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OBSERVATIONS
ON THE
PRESENT PRICE
OF
BULLION,
AND RATES OF EXCHANGE;
WHEREIN THE OBJECTIONS OF
MR. BOSANQUET, AND OTHERS,
TO THE
REPORT OF THE BULLION COMMITTEE,
ARE ATTEMPTED TO BE OVER-RULED.

By **GEORGE WOODS,**
OF HIS MAJESTY'S CUSTOMS.

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OBSERVATIONS

ON THE PRESENT PRICE OF

BULLION, &c.

CHAPTER I.

In what respect the Bank paper currency of Great Britain is a forced currency:—how far it is a legal currency:—in what respect it is similar to government-paper-currencies of other nations. Reply to Mr. Bosanquet's proposition of using a new standard. Rules by which the Bank regulate their issues considered. Rules by which they would judge of any excess in them. Whether the rate of interest depends upon the quantity of circulating medium. Quotations from Sir John Sinclair's pamphlet to prove that the currency of this kingdom is, in his opinion, depreciated; that it is not sufficiently depreciated; consequently that the Bank ought to increase the issue of their notes. Whether country banks may govern their issues by the issue of the Bank of England.

I SHALL presently endeavour to show that the mint and the market price of bullion are not, under the Bank restriction bill of 1797, necessarily either the same, or nearly so; but that their relative value depends (*cæteris paribus*) upon two causes: the quantity of bank notes issued; and the degree of confidence which is given to them; in other words, the expectation of their being ultimately paid. Bank notes, however small the issue, can never*

* Under the present or past regulations.

exceed the sum in specie which they profess to represent; for that is their ultimate, and only real value.

Many of the gentlemen who gave their evidence before the committee appointed to inquire into the cause of the high price of bullion, were of opinion that the paper circulation of the country is neither forced nor excessive. My first object therefore is to examine the soundness of their arguments.

It is said by them not to be forced, because the Bank never issue their notes but at the request of merchants or of the government; and not to be excessive, because they are never advanced to the former, except upon what appear to be *bona fide* bills of exchange. Mr. Greffulhe advances one other reason against its being forced, and which at first sight appears very plausible.* Although the Bank are restricted from discharging their obligations in specie, and no one can arrest his debtor if bank notes be tendered, yet the creditor may demand specie after the action, and, if this demand be not complied with, sue out an execution against the defendant's effects, which the sheriff would be obliged to sell, till a sufficient sum in specie should

* "In what is the paper circulation of this country, as it at present exists, different in its practical operations from a forced circulation?—In the first place, the paper of this country is no legal discharge of a debt; secondly, the bank paper of this country is issued when called for, in exchange for valuable securities, in which respect it is essentially distinct from what I call a forced paper, which may be issued both without limits, and without any security whatever." Mr. Greffulhe's evidence, p. 131.

be raised.† But if a merchant should do so, he would not only be accused of want of patriotism, but be suspected of the intention of committing some illegal act, of melting or of exporting the specie. His character would so far be injured, and his actions would be so narrowly watched, as greatly to increase the risk of so doing. These circumstances appear sufficient, under the present rates of exchange, to refute Mr. Greffulhe's argument, and to authorise us to term the Bank currency forced, not indeed between the Bank and the public, but between merchant and merchant. But should these rates become continually more unfavourable, and the price of bullion increase, it seems probable that there would be a point at which people of no character, or of ruined fortunes, would compel payment in specie, for the chance of great and illicit gain, to so great an extent as to demand the interference of the legislature. All that government could do in such a case would be to lower this point by increased vigilance and penalties, or to remove it altogether, by making bank notes a legal currency, or compelling their payment in specie.

The written observations of Mr. Lyne seem to have the same bearing as the evidence of Mr. Greffulhe. He says that a foreign bill of exchange upon England is payable in bank notes or in guineas; whereas it is, in point of fact, payable in bank paper only. The arguments of these gentlemen are controverted by Mr. Merle, who, to a question put

† The writ of *capias ad satisfaciendum* is the only one, after the action, that can be prevented by the tender of bank notes.

to him, replies, that in his opinion it would be impossible to make a sale of bullion for 100*l.* to be paid in guineas.* Mr. Lyne adds, that it is obvious that the courses of exchange between England and the continent would be precisely the same, whether the circulating medium be bank notes or guineas, *if the latter are to be kept in the country.* But facts abundantly prove that they are not, by any laws, to be kept in the country. † The gold coinage of the present reign added upwards of forty millions to the quantity of specie in circulation: this circumstance, joined to the scarcity of it at present, is of itself nearly sufficient to prove the truth of my assertion.

Should the correctness of these observations be granted, it would appear that the danger of excess is nearly as great when the issue is made by a certain body of men, as when made by the government.

* Evidence. He says also: "I have no doubt the guineas are collected up to be sent abroad." Evid. p. 37.

† Evidence.

"My opinion is that the high price abroad has taken the gold coin out of the country." Mr. Whitmore's evid. p. 177. Again, he speaks of "the notoriety that the gold coin of this country is bought up in order to be exported." P. 185.

It appears, by Mr. Coningham's evidence, that a large quantity of guineas still circulated in the north of Ireland: but he adds, "the people in the north of Ireland do not concern themselves with foreign exchanges, and their attention has never been turned to the advantages of transporting guineas into foreign countries." P. 192.

Mr. E. Wakefield does not consider guineas at all plentiful in the north of Ireland, but knows from his own observations that a very few guineas, "by travelling backwards and forwards," serve for the payment of a heavy rent. Evid. p. 201, 206.

Supposing both to be equally interested in the magnitude of the issue, the difference in the value of the currency would be merely that of confidence in the issuers; and much of the capital of the Bank being vested in government securities, the stability of our government and the solvency of the Bank are greatly blended. Add to this circumstance that of the interest of our great public debt being paid in bank notes, and the similitude between the two sorts of paper will be still more apparent. The examples of foreign countries will therefore bear upon the present question. The assignats of the French, the paper dollars of the Americans, suffered a depreciation; and so at present does the government paper of Denmark, and of Austria.* We may also take a lesson from the present state of the paper of the Portuguese government. This, combined with the same quantity of specie which it professes to represent, is the legal currency of that kingdom. Computed in specie the paper is at a discount of 27 per cent. † Why should the paper currency of England, not convertible into specie, escape what in every æra has been the fate of that of every other nation of the world?

The words Excess and Depreciation are so far allied, that the latter is the consequence, and the only proof, of the former. By either of these terms is to be understood that the same quantity of circulating medium does not purchase now the same

* "In the summer of 1809 gold in Austria was worth nearly four times the sum represented by the paper currency of that empire." Mr. ———'s evid. p. 86.

