000

Brought up	£.700,000
Loss per annum of 5 per cent. on 6 millions of productive Bank-paper, abstracted from circulation	300,000
Loss, per annum, of 5 per cent. on 6 millions of unproductive specie stock, kept in their vaults	300,000
Reduction of annual income	1,300,000

Sacrifice on the sale of stock to the amount of 14 millions—say, 10 per cent.	1,400,000
Sacrifice on the purchase of gold to an equal amount	1,400,000
Sacrifices of the Bank in sale of stock and purchase of gold	2,800,000

Making not less than a reduction of one million three hundred thousand pounds in their income, and a sinking of principal to the amount of nearly three millions of pounds.

"If the Bank should be again called upon to "pay their notes in specie," says Mr. *Ricardo*, "the effect would be to lessen greatly the profits "of the Bank, without a correspondent gain to

" any other part of the community; and thus, " to indulge a *mere caprice*, a most expensive " medium would be substituted for one of little " value. Besides the loss to the Bank, which " must be considered as a loss to the community, " general wealth being made up of individual " riches, the state would be subjected to the " useless expense of coinage, and, on every fall " of the exchange, sovereigns would be melted " and exported*."

All this time I am supposing that there will be no particular difficulty in procuring gold, since Mr. Ricardo assures us, that the Bank may now, *if they please*, have a stock of specie equal to all their notes in circulation, and upwards†: an assertion, the correctness of which I am disposed to doubt, particularly, if the specie, when purchased, is to be withheld for a time from circulation,—a circumstance which makes in the operation an essential difference. Gold, under this supposition, would not increase in value *speculatively*, that is to say, not as commodity labouring under

* Proposals, *&c.*, page 25.
† Ibid., page 91.

deficiency of supply, during a period of extraordinary request; yet, from whatever country, the Bank may draw the fourteen millions of gold bullion which they have to procure, the floating metallic currency of that country must there be expected to appreciate at least in proportion to the abstraction of such a sum from its metallic wealth.

The measure of this appreciation must again depend on the extent of the specie market which will be directly or indirectly affected by the operations of the Bank. We can hardly, for instance, consider, as comprised within that market, Poland, the interior of Italy, of Spain, *&c.;* because, as the trade of England with these countries is very limited, the specie circulating in them can only be very remotely available. The gold purchases of the Bank would be principally felt in France, and as her metallic circulation cannot well be rated higher at present than at sixty millions of pounds, it may well be questioned whether fourteen millions could be abstracted from this sum, without producing a very considerable and injurious chasm in the circulation of that country.

We may form some idea of this when we again direct our attention to the effects which resulted in France towards the close of the last year, from loans to government to the amount of about twenty millions of pounds, as detailed in the very able report of Mr. *Lafitte*, on the affairs of the Bank of France. The payments towards these loans, though *gradual*, produced an universal want of money and great distress, which, beginning to affect the specie funds of the Bank of France, and to diminish them greatly, obliged the Bank to reduce their discounts, which measure, after a little while, caused, as usual, a reflux of the specie, and a replenishment of their coffers. But, in this instance, it must be observed, there was no abstraction of specie from the general amount in circulation; no locking up. The specie only changed places. The payments, moreover, of the loan, were gradual, and instalment after instalment soon reverted again to the channels whence it had been derived. Hence the usual remedy to which banks have recourse on such occasions could prove, and actually did prove, effectual. There was no great real diminution in the specie means of the country; there had

no where occurred an increased specie-capacity, as it were, and specie-absorption; yet, the destruction of fictitious capital, which always takes place, even during the existence of temporary pressure, caused a great deal of distress; the effects of which were then felt, and continue to be felt in this country. But a resumption of specie payments in England would produce an increased specie-capacity, an augmented absorption of specie. The specie which the Bank of England must procure, and wherewith England is to be re-stocked, will, in this case, not revert to its former channels of circulation; and the effects, with regard to a general pressure for money, and a corresponding appreciation of the currency, in France as well as here, must, therefore, prove very serious, and, in a high degree, permanent.

The fact is, that the floating stock of the precious metals in Europe, as I have shewn before, has become reduced; and, that their value, in consequence of it, has become more fluctuating and unsettled than it was formerly. Intelligent merchants feel that there is a something exercising a strange influence on the commercial concerns of the world, and baffling ordinary calculation.

The circumstance which I have pointed out probably produces that influence.

The appreciation of the currency, which must attend the preparations of the Bank of England, for a resumption of specie payments, whenever attempted earnestly, and with a consistent perseverance, will be no where so great as in Great Britain; and all the calamities which I have shewn, in the beginning of this Letter, to flow from such an appreciation, will be inflicted upon this country. Foreign trade will decline; domestic consumption still more. An unprecedented stagnation of business will take place; industry will languish; the distress for work become universal; and millions of the labouring classes will be delivered over to starvation and wretchedness.

How this state of things again would affect the revenue, and through the revenue, the public creditor, I need not expatiate upon. But I beg those, whose sensibilities were so much roused, when a somewhat depreciating currency somewhat affected their incomes, and who then proclaimed that depreciation, (supposing it to have existed,) to be pregnant with injustice and fraud; I beg them to consider how they could reconcile

to principles of common honesty an aggravation of the weight of taxation, principally in its pressure on the lower and middling classes of society, equal to an addition of one-fourth, or of one-third, perhaps, to their nominal amount, by which, if the nation should be able to bear it, the stockholders chiefly would benefit. The depreciation had, at least, to palliate its injurious bearing on the wealthy part of the community, the plea of necessity, during a state of war, in which national existence itself seemed to be threatened. But what excuse could there be for the wanton infliction of such misery on the bulk of the people, merely in compliance with some theoretical conceptions—to satisfy a *caprice*, as Mr. Ricardo calls it—or from an obstinate adherence to an antiquated train of notions, which suit no longer the times in which we live!

The resumption of specie payments cannot be accomplished, except by leading the nation through a period of confusion, of trouble, and manifold sufferings, the consequences of which could not be calculated.

All these difficulties, which cannot fail, I think, to be considered as of a most serious and appalling nature, might be, it would seem, for the most part, avoided, by adopting Mr. Ricardo's certainly very ingenious, and, at the first view, highly recommendable plan of making bank notes convertible, at the Bank, into gold bullion, at the standard value of three pounds seventeen shillings and ten-pence half-penny per ounce. If, in addition to this regulation, the Bank, on the one hand, as suggested by the Edinburgh Reviewer, were not obliged to answer such demands, except for sums of five hundred pounds and upwards; and if, on the other, they were bound to receive gold bullion for their notes after the same rate, the system would appear perfect. Very little gold bullion would be required, because it would only serve as a standard and regulator of the value of the paper currency. The actual demands for it would be confined to its uses, as merchandise and commodity. No millions of it need then be purchased by the Bank to be coined. No abstraction would be required of a large annual sum, the interest on the national specie stock, from the productive capital of the nation.

No loss of revenue would have to be submitted to on the part of the Bank; no sacrifice of principal. No run on the Bank need ever to be apprehended from the effect of a panic, on an ignorant, prejudiced, and ungovernable multitude. The value of the currency, whilst all the advantages and conveniencies of paper money would be preserved, could never be apprehended to sink below that of the standard. All the uneasiness arising from the reduced floating stock of the precious metals in Europe, and from the dreaded consequences of an appreciating circulating medium, both in Great Britain, and the adjoining countries, would vanish; and, it is none of the least recommendations of the plan, that its execution might be proceeded to at once, without much preparation, nothing further being apparently required, than to reduce the Bank issues by a few millions, so as to elevate the value of their paper to a par with that of gold.