† According to Mr. Lyne's evidence.

quantity of labour, of bullion, and other kinds of property, as it did before. When we speak of the depreciation of the currency, we compare that quantity of commodities or labour, which a certain portion represented at some preceding period,* with that which it represents now.† To speak with Mr. Bosanquet of an alteration in the very standard, and of a pound note as a mere denomination, appears to me to be giving up the point at once. "Considering the high proportion (he continues) which the dealings between government and the public bear to the general circulation, it is probable *the standard* may be found in those transactions; and it seems not more difficult to imagine that the standard value of a one pound note may be the interest of 3*l.* 6*s.* 8*d.* 3 per cent. stock, than that such standard has reference to a metal, of which none remains in circulation."‡ Upon this principle,

* In the present inquiry, the few years preceding the bank restriction bill constitute this period.

† A comparison of the currency in bullion only is not a certain test; for bullion itself may be depreciated, as in fact it was by the discovery of the mines of America. In this use of the word *depreciation*, I follow Sir George Shuckburgh Evelyn, Mr. Chalmers, and other writers.

‡ Mr. Bosanquet's pamphlet, 2d edit. p. 123. And at another place, "Where is the point of contact between English and foreign gold; upon which the comparison of their respective values shall be established? If the demand for foreign gold was at any time very great, and the melting and exportation of guineas, however abundant, by any means effectually prevented, foreign gold might double its price in English gold, and yet the intrinsic value of guineas remain undiminished." P. 31. No such means, however, ever have existed, and, if they did, would not be beneficial to a country.

the silver coin of King William's days was not depreciated, nor is the paper of the Portuguese government at present; and no circulating medium can become so, while in it the debts of government continue to be discharged.

To judge whether bank notes are depreciated in value, they should, says Mr. Cock, (p. 59,) be compared with notes on demand of known riches and character; but he does not remind the reader that these very notes are payable only in bank paper. This criterion or standard is about equal to Mr. Bosanquet's.

The want of a standard, and the consequent difficulty of ascertaining any depreciation of the currency, would be a powerful argument for reverting to the former system.

The Governor, Deputy Governor, and the Director of the Bank, whom the Committee examined, besides several of the merchants, were of opinion that, so long as they issued notes upon what appeared to be *bona fide* paper, payable within two months, the currency could not by that means be depreciated, nor the exchange between this country and any other altered. The fallacy of this opinion I will endeavour to show.

As the circulating medium is scarce or plentiful, all other kinds of property, compared with it, are plentiful or scarce. "The prices of commodities are always proportioned to the plenty of money, and a crown in Harry the Seventh's time served the same purpose as a pound does at present.—It is the proportion between the circulating money, and

the commodities in the market, which determines the prices."*

Mr. Bosanquet dissents from the maxim that the same proportion would continue after the additional supply that existed before it, alleging that such conclusion is contrary to authority.† There are few instances in which we can bring this theory to the test of experiment. But one eminent instance we are able, fortunately, to produce, the discovery of the abundant mines of Spanish America, which, according to historians, occasioned, in a very short time, a rise of 200% per cent. in the price of commodities and labour throughout the greater part of Europe.‡

Suppose a merchant to possess a capital of 10,000% by the use of which, agreeably to Mr. Pitt's estimate of income, in 1799, he makes a profit of 15 per cent. per annum. He lays out this sum in merchandize, which he sells at two months' credit upon a bill; discounts the bill, and immediately becomes able to make another purchase of equal amount. For the second bill also he procures cash, and proceeding in the same way once in every week, instead of 10,000% his actual capital, trades upon a capital of at least 90,000%; making not only a profit of 15 per cent. per annum, upon the 10,000%, but also, on the same terms of trade of 10 per cent. on the additional 80,000%. Instead of purchasing for ready

* Hume's Essay on Money, p. 58.

† See the appendix to his pamphlet.

‡ Hume and Chalmers. See also Smith's Wealth of Nations, 7th edit. vol. i. p. 47.

money, were he obliged to keep on hand a stock of goods of the value of 10,000% the result would be the same. It is the interest of every trader to conform to this practice; and supposing him to do so, the circulating medium would be eight times as much as the whole capital of the kingdom embarked in trade. This being reckoned, agreeably to Mr. Pitt's estimate of 1799, at 266 millions sterling; there would be an addition of 2128 millions to the former circulation of the country; and supposing that commodities and labour be represented by a proportionably large quantity of circulating medium, and that the medium before the discounts commenced was 50,000,000% the price of labour and commodities would be 40 times as great as it was before.* This is certainly an extreme case; but extreme cases are the most adapted for the elucidation of a principle. The expectation of ultimately receiving specie for bank paper, if it still continued,† would tend to keep up its price above the proportion here calculated: but this effect would not be very perceptible, till the fall of it became so great as to induce speculators to invest their capital in bank paper, or in securities convertible into bank paper, the funds for instance, in anticipation of being ultimately paid in specie or bullion.

* "I consider the opinion entertained by some persons, that the Bank ought to regulate their issues by the public demand, as dangerous in the extreme, because I know by experience, that the demand for speculation can only be limited by a want of means." Sir F. Baring's evid. p. 199.

† This supposition is rather paradoxical.

It appears by Mr. Richardson's evidence, that when a manufacturer sells goods upon long credit, he frequently receives a bill from his customer which he pledges with his agent, drawing upon him for the amount at two or three months' date, that he may procure money for the bill, and renewing such bill as often as it becomes due, till payment of the original be made.

But if the Bank were to discount at a lower rate than the interest of the public funds, restricted only by the solidity of the bills, these funds by the demand for them would rise in price, and the quantity of circulating medium, consequently the price of property in general, would increase with inconceivable rapidity. These observations refer to the opinion of the Governor and Deputy Governor, which was, that no evil consequence would in such case ensue.

The Bank have not acted to the extent of the principle which they hold, having invariably, and very properly, refused to discount for any individual merchant, beyond some certain amount. The purpose of this practice is to equalise and reduce the risk as much as possible. But so far as they do act, the consequences which we have just mentioned must, though in a smaller degree, ensue.

The re-issuing of more notes than are returned, either for the purchasing of exchequer bills, or the discounting of bills of exchange, real or fictitious,* increases the quantity of circulating medium,

* The question does not appear to be affected by the reality

rendering other property more scarce compared with it.

Were the fact otherwise, the manufacture of bank notes would increase the absolute property of the kingdom (a manifest absurdity), and would supersede the advantages of commerce. While notes are payable in specie, the excess is prevented by the return of notes for payment, and no depreciation can arise except from new mines of the precious metals, or from any other cause which would render them more than usually abundant. Mr. Merle being asked whether the issue of the bank paper and price of gold depended in any degree upon each other, answers, "I never considered that they had any thing to do with each other; but *I never examined the subject; I never gave it a thought.*"* A similar question being proposed to Mr. Aaron Asher Goldsmid, he replies in the negative, but adds: "We have paid no attention to that subject."

Mr. Greffulhe says, that "specie would not be more abundant (at least in no degree worth men-

of the bills, or the nature of the security taken, but merely by the difference between the returns and the issues.

As every transfer of property may give rise to a bill of exchange, it seems nothing extravagant to suppose that a merchant might procure *bona fide* paper not equal perhaps to eight times his capital, an extreme before assumed, but equal to one half of his capital. On this supposition, and on Mr. Pitt's estimate in 1799, a sum of 133 millions of bank paper might be thrown upon the public upon *bona fide* bills alone.

* Sir John Sinclair, therefore, only weakens his cause by quoting the opinion of Mr. Merle upon the subject. Sir John Sinclair's pamphlet, p. 40, Note.

tioning), if bank notes were not in existence."* Whatever means might in that case be devised for the purposes of trade and circulation, gold and silver would remain *equally* dear; that dearness, therefore, cannot be called a discount on bank notes. But, on this supposition, gold and silver would retain their former relative value with commodities in general. Mr. Greffulhe could hardly have used a better argument to prove that bank notes were at a discount: for gold and silver do actually retain their former value with commodities in general, and only, when computed in bank currency, have they increased in price.

The gentlemen of the Bank were of opinion, that their paper could not be excessive till money became more plentiful, till it reverted to the Bank; meaning, by this expression, according to their own explanation, so long as there was a demand for an additional supply of notes at 5 per cent. per annum, discount; and as the argument relative to the confinement of their issues to *bona fide* paper was considered somewhat theoretical, this second position, founded upon an unquestionable fact, was supposed to corroborate the first.†

* See, as a reply to this opinion, a quotation from Mr. Chalmers's Estimate of the Strength of Great Britain, this pamphlet, p. 54.

† "Do you conceive that all that would be requisite to prevent a depreciation of paper currency in any country would be, that such paper should in no instance be issued but as the representative of a good security, payable at a fixed period?—I answer that in the affirmative certainly." Mr. Greffulhe's evidence, p. 76.

An increase of circulating medium is, of necessity, slowly absorbed into the general mass: and if

"My opinion is, I do not know whether it is that of the Bank, that the amount of our paper circulation has no reference at all to the state of the exchange." Mr. Whitmore's evidence, p. 112.

"In considering this subject, with reference to the manner in which bank notes are issued, resulting from the applications made for discounts to supply the necessary want of bank notes, by which their issue in amount is so controlled, that it can never amount to an excess, I cannot see how the amount of bank notes issued can operate upon the price of bullion, or the state of the exchanges, and therefore I am individually of opinion that the price of bullion, or the state of the exchanges, can never be a reason for lessening the amount of bank notes to be issued, always understanding the control which I have already described," (that of not issuing notes except upon *bona fide* paper at a short date). Mr. Pearse's evidence, p. 126.

"The bank notes would revert to us if there was a redundancy in circulation, as no one would pay interest for a bank note that he did not want to make use of." Mr. Whitmore's evidence, p. 127.

"I agree in that opinion, and beg to make these additional observations; that in discounting bills that are sent to us for that purpose, for which a discount is taken at the rate of 5 per cent. per annum, if there was with the public an excess of bank notes, those bills would be sought for discount by the public at a reduced rate, and would not make their appearance at the Bank." Mr. Pearse's evidence, p. 127.

"Do you measure the scarcity by the application for the discount of good paper?—Certainly, and our discretion by the quality.

"Then your measure of scarcity or abundance is by the greater or less application that is made to you for the discount of good paper?—Certainly.

"Does not the circumstance of individuals applying for advances, or not so applying, at 5 per cent. indicate rather a deficiency or a redundancy of the mercantile capital, than a superfluity or a want of circulating medium?

Mr. Pearse.—"I am not of opinion that the application for bank notes is for any other purposes than as a circulating medium in the interchange of property."

the Bank issues exceed the absorption, but not otherwise, there must be a smaller demand for dis-

"Is it your opinion that the same security would exist against any excess in the issues of the Bank, if the rate of the discount were reduced from 5 to 4 per cent.?"

Mr. Whitmore.—"The security against an excess of issue would be, I conceive, precisely the same.

Mr. Pearse.—"I concur in that answer.

"If it were reduced to 3 per cent.?"

Mr. Whitmore.—"I conceive there would be no difference, if our practice remained the same as now, of not forcing a note into circulation.

Mr. Pearse.—"I concur in that answer." Evid. p. 128.

"If the amount of bank of England notes were in any way to be increased one half, that is from twenty to thirty millions, can it be supposed that the purposes for which it is required would be increased in the same proportion?—The surplus quantity not being wanted, would immediately revert to us.

"So long as the restriction continues, in what mode would the surplus be returned?—By a diminished application for discounts and advances upon government securities, which would in effect reduce the number of bank notes in circulation." *Mr. Whitmore's evidence*, p. 176.

"Though the state of the exchanges is constantly watched, the amount of our discounts is not regulated with any reference to that circumstance." *Mr. Harman's evidence*, p. 218.

"Do you conceive that the diminution of the paper of the Bank would, either immediately or remotely, tend to an improvement of the exchange?—None whatever." P. 219.

"What should you consider the test of that superabundance?—Money being more plentiful in the market." P. 220.

Sir John Sinclair follows on the same side.

"The instant any superfluous issue is made, it reverts upon the Bank: for no individual, particularly any person conversant in business, will ever think of keeping in his possession any paper for which he has no occasion, and for which he must pay an interest of 5 per cent." *Sir John Sinclair's pamphlet*, p. 34. And again at p. 38, he says that a redundancy of bank notes can never take place, so long as the present practice continues of not forcing them into circulation.

counts. This statement is greatly elucidated by a reference to the discovery of the American mines, which occasioned in Spain a fall of 50 per cent in the rate of interest. But in the course of a very few years the interest again rose, though not to its former level, and the price of commodities and labour advanced 200 per cent.* The scarcity of money before the payment of the dividends, and the abundance afterwards, is in this manner very satisfactorily accounted for. † Another instance of the slowness

And *Mr. Bosanquet.* "The redundancy of notes reverts, therefore (and in more than a due proportion, which accounts for some of the effects frequently experienced), to the Bank, more being paid in than are taken out, and the amount in circulation is diminished.

"The recurrence of a demand for notes by the first class of discounters (those which the Directors distinguish as solid paper for real transactions) will indicate at once the abatement of the excess; and it does appear to me that the criterion, or rule, which the Directors have stated, is a sufficient one." *Mr. Bosanquet's pamphlet*, p. 59.