Yet, it seems to me that this measure, however admirable it might be, perhaps, as a temporary expedient, or, as a compromise with prejudice, and a stubborn association of ideas, still too firmly rooted to be at once completely overcome, could not, after all, be recommended on the more elevated ground of being thoroughly *sound in principle*, and calculated to become the *permanent ground-work of an improved monetary system.*

The whole idea obviously rests on the pretended *inalterability*, or, at least, *great steadiness of value*, of the standard—*Gold*, which Mr. Ricardo would be the more apt to over-rate, as with him all value is principally derived from the quantum of labour which the production of a commodity will require. I have already noticed this conception to be in some degree erroneous. It is, perhaps, the only one in his admirable treatise on political economy, to which this observation can apply; but this error fails not occasionally to vitiate the correctness of his reasonings, and their application to practical purposes.

"Gold and silver," says Mr. Ricardo, "like all "other commodities, are valuable only in pro- "portion to the quantity of labour necessary "to produce them, and bring them to market. "Gold is about fifteen times dearer than silver, "not because there is a greater demand for it, "nor because the supply of silver is fifteen times "greater than that of gold; but SOLELY because

"fifteen times the labour is necessary to procure "a given quantity of the latter."*

This admitted, the value of the standard must be in a considerable degree permanent, because the situation of its ores, and the quantum of labour necessary to bring them to light, is, perhaps, not likely to undergo any great change; and we know the surface of our globe now so well, that if a new continent was to furnish them at a cheaper rate, so as radically in this respect to alter the value of gold, at least such a continent is first to be formed!

But the position is erroneous. The cost of the production of a commodity affects its value only through its effects on the supplies, which it regulates in a measure; and the supplies effect the value in their comparative relation to the demand; from which *demand*, or *existing desire of possession*, all value springs *immediately* and *directly*.

The cost of production regulates supplies *in a measure*, not *solely*. He who knows the situation of a treasure, and knows also that he could bring it to light at a moderate expense, will, notwith-

* Principles of Political Economy and Taxation. Ch. XXV.

standing, leave it undisturbed, if he has reason to fear that he should be murdered, or have the treasure taken from him when produced. I have already noticed, in a former part of this letter, how many causes may affect the productiveness of mining industry in America.

Again, if the supplies of gold should remain the same as hitherto, and there should take place a considerable change in the *demand* for that commodity, this change in the demand must unquestionably affect its value.

I have moreover shewn, that the superior steadiness of value, which the precious metals have hitherto supported was not even owing, as is always asserted, to their great durability. For what is this durability to us, if it causes not accumulation —if the precious metals lose themselves among the semi-barbarous nations of central Asia? Whether perishing or migrating they equally disappear!—Nor is it owing to any singular steadiness of the demand for them, as merchandise and commodity, but *solely* to the circumstance of their having become the material for money,—which circumstance has kept large masses of them afloat in civilized Europe, on which masses those ab-

stracting demands made little impression, particularly as they were generally satisfied *silently*, and without any *formal application to special holders*.

Let us hear Mr. Ricardo himself on this subject, because the involuntary acuteness of his mind gives evidence against the correctness of some of his own theoretical conceptions.

"The metal gold, like all commodities, has its "value in the market ultimately regulated by the "comparative facility or difficulty of producing "it; and also from its durable nature(?), and "from the difficulty of reducing its quantity(?), "it does not easily bend to variations in its market-"value; yet the difficulty is much increased from "the circumstance of its *being used as money*. If "the quantity of gold in the market for the pur-"pose of commerce only, were 10,000 ounces, "and the consumption in our manufactures were "2,000 ounces annually, it might be raised one-"fourth, or 25 per cent., in its value, in one year, "by withholding the annual supply, (supposed to "be equal to 2,000 ounces;) but if, in consequence "of its *being used as money*, the quantity employed "were 100,000 ounces, it would not be raised "one-fourth in value (by the same deficiency of

" annual supplies) in less than ten years." And again,

" This is the quality peculiar to money. All " other commodities, of which there exists a limited " quantity, and which cannot be increased by " competition, *are dependent for their value* on the " *tastes*, the *caprice*, and the *power of purchasers** ; " but money is a commodity which no country " has any wish or necessity to increase†. No " more advantage results from using twenty mil- " lions than from using ten millions of currency. " A country might have a monopoly of silk, or " of wine, and yet the prices of silk and wine " might fall, because from *caprice*, or *fashion*, or " *taste*, cloth and brandy might be preferred, and " substituted. The same effect might, in a degree, " take place with gold, as far as its use is con- " fined to manufactures; but, while money is the " general medium of exchange, the demand for " it is never a matter of choice, but always of " necessity‡."