But *Mr. Cock* (in his pamphlet) exceeds them all. He not only denies the possibility of any excess of bank notes under the present regulations of the Bank, but is of opinion that "as long as paper currency is founded on real property, whether gold, silver, coffee, cotton, or other goods, too much cannot be circulated." P. 32. If, for instance, the Bank takes a mortgage of all the land of Great Britain (leaving other trading stocks out of the question), then six hundred millions sterling of bank paper might be issued without any consequent excess, or any inconvenience to the public. But in another place (p. 57) he gives up even these conditions, and asserts that, by the demand of 5 per cent. per annum for discount, "an excess of bank notes is rendered impossible."

* *Hume, Chalmers, and Adam Smith.*

† If this be granted, *Mr. Bosanquet's* argument in favour of the opinion of the gentlemen of the Bank falls to the ground. See his pamphlet, p. 59.

of absorption may be produced from ancient history. The conquest of Egypt added so much to the wealth of Rome, as to occasion a reduction of one third in the rate of interest: and this effect did not completely disappear till many years afterwards.

I have endeavoured to show that the demand for currency at 5 per cent. per annum discount, or at any other per-centage, less than the profits of trade, deducting the value of the risk and trouble, would continue without interruption, however much the circulating medium might be depreciated. The fact, if otherwise, would prove that the rate of interest permanently decreased, as the circulating medium increased. This is a position so untenable, that the late Deputy-Governor, the early part of whose evidence would lead one to suppose that he maintained it, rejected it altogether. He said at first that if bank notes were issued to excess, merchants would not give 5 per cent. per annum discount for them, and afterwards that nothing but an increase of capital could tend to lower the rate of interest.* To settle this point, a very important one, since the question of excess appears to turn upon it, let us examine it a little more attentively.

A low rate of interest is usually a sign of prosperity, of large capital, and of commerce; but by no means of the abundance of money. Were gold to become as plentiful as silver is now, and silver as plentiful as copper, the rate of interest would not become any

* "Nothing but an increase of capital, the opportunities of employing it remaining the same, can tend to lower the rate of interest in any country." Mr. Pearse's evidence, p. 171.

lower. Interest being a certain proportion of a capital is not at all dependent upon the quantity of circulating medium which may represent this capital. The augmentation of the circulating medium has no other effect than to heighten the price of labour and commodities. High interest arises chiefly from want of sufficient capital, particularly so, where this small capital is at all equally divided amongst the community; and from great profits on commerce, which clearly prove, by the want of competition, that very little commerce is carried on. Commerce assembles capital into considerable sums, and this effect is totally independent of the medium, or the quantity of it, which may circulate in a state. Thus as commerce increases, lenders become more numerous, and interest falls. Suppose an island, without any communication with the rest of the world, to be possessed of a fixed stock of coin, but to be continually increasing in numbers and industry. The price of commodities and labour in that island will gradually diminish, since it is the proportion between money and goods which fixes their mutual value. Less money will make a rich man in this improved state of the country: consequently the greater or less quantity of money, or circulating medium, can have no influence on the rate of interest. But the greater or less stock of labour and commodities in a state must have a great influence, since we really borrow these when we take money upon interest. The exceptions to the rule here laid down are neither many nor permanent, and are

very satisfactorily accounted for by Mr. Hume upon contingent causes.*

In support of those who are of opinion that the currency of this country is at present depreciated, I am about to quote a few passages from a pamphlet lately published, the author of which appears, from the early part of it, to have embraced contrary sentiments.

He speaks in p. 14, † of the *alleged* depreciation of our paper currency, certainly implying by the expression, that no depreciation had taken place. He then attempts to account for the unfavourable rate of exchange from totally different causes; and proceeds to ascribe the high price of bullion, but not exclusively, to the low rate of the exchange. Again at p. 40: "As to the idea, entertained by the Committee, that our paper currency is depreciated, a number of the most intelligent witnesses brought before it have proved the direct reverse." But soon afterwards he speaks of the advantages of an increased circulating medium (p. 42), and asserts that, by the abundance of money (abstractedly from capital; for bank paper is alluded to) the rate of interest becomes diminished. But in the next paragraph, where he speaks of the necessity of a large circulating medium for the making of roads, bridges, canals, and harbours, he evidently confounds bank paper with absolute capital. He first supposes the rate of interest to be in proportion to the quantity of circulating

* See Hume's Essay on Interest.

† Sir John Sinclair's pamphlet on the subject.

medium ("40 millions," for instance, "at 5 per cent., 30 millions at 4 per cent."), and upon this tottering foundation builds the prosperity of the country.*

P. 59. "Let us next suppose that the quantity of goods remains the same, but that the price increases one fifth. The amount of the annual income of a nation would then rise from 100 to 120 millions in value, and there would be a much larger fund for paying the demands of the public." But he does not consider whether or not the demands of the public would increase with the price of the goods and labour for which it has to pay.

P. 59. "Let us, in the last place, suppose, that the price not only increases, but there is also an additional quantity of the medium of transfer, by which a good market and rapid sale is secured. The country is then in the highest possible state of prosperity." This he implies to be the state of England at present, *and this is precisely what we understand by the term depreciation of the currency.*

P. 60. "The greater the quantity of circulating medium, the higher will be the price of goods, and the more abundant are they likely to become."

"By increasing the circulating medium you facilitate the sale of goods, increase their price, augment the income of the people, enable them to pay higher taxes, &c." †

* Notwithstanding the present abundance of circulating medium, it is not yet to be procured under 5 per cent. per annum interest. Of course the author would recommend a much larger issue of bank paper.

† But Hume reasons more correctly on the subject: "Manu-

The writer never considers that the wants of government consist of commodities and labour, not bank paper, and whether these are dear or cheap the same quantity will be required. One exception to this rule, the payment of the interest of the national debt, will be considered hereafter.

If the Bank of England issue notes to excess, the country bankers may increase the issue of theirs. This inference of the Committee I hold for the following reason to be legitimate. In proportion to the excess of circulating medium, commodities and labour computed in it bear a higher price. If a man's daily labour be worth 1s. and afterwards increase to 2s. and the price of all commodities increase proportionably, twice the quantity of shillings will be requisite for the purposes of circulation. What relates to shillings, as a circulating medium, necessarily relates to pounds. Suppose Bank of England notes to be the circulating medium of one half of the kingdom, and bankers' notes of the other; and the price of commodities and labour to increase two-fold in the one half: then country bankers must increase the issue of their notes two-fold, or bank paper will make its appearance in that part of the

factures, therefore, gradually shift their places, leaving those countries and provinces which they have already enriched, and flying to others, whither they are allured by the cheapness of provisions and labour; till they have enriched these also, and are again banished by the same causes. And, in general, we may observe, that the dearness of every thing, from plenty of money, is a disadvantage which attends an established commerce, and sets bounds to it in every country, by enabling the poorer states to undersell the richer in all foreign markets." See Hume's Essay on Money.

country, in addition to their own notes. For as commodities are cheaper where the excess has not taken place than where it has, so will they be taken to that part where a higher price can be obtained. If it be said that many goods, such as those from the East Indies, can be purchased only in London, I reply: the price of luxuries is dependent upon that of necessaries. Thus if it be admitted, as I suppose it cannot be denied, that the Bank has the power of providing medium for a certain portion of the nation, and the country bankers of the other, it necessarily follows that if the Bank issue notes to excess, country banks will have the means of increasing their issues in the same proportion.*

Granting that the bank notes and bankers' notes retain the same relative credit after the increased issue of the Bank, as they did before, and that the Bank do not force their notes into circulation more now than formerly, the proposition just laid down necessarily follows.

These observations refer to the pamphlet of Mr.

* "Are the transactions of the country banks in general who keep an account at your house much increased within these few years?—I think they are considerably."

"Are the notes they issue, which come under your observation, particularly optional notes, of much greater amount than a few years ago?—Yes, they are." Evid. p. 215.

"The Bank restriction, now existing, if the notes of the Bank of England were reduced one half in amount, how would it affect the country banks?—I do not feel prepared fully to answer that; but it is to be inferred, I believe, that they would feel a necessity to abridge their issues." Mr. Tritton's evid. p. 217.

"Are you aware that the notes of the country bankers in circulation are much increased?—I have no doubt of it, very considerably." Mr. Richardson's evid. p. 177.

Bosanquet, who denies the legitimacy of the inference.

In the reign of William and Mary, the silver coin, the legal currency at that time, was so much reduced by being worn away and clipped, that a guinea was worth thirty shillings. The price of every other species of property, computed in this coin, had gradually risen, and the exchange with Holland had fallen 25 per cent. below its former par.* The same cause, a depreciation of the currency, which altered the exchange in his reign, appears to produce the same effect at present. All the good silver coin was then withdrawn from circulation, as all the gold coin (all being good) is now. When the circulating medium was raised, by a new coinage, to its former standard, exchanges rose to their former level. Were the Bank compelled to pay in specie, there seems no reason to doubt that the same effects would immediately ensue.

* See Anderson's History of Commerce, vol. ii. p. 620.

CHAPTER II.

Considerations on the Mint and market price of Bullion. Maxim upon the subject; whether true in fact as well as in theory. How we can judge of excess or depreciation. Whether the circulation can ever be over full: opinion upon the subject. How far taxes influence the price of labour and commodities. Mr. Bosanquet's calculation upon this subject, erroneous. How far the price is influenced by the present state of the corn trade.

THE price of bullion can never much exceed in specie the value of the bullion which that specie contains, joined to the risk of melting or exporting it. In point of fact, the difference never exceeded about 5 per cent. before the restriction, except when the coin had become of inferior value, as in the time of King William.* Mr. Abraham Goldsmid expressly says that, in the whole course of his experience, he has not known this difference to exceed 5 per cent., that it has very seldom been so great, and that it has never been so for long together. He states, that he has been in the practice, whenever he could do it to advantage, of exporting bullion to the continent, and drawing bills for the amount upon his correspondent abroad.†

* "The highest amount of the depression of the coin which can take place when the Bank pays in gold, has been stated to be about 5½ per cent.; and accordingly it will be found, that in all the periods preceding 1797, the difference between what is called the Mint price and market price of gold never exceeded that limit." Report, p. 15 and 16.

† Mr. Goldsmid's evidence, p. 117 and 120.

It appears from various parts of the evidence, that the difference of price between gold which may be exported, and that which may not, is at present between 3 and 4 per cent. This, therefore, may be considered about the value of the supposed risk of exporting gold illegally.*

Mr. Merle states, that there is no difference between the silver which may be sworn off for exportation and that which may not.† The depreciated state of the silver coinage, for many years past, is quite sufficient to account for this circumstance. The dollars issued by the Bank, the best part of the silver currency, except perhaps a few half crown pieces, were not worth five shillings each in bank paper, when Mr. Merle was examined by the Committee one year ago; and even at the present high price of silver, do not much exceed that value. Should they rise much higher they would quickly be withdrawn from circulation. Dollars at the Mint price of silver, are worth 4s. 11d. per ounce: in the currency of this kingdom, they are now, (March, 1811,) worth 5s. 10½d.: that is, bank paper computed in dollars, is at 16½rd. per cent. discount.

Mr. Bosanquet attacks Mr. Mushett's proposition "that the price of gold coin in reality, at no time, can be above its mint price, computed in gold coin." Mr. Mushett should have qualified the expression by allowing a difference, equal to the risk of melt-

* Mr. S. T. Binns's evidence, p. 20; and Mr. Merle's evidence, passim.

† Mr. Merle's evidence, p. 39.

ing or exporting the coin. Foreign coin is not alluded to, because it may have an extrinsic value of its own; but this also may be included if we allow a difference, not exceeding the expense of coinage, the seignorage, or the additional confidence, relative to the purity of the gold, which abroad may be given to such coin above gold in bars.*

Conformably to this maxim, we find that the market price of gold, before the restriction bill, never exceeded 4l. 6s. per cent., except on very few occasions, which serve to strengthen rather than to overturn the general rule. In the years 1783 and 1784, the price of gold coin was occasionally so high as 4l. 2s. per ounce; but the difference is very admissible. Mr. Bosanquet speaks† of the gold coin, at this price, being *made into standard gold*, meaning by the expression, as I conjecture, melted into bars, or coined in England: but neither the Bank, nor any individuals, could have been simple enough to do so at a certain loss (besides the expense) of 4s. per ounce. However, if people once forget their own interest, this was an exception to the general rule, and certainly no part of the rule itself. It appears by the statement of the Bank to Mr. Pitt, in 1795, that the price of gold was 4l. 3s.

* "A small seignorage upon the coin would increase the value of coined metal above bullion, in proportion to the extent of this small duty." Adam Smith's *Wealth of Nations*, 7th edition, vol. i. p. 67.

† P. 29.

or 4l. 4s., but the tables of that time are at variance with it; and certainly the Bank could never have made a practice of buying gold at this price, for the purpose of coining it. If they bought it for the government, the occasion was only temporary, and formed an exception to the general rule. The last case is a small purchase of gold made in Portugal, by an agent to the Bank, at the high price of 4l. 8s.; but if they had been in the practice of giving this price for gold at home, the guineas would have been melted more quickly than they were coined, and inevitable ruin would have been the consequence of questioning in practice Mr. Mushett's proposition. It appears, moreover, that the Bank alone much exceeded the Mint price in their purchases; and we can never consider the conduct of any individual, or individual body of men, to be of sufficient authority to alter a general rule. Still less reason have we to do so in the present instance, knowing that such conduct did not, and could not continue. According to Wettenall's tables, the market price of gold, between the reformation of the gold coin, and the bank restriction bill, never exceeded the Mint price by more than 4l. 6s. per cent. Even this price, which lasted for a very short time, would not yield much profit above the risk of melting or exporting guineas.