Consequently, if you cause gold to cease to be

* Not *solely* then on the cost of production.

† This position also is only true in a very limited sense.

‡ Principles of Political Economy, &c. p. 251.

money, you abandon its value, like that of all other commodities, to the influence of *caprice*, and *fashion*, and *taste*; to which I would add, and to the *vigour* or *slackness* of *commercial enterprise*, which influence must put an end to the superior steadiness of its value.

And when it loses this character of steadiness of value, it becomes unfit for the purposes of a standard; for nothing could be more horrible than a currency, constantly obliged to follow the fluctuations of a capricious commodity, now rising, now falling—particularly when operated upon, as would be the case, by the speculations of great capitalists—causing eternal fluctuations in the prices of all other commodities, rendering all calculations, all possessions, all revenues, vacillating and insecure.

But, under Mr. Ricardo's plan, gold, reduced to the lazy duty of officiating as standard, ceases in fact to be money; and ceasing to be money, becomes unfit to be the standard.

The only answer which can be made to this fatal objection to Mr. Ricardo's plan is this; gold, though ceasing to be money with us, will still be money with other nations.

I reply,—Even with us the fluctuations in its value, in consequence of its having ceased to be money, have already become much more considerable than they were formerly, and therefore cause inconvenience. Besides—half Europe has already abandoned the use of the precious metals as money, and that system, surely, cannot be deemed a *sound* one, and qualified to become *permanent*, which depends for its eligibility with one nation, on the circumstance of its not being adopted by others.

At most, therefore, the adoption of Mr. Ricardo's plan might be recommended as a temporary expedient; as a compromise, for the time being, with obstinacy and prejudice; and so far I should most heartily join in its recommendation, if I were not of opinion that we may do much better, in adopting at once a system thoroughly sound in theory, and perfectly safe in its execution, fit for an enlightened, and free nation like this, qualified for immediate adoption without causing any disturbance of the established prices, or any other difficulty whatever; not endangered in its efficacy, or affected in its eligibility, by being adopted by other nations also, and every

way calculated to preserve Great Britain comfortable, and independent in this respect, to the end of time—at least, to the downfall of her laws, her liberties, and her Constitution, which, in the general ruin, would involve that of her currency.

To shew this, lend me once more your undivided attention, and reason with me, most rigorously, if you please, but unbiassed by prepossession.

What do we want?—A commercial instrument of circulation, and transfer—a currency, for home use, as cheap, as convenient, as safe, and as unvarying in value, as human ingenuity can make it.

We should have all these requisites in a paper-currency, provided it could be rendered safe, and unvarying in value. Let these two points be established, and the palm of superior eligibility must be at once accorded to this currency by all minds who have brought their faculties to bear on the subject.

A standard has been proposed—Gold, of which the pretended, superior unalterability of value was to regulate that of the paper-currency, and keep it in order.

But, the value of this standard, or of any standard whatever, must originate in certain circumstances attending it; since value is not an *innate* quality of any substance whatever, but rather a *species of re-action of certain moral affections of men, upon the objects with which we are surrounded.*

And that re-action will communicate an independent, and, if you please, real value, not requiring any standard for its regulation, to any substance whatever, on which it can be brought to bear in a steady and unvarying manner.

In other words—value arises from the desire of possession which an object awakens—that is to say, from *demand*. Gold itself owes its value to the situation it holds among the mass of things as an object of desire, as a commodity demanded, in reference to the existing facility or difficulty of satisfying that demand—that is to say, of *supply*. And any other commodity, natural, or artificial, material or immaterial, to which a similar situation, with regard to demand and supply can be imparted, must possess in as high a degree, its own, independent, real value; and, if its situation in this respect can be rendered more *fixed*, more *unchangeable*, its own, independent,

real value, must become in the same degree more steady than that of gold itself.