The Committee state that the "rise in the market price of silver, in this country, has nearly corresponded to that of the market price of gold;" which statement, Mr. Bosanquet avers to be un-

pardonably erroneous.* But the Committee refer to the price which existed during the low rates of exchange; that is, during the two preceding years; and as they seem to have preferred Mr. A. A. Goldsmid's evidence, and Wettenall's tables, to Mr. Merle's evidence, which was at variance with these, the difference could not, in their opinion, exceed about 2 per cent. when the greatest; and their statement in another part of the report, that gold had risen 16 per cent., and silver 15, accords with the expression here objected to.

Mr. Bosanquet states, that in William's reign the market price of silver was higher than the Mint price, and that the great silver coinage of that æra was conducted upon erroneous principles, sanctioned by the reasonings of Mr. Locke.

Mr. Anderson, who coolly considered the question fifty or sixty years afterwards, speaks of Mr. Locke's essay on the subject as excellent, and demonstrating the case so clearly, that all opposite opinions were absolutely silenced.†

He adds, that the measure procured great credit to Mr. Montague, and confounded the enemies of the king and kingdom, at home and abroad.

It must, however, be admitted that the silver gradually‡ disappeared; and this circumstance Adam Smith imputes to the law which made twenty one

* P. 34.

† Vol. ii. p. 622.

‡ I say *gradually*, because Sir Isaac Newton, nearly seventeen years afterwards, speaks of the scarcity of it at that time; and in opposition to Mr. Bosanquet, who tells us that it disappeared as it came out.

shillings the change of a guinea; to the twenty one shillings being worth more than a guinea, at the relative value of the metals; and to the existing custom of paying large sums in gold even while silver was the legal currency.

Mr. Bosanquet objects to Mr. Ricardo's proposition, that "the export of bullion and merchandize in payment of the corn we may import, resolves itself into a question of interest." He adds, that at the time alluded to, we were providing against a famine. But the merchants, engaged in that traffic, did not import corn and export bullion in order to prevent a famine, but to serve their own interest. Corn, computed in gold and silver, was cheaper abroad than it was here: consequently, it was the interest of both nations to reduce them to an equilibrium.

He alleges, that the excess of notes is not apparent.* It cannot be otherwise apparent than in the high price of bullion and commodities, and the low rate of exchange. The quantity issued, however great, is necessarily absorbed into the general mass of circulation, and is only observable by the greater portion of it, which commodities and labour represent. This effect is what Mr. Ricardo means to state when he says, that "† the circulation can never be over full."‡ And when Mr. Bosanquet adds,

* P. 83.

† Ricardo, p. 40; and Bosanquet, p. 85.

‡ "Were gold rendered as common as silver, and silver as common as copper; Would money be more plentiful or interest lower? No, surely: our shillings would then be yellow, and our halfpence white." Hume's Essay on Interest.

that, after this interpretation, it is nearly useless to inquire after an excess, he appears merely to quibble about the word. We do not use the term positively according to this gentleman's assumption, but as a comparison of the circulating medium of gold, before the year 1797, with the circulating medium of paper at present.

The same writer asserts that bank notes, on some emergencies, actually bear a premium*. But here again he loses sight of the question; for he does not compare them with guineas, but with certain government securities, not payable on demand.

I am willing to grant to Mr. Bosanquet that a tax on land, labour, or industry, is a tax on the produce of each; but it does not generally happen that the advance of price on this produce is proportionate to the tax:† and I do not think that forty seven millions of our additional revenues, since 1793, arise from sources that can be so denominated. Let us, however, admit the premises, and examine the conclusion. As the expenditure of the whole nation

* Bosanquet, p. 87.

† "They must be very heavy taxes indeed, and very injudiciously levied, which the artizan will not, of himself, be enabled to pay, by superior industry and frugality, without raising the price of his labour." Hume's Essay on Taxes.

That Mr. Hume's opinion is, in some degree, applicable to the present enquiry, is rendered probable by the following circumstance: The income of the nation, exclusive of the wages of labour, was estimated by Mr. Pitt, in 1799, at 125,000,000*l.* and is now estimated by Mr. Bosanquet at 140,000,000*l.* The difference between them is only 15,000,000*l.*; but the annual revenue of the nation has increased, since the former period, by the sum of 35,000,000*l.*

was to the price of commodities before the tax, so is the expenditure *plus* the tax to the price of commodities afterwards. So long as a nation be stationary with respect to its wealth, its income and expenditure are necessarily equal; and this assumption is very fairly taken by Mr. Bosanquet. He considering the present income of the nation to be 140,000,000*l.* Then, as this sum is to the present price of commodities, so is 93,000,000*l.* (the sum *minus* the tax,) to the former price. Thus, the present price, judging by the increase of taxes alone, should be just half as much again now as it was in 1793; and this he supposes to be nearly the fact. For the present and former prices of corn, extracted from the gazettes, are thus given by him:

	Wheat.	Barley.	Oats.
The average of the last five years to 1810 inclusive, is	- - - 87½	43	30½
A deduction from these prices of one third	- - - - - 29	14½	10½
Would leave	- - - - - 58½	28½	20½
The average of 1792 to 1796, is	57½	34	20½

In 1799, Lord Auckland, Mr. Pitt, and Mr. Rose, estimated the annual income of England and Scotland, exclusive of the wages of labour and the pay of seamen and soldiers, at 125,000,000*l.* But although these latter did not come under consideration in the computing of an income-tax, they form an important part of the income, and, since a very small portion of this sum is reserved and added to its wealth, a still more important one of the expenditure, of a nation.

Supposing that Great Britain contains 10,943,578 people, agreeably to the enumeration of 1801, and that, of this number, three millions, exclusive of the army and navy, have no dependence for a livelihood but upon their daily labour: reckoning the wages, one with another at 20*l.* per annum each, we have a sum of 60,000,000*l.** and adding to this the pay of soldiers and sailors, including (as we ought to do) the allowance for food and clothing, say in round numbers 20,000,000*l.* we obtain an additional income and expenditure of eighty millions, to be added to Mr. Bosanquet's assumed sum of one hundred and forty millions. Then, by the former mode of calculation, we obtain the following proportions. As 220,000,000*l.* : the present price of commodities :: 220,000,000*l.*—the advanced tax of 47,000,000*l.* : the former price. And placing, as the last term, the sum of the average prices, viz. 112 for a quarter of each, we derive 142, for their present value; but it is in reality 160½. Thus allowing to the increase of taxation its full effect upon the price of commodities, there remains still to be accounted for a difference of 13 per cent.; and if we take wheat alone, instead of the three sorts of corn, a difference of 19 per cent.