We value gold for its uses, so we do slips of paper, Bank-notes for instance, which have been qualified for a particular use, for the purposes of money.

The more *definite* the uses of a thing, and the more *definite* its quantity, in proportion to those uses, the more definite, and steady, must also be its value.

The uses of gold are thousand-fold; slips of paper, thus qualified, can only be used as money.

The quantity of gold in the world depends on a thousand circumstances, beyond all control, and especially beyond the control of this nation; the control of the quantity of slips of paper, thus qualified, the nation has unquestionably, and most completely, in her power.

A definite quantity of paper-money in Great Britain, must bear to the total of her productions, her industry, and her commerce, a more steady proportion, than the indefinite, and always varying, available or absolute, quantity of gold in the world, can either bear to her productions, her industry, and her commerce, or to the productions, industry, and commerce of the world at large.

The value of Bank-notes, therefore, springs in this case directly from their nature, as instrument of commerce, as medium of circulation; is independent of any standard, and determined *solely* by their use and limited quantity.

Give *limited quantity,* and bank-notes are better money than coin; if not, all reasoning is folly!

And cannot this quantity be regulated?

If the first Bank-note, issued beyond the sum limited by law, were to blow up the whole board of directors as inevitably, as an electric spark would, applied to their seats, if they were seated on barrels of gunpowder, nobody in the nation would entertain the least apprehension of over-issues.

And would not the security be equally great, if the breach of the law were rendered punishable with death, if you please, or the confiscation at least, of all the private property, of all the directors, and officers of the Bank, concerned in the transgression?

Pass such a law, and let it be executed as rigorously, as has been hitherto the law against for-

geries, and there will be no danger of its being frequently violated.

Laws are often deficient in their effect, when they bear on the poor and needy, who are placed too frequently in the alternative between crime and distress, and to whom therefore reputation, and life itself, are of little importance; but they may be depended upon for efficacy, when bearing upon Bank Directors, with large fortunes, and generally in possession of character, and of every thing that can render life desirable. They may particularly be depended upon, when levelled against a crime, in regard to which there hardly could ever exist a degree of temptation in the smallest degree commensurate with the danger of its commission.

Let us suppose, therefore, such a law passed, and the maximum of issues of the Bank of England unalterably fixed; and then let us compare the respective claims to steadiness of value, between gold and such Bank-notes.

Gold.

Productibility.—Depending on the discovery of new mines, or on the productiveness of those already worked; on the encouragement, and safety, attending the working of them; on the freedom and safety of commercial intercourse with the countries whence they are derived, and on a thousand similar circumstances.

Labour of Production.—Depending on the state of the mines; on the perfection of machinery for draining them; on the general progress of the arts; on the expense attending its separation from its ores—which depends again on the supplies of quicksilver; which supplies in their turn depend on a great variety of circumstances.

Uses.—Endless; yet for no purpose *indispensable;* subject, therefore, to incalculable variations.

Quantity.—Absolute, or available—uncertain, by many millions per annum.

Bank Notes.

Productibility.—Indefinite, and therefore without influence on their value, like that of air and water.

Labour of Production.—None, comparatively, and, therefore, as incapable of affecting their value.

Use.—The most definite—good for nothing but money, and, as such, *indispensable.*

Quantity.—The most definite imaginable by supposition.

I shall not discuss here the subject of forgeries. Cases of counterfeited coin are still more frequent than those of forgeries*, and I do not despair that forgeries may be effectually prevented. Though men can generally do what other men have effected, yet the purse of a national Bank, co-operating with the genius of the nation, may, perhaps, succeed in giving a modification to slips of paper, which will bid defiance to the criminal efforts of individuals.

Bank-notes, therefore, of which the issue is *limited by law,* must be *more steady in their value than gold itself.*

Yet, it may be objected, this steadiness of value depends solely on the law.