Mr. Bosanquet accuses the Committee of making, in one of their estimates, a mistake of eight or eighteen millions; but it appears by the preceding observations, that a mistake of three or four times

* If this sum be over-rated, I believe that it will be found, at least, not more so than the additional sum of forty seven millions, to the expenditure of the nation.

that amount is introduced into one of his own. So liable are we all to error.*

The free corn trade which this country enjoys tends to keep down the price of this necessary article below the result which a calculation from the increased tax upon land and labour would afford, and consequently to keep down the price of labour and commodities. For while the trade continues free, the increase of taxation, even the whole taxation, cannot increase the price of corn more than the expense of freight, insurance; and a small profit to the importer.† This subject might have escaped my notice, had not Mr. Bosanquet drawn from it a contrary conclusion.‡

Of Mr. Bradney's method of reasoning, one or two specimens will suffice. He accuses the com-

* Mr. Cock is not exempt from it. He says, p. 11, "It has been thought by every country, to be its true policy to prevent the exportation of its coin, and I must think so too." Again, p. 45, "The laws of most, if not all countries, prohibit the exportation of their coin." But the coin of the United States of America, of Denmark, of Hanover, of Prussia, and of Saxony, may be legally exported from these countries: and the greater the number of Dutch ducats exported, the better is the government of that nation pleased, on account of the profit which it derives from a small duty upon coining. In p. 11, "At present we are witnessing the exportation of a commodity from the country where it is dear, to that where it is cheap." This statement is decidedly erroneous. If gold had not been cheaper here, computed in coin, than it was upon the continent, we should have retained our gold and the continent would have retained its coin.

† The corn-trade may be considered free so long as the average price of wheat is not below 66 per quarter; the duty upon importing it from any port being, in that case, only 8d. When not below 56, it may be imported, on payment of the same duty, from any of our North American plantations.

‡ P. 92.

mittee of placing the consequent before the antecedent, the diminution of the coin before the high price of bullion, alluding to the early part of the present reign: as if the Jews would rub down or clip guineas when gold was worth 4l. 2s. per ounce, but think the profit beneath their notice when only 3l. 18s. could be procured. P. 8. He adds, that "the operation is certainly the effect of the high price of this valuable commodity." He supposes that, if a hundred millions be funded, five millions, the annual interest of the sum, is by this transaction added to the circulating medium of the nation. Why he should fix upon one year's interest rather than that of two years, one month, or one day, I am at a loss to determine. He asserts, however (p. 23), "that the case is clear." See his Reflections on the Report of the Bullion Committee.

CHAPTER III.

What is understood by the term *par of exchange*: How altered by a depreciation of the currency of only one country. The present rates of exchange not so disadvantageous to this country as usually imagined. Maxim with respect to the rate of exchange, compared with its par: whether true in fact as well as in theory. Exchange with the continent: with Jamaica. Mr. Bosanquet's argument against the maxim built upon erroneous statements. Exchange with America. Mr. Bosanquet's new standard of exchange considered. Quotations from Mr. Bosanquet, to show that he considers the stoppage of the Bank of England the cause of the present low rates of exchange. How far the price of bullion does in fact regulate the exchange. How far the error made by the Committee, with regard to imports and exports, affects the general conclusion which they draw. The present rates of exchange and price of bullion examined by the two maxims which we have shown to be correct in fact, as well as theory. Proposed solution of the problem of bank paper's continuing at its former value for many years after the passing of the restriction bill.

THE par of exchange between different countries is a comparison of so much of their respective currencies as will purchase the same quantity of the precious metals in each. * †

* This is the only definition that will apply to any country in which specie is not the circulating medium.

† "The real par of exchange between any two countries is an equal weight of silver or of gold of the same fineness expressed in the respective denominations of the two currencies." Mr. Greffulhe's evid. p. 69.

"The exchange is at par between two countries when a given amount of the currency of the one or the other will purchase an equal amount of bullion of a given purity in either." Mr. Abraham Goldsmid's evid. p. 117.

Any depreciation, by whatever means occasioned, of the currency of any one country only, necessarily occasions a difference in the exchange between that country and any other. The exchange is not, except in its progress, consequently for or against either country, but its very par becomes altered. It is in its progress unfavourable to that nation in which the currency is depreciated in proportion to the length of credit which it gives.

Thus it appears that the exchange between this country and the continent is not as frequently expressed 20 or 25 per cent below par, but that it has never, even since the restriction bill, been for any considerable time much more below par than the expense and risk of transporting the precious metals.*

* "Does it not follow from what you have now stated, that the pound of gold in London and at Paris is at present of nearly the same value, the difference being only 7s. 6d. per pound?— It does.

"The price of gold at Hamburgh, and the price of gold in London are nearly equal." Mr. Abraham Goldsmid's evid. p. 117.

This evidence shows that, when it was given, the exchange was so little below par, that the difference would not pay for the transportation of bullion; consequently that the balance of payments could not at that time be much against the country.

This simple fact I consider a full and satisfactory answer to all those who attribute the high price of bullion and low rates of exchange to an unfavourable balance of payments: consequently to Mr. Cock, nearly the whole of whose reasonings are founded upon this supposed unfavourable balance. Mr. Cock assumes "as indisputable that the course of exchange is the criterion of the balance of trade:" and so according to his definition of the word par, and mine, (they are precisely similar) I admit it to be. But upon his own grounds of reasoning he must admit that, when the Committee examined Mr. Goldsmid, the balance of payments was

However much the balance of trade may be against a country, the difference between the par and the rate of exchange can never, in the common course of things, much, and for any considerable time, exceed the expense of transporting the precious metals from one country to another.* We have already noticed Mr. Abraham Goldsmid's evidence, by which we learn that this excess has not, within his experience, been more than 5 per cent. seldom so much, and never for any considerable time. The maxim here advanced has been maintained by nearly all writers, celebrated for any knowledge in questions of political economy. I never saw or heard any argument in favour of opposite tenets, and although Mr. Gruffulhe embraces these, he does not advance any reason for so doing. Respecting the present exchange between England and the continent, he speaks more from conjecture than from information, and expressly states that he "judges of the balance of trade *in great measure* by the state of the exchange.† Being further asked whether he alludes rather to the

not against the country; and, not being in existence, could not affect the price of bullion and rates of exchange; consequently that these, at that time at least, depended upon some other cause. (See p. 64.)