And is there any similar security whatever, I answer, but what springs from the same source? Suppose specie payments resumed,—what then is your security, with regard to the value of bank-

* It appears from the Report to Parliament, during the last Session, that the number of prosecutions for forgery, is, to those for counterfeiting coin, as one to seven.

notes? The law, constituting the Bank, which obliges them to pay on demand, to the holders of notes, their nominal value in specie! And when the sovereign authority think proper to pass a Restriction Act, is there not an end to this security?

But, of the *two* laws, the one imposing on the Bank, the obligation to pay specie on demand, and the other, limiting their issues under rigorous infliction of the severest penalties and punishments, which will offer the greatest security to the Public?

The degree of security, which a law gives to the Public, is necessarily founded upon the *possibility* and *probability* of its observance.

But, no Bank ever keep in their coffers specie equal to the total amount of their issues. To do so would be against the very nature and utility of such an institution, which consists in turning credit into capital. The very character, therefore, of a Bank, implies a risque with regard to the possibility of complying with the law. Nothing more can be expected from the directors of a bank than to conform rigorously to the established rules of banking, and to observe, in their general ma-

nagement, the dictates of prudence. If they do so, and the current of events turns up a Napoleon, confounding all calculation, by disturbing the usual order of things, then they must stop payment, or apply for the aid of a Restriction Act, and yet they will stand exculpated before the Public.

On the other hand, no political phenomenon, of whatever nature, could ever compel a Board of Directors to transgress the law which limits their issues. If the sovereign authority, under any circumstances, should choose to give them liberty to extend those issues, it will be on the part of that authority a free, and deliberate, not a compulsory act, become indispensable, in order to legalize an infraction of the law no longer avoidable.

But the infraction of the law, it may be further said, in the first case, becomes *manifest*, and the fear of its becoming so, will dictate a conduct which shall prevent the possibility of its taking place; whilst, in the other case, the infraction may long exist, without being known, which will invite to the commission of the crime.

To this observation I reply, in the first place, that a bank may for a long time transgress the rules of banking, and issue their notes to excess, before an unforeseen demand for specie causes the impropriety of their conduct to become manifest,—to which impropriety seldom any greater disgrace or punishment attach than that attending generally the non-compliance with commercial engagements. But, if a bank, issuing inconvertible notes, and limited in their issues, is at the same time compelled to render to the proper authority, monthly or weekly returns of the amount of their issues, and if these be rendered *public*, the security of the nation against over-issues will be greater than in the former case; because the transgression of the law, to which, in this case, a much greater odium attaches, would require so great a complication of criminality among the several officers of the institution, that it could never be concealed long.

The balance of security is, therefore, again on the side of inconvertible paper and limited issues.

A further advantage of this inconvertible paper currency is a sort of *elasticity*, which, with it, the monetary system acquires; an aptitude to adapt itself to the wants of commerce.

For, though the Bank be limited in the amount of their issues by law, yet they are not compelled to keep that whole amount constantly in circulation. On the contrary, as they are to discount at five per cent., and a portion of their capital is necessarily always employed in discounting, if the maximum of legal issues should happen to exceed the wants of commerce, interest out of doors will fall below five per cent., and the applications for discount diminishing, a portion of those issues will flow back into the Bank, and remain unemployed.

On the other hand, if an increase of business require a greater quantity of circulating medium, a portion of the issues of the Bank of England, employed as capital by country bankers, will bring into existence an *auxiliary* currency, the amount of which will be regulated and limited, as well by the discount—the *hire*—which you pay for its use, as by the local capacity of the district to which its circulation will be confined; the convertibility of such auxiliary currency into Bank of England notes, necessarily preventing its being issued to excess for any length of time.

"Besides all the other advantages attending "the use of paper money," says Ricardo, "by "the judicious management of the quantity, a "degree of uniformity, which is by no other "means attainable, is secured to the value of "the circulating medium*."

The currency proposed seems, therefore, to possess the essential requisites of cheapness, convenience, steadiness of value, certainty of supply, and elasticity.