"Suppose," continues the same writer, "that a country were to give twelve months' credit, and receive only two; then, while the balance of trade is in favour of that country, the balance of payments may be against it *for a considerable length of time.*" But this time cannot exceed ten months, the difference of the credit which it gives, and that which it receives.

* The solvency of the nation with respect to its foreign debts is here assumed.

† Evidence, p. 63.

balance of trade, or to that of payments, he replies that he refers chiefly to the latter.

Mr. Harman being asked, what, in his opinion, is the cause of the present unfavourable rate of exchange, replies, that his sentiments must be greatly altered before he can believe it to be influenced by any modifications of our paper currency; and that he *must suppose* that the balance of payments has been materially against this country, implying by the expression that he assigns this cause chiefly for want of any other. Mr. — a continental merchant, questions the fact.*

It appears by Mr. Hugham's evidence that, of late, the exchange between Jamaica and England has been more than usually favourable to us. At the same time we must recollect that English bills and dollars were both at a premium, computed at the nominal par of 140 per cent. Reckoning the exchange at 154, and dollars 4 per cent. higher than 6s. 8d. currency each, the rates when the evidence of this gentleman was given, the dollar in Jamaica is worth 4s. 6d. in Bank of England money; and in

* "I would further state as my opinion that, at the present moment, and for a short time past, the balances of payment between this country and the north of Europe have been in favour of England.

"If this were the only cause that influenced the exchange, it is my opinion that the exchange would have been in favour of England for some time past." Evid. p. 105.

"If the depression in the exchange of any country arises solely from an unfavourable balance of trade or of payments, would not the natural consequence be a scarcity of currency, and a fall in the price of all commodities?—Yes, it is what I have invariably observed in several countries." Evid. p. 106.

England, according to Mr. Merle's evidence (p.40), *4s. 9d.* a considerable difference, but one which commercial transactions may, and certainly do, account for, and which only in a very small degree exceeds the freight and risk of transportation from one country to the other, according to Mr. Hugham's evidence, 5 per cent. * In time of war the risk may be very great. By Mr. A. Goldsmid's evidence we learn that, when he was examined, it was *absolutely impossible* to send bullion to Holland; and that, for many years past, none could be sent to Hamburg except by a circuitous course, which greatly increased both the expense and the risk, through Amsterdam for instance.

One cause of the present state of the exchange with the continent, is supposed by some, to arise from the want of these exchange merchants, or middle men, who, on account of the danger of the times, have withdrawn their capital from this line of business. They certainly tended to facilitate commercial transactions, and, by anticipating probable ultimate results, to render the course of exchange more uniform than it would otherwise have been. But, convinced as I am of their use in a community, I cannot believe, that, from the want of their influence, the rate of exchange would for any considerable time be much more above or below par than the expense of transporting the precious metals from one country to another. † In point of fact this neither is, nor has been the case.

* Evid. p. 56.

† The middle men of the corn trade in this country, and the

We will endeavour, with Mr. Bosanquet, to bring the theory advanced to the test of experiment. The par of exchange with Hamburg has been usually considered to be $33\frac{1}{2}$ for a pound sterling, but according to the intrinsic value of the respective currencies, it is by Mr. — evidence, $34\frac{3}{4}$ *; and by Dr. Kelly's assay $34\frac{1}{4}$ in gold, and $35\frac{1}{4}$ in silver. † Taking the par somewhere between these latter sums, we shall find that the exchange, even when most favourable to England, was not more than 7 per cent. above par, and when most unfavourable, not more than 7 per cent. below par. These variations are quite admissible within the rule laid down, and in no degree tend to refute it. ‡

In the following page he speaks of a profit of 8 or 10 per cent. that might have been made by paying the debt to Paris with gold from Hamburg; but, by computing the par as before, he makes an error of between 4 and 5 per cent., leaving not more than 4 or 5 per cent. for profit and interest of money, which is not too great, for a short time at least, to be admitted within the rule. He next reverts to the exchange with Hamburg during 1766, and 1767, years of peace, and maintains that, for the whole of

monopolists, as we improperly term them, of corn, tend to make more uniform the price of this article. To the want of such merchants in China may be ascribed the frequent and dreadful famines in many of the provinces of that empire.

* P. 79.

† Accounts, p. 73.

‡ Mr. Bosanquet attempts to refute it from the variations just considered, but he argues, not upon the actual par; but upon the accounted par which makes the rate, when most favourable to England *11l. 6s.* above par, p. 16; 17, and 18.

that period, there would have been a nett profit of 5 per cent. on importing gold from Hamburgh, and that the exchange was not rectified thereby. Mr. Bosanquet must certainly suppose that the merchants of that day were either dead or stupid, to let so much money continually slip through their fingers. But on correcting the computed par, we find that the profit would not have amounted to more than 1 per cent.

The exchange next alluded to is that with France in the years of peace 1775, 6, and 7, at which time, he says, one half of its difference from par would have conveyed gold from London to Paris. For the first two years, the rate, at an average, was between 4 and 5 per cent. from par, never amounting to 6: for a very short period of the year 1777, it was at 8, but in the year following fell to 2 per cent. This par is computed at 24 livres to the pound sterling; but it appears by Mr. Greffulhe's evidence,* and Dr. Kelly's assay, that the intrinsic par is full 25, making a difference of about 4 per cent. Thus the transportation of gold to Paris would not, even in the most favourable time, have yielded more than 4 per cent. for expense, risk, and profit. In some other years the variation from par was 2 per cent. more, but Mr. Bosanquet has admitted these cases, probably because he found that the price of gold in England had risen in the same or a greater proportion.

The last rates of exchange, brought forward by

* P. 70.

Mr. Bosanquet, are those of London and Paris, during time of war, which have differed from par, in some years one way, in some another, between 8 and 9 per cent. Mr. Abraham Goldsmid informed the Committee that he had known the expense and risk of transmitting gold to Holland to be at one time as much as 7 per cent., and the risk of sending it to Paris was probably much greater. On this supposition the exportation of gold to or from Paris would have left no very exorbitant profit to the speculator.*

The computed par of exchange with Amsterdam appears to vary nearly as much from the intrinsic par as that with Hamburgh;† and instead of stating the exchange with Hamburgh to be 9 per cent., and that with Amsterdam more than 7 per cent. below par, the Committee would perhaps have been justified in stating these rates at 13 per cent., and more than 11 per cent. respectively.

Mr. Bosanquet's next argument against the proposition ‡ is founded on the following quotation from Mr. Greffulhe's evidence. "During the depreciation of English currency on the continent of Europe, a premium was paid for it in America in hard dollars." But it appears that this depreciation was not considerable before the month of November in the

* In computing the advantage of sending gold to France, we must ascertain the value of gold in the currency of that kingdom, or be liable to an error equal to the seignorage upon its coin: 8 per cent. according