In times of difficulty and danger, such a currency will also exempt the institution issuing it, from being injuriously affected by a panic.

And I may still add another, and I think not a small advantage. It will render the prosperity of a country, as far as it depends on an undisturbed state of the currency, if I may be allowed the expression, *conquest-proof*. A bank, possessing metallic treasures, may be despoiled of them by an invading army, and, with their loss, the affairs of the Bank will become deranged. But, even an invading enemy will hardly be so blind to his own interests as to disturb a currency

* Proposals, &c., page 12.

like the one now under consideration. Buonaparte, when speaking of Austria, is said to have frequently observed, that *her paper-currency, ill-regulated as it was, had been her salvation.*

The necessary limits to this Letter prevent my entering into all the details of the subject. It is sufficiently obvious, that if the system of such a currency were adopted, the notes of the Bank of England must be made a legal tender. The maximum of the Bank issues would, perhaps, best be fixed at the average sum of their amount in circulation, during the last six months preceding the new regulation. This measure would imply the least possible innovation, and be, in the whole, the most impartial and just; for, in itself, it will be of very little consequence, whether the maximum be fixed at a few millions more or less. The Bank of England ought to remain the organ of supplying the country with currency; because that institution possesses all the necessary qualifications for doing the business well; is perfectly systematized; properly connected with the mercantile part of the community; has acquired great experience, and commands confidence. But it seems highly proper that the

State should derive a revenue from the institution, commensurate with the large emoluments the Bank will themselves derive from their operations under the new system; and this revenue could not, perhaps, be better employed than by being added permanently to the income of the sinking-fund.

Any apprehensions of distress, from want of a due supply with currency, would, I think, be groundless, since the Bank will be placed under the eye of Government, and under the control of Opinion, in consequence of the periodical and detailed accounts they will be obliged to give of the amount of their notes in circulation, besides its being their interest to supply the Public with as much currency, within the limits of the law, as it will be willing to employ.

These are the principal observations which have occurred to me on this important question. I submit them to you and to the Public, with great diffidence, and with a profound conviction of my inability of doing complete justice to the subject, though my expressions, in the warmth of discussion, may have been sometimes positive, and in

appearance, presumptuous. I almost tremble, when surveying the phalanx of gentlemen of superior talents, and high standing for intellectual acquirements, whose opinions are opposed to my own on this occasion; and my feelings are the more alive to the misfortune of this disagreement, as I am personally acquainted with many of them, and should much prefer to know my sentiments were in unison with theirs. When hearing it fall from their lips, that defending an inconvertible currency was defending the cause of fraud and iniquity, and taking the side of the argument which nobody would readily take, who respected himself, and wished to be respected—I was ready to doubt my own convictions, and tempted, more than once, to throw these sheets into the fire, even while writing them. But I derived some courage from the very harshness of these expressions, which, in the mouths of men of taste, seemed to betray an irritability, not altogether compatible with the dignity of truth, and, therefore, rather indicative of some doubts respecting the soundness of their doctrine. I felt myself, besides, kept in countenance by *Sir James Steuart*, of no mean authority, who has advanced much on the imperfection of material money, the advantages of an immaterial one, as he calls it, and the superfluity of a standard for the latter; but has neglected giving his ideas, on this subject, precision and consistency, by a full development of the origin and nature of value; and has not sufficiently shewn the importance of the limitation of the amount of such money; dwelling more on the idea, that its quantity is of little consequence, than on the necessity that this quantity, large or small, should be *fixed*.

But, whichever of the two systems may ultimately receive the sanction of experience and public opinion, as I have entertained for several years past the ideas and sentiments respecting an inconvertible currency, which I have detailed in this letter; and as no private views have had the smallest share in their formation, I trust that they will be received by yourself and your friends with *indulgence*, if I should have *erred;* and that the tribute of approbation will not be *entirely* withheld, if I should have succeeded in throwing some new light on the subject!

FINIS.

Third Edition.

PROPOSALS

FOR AN

ECONOMICAL AND SECURE

CURRENCY.

4*s*. 6*d*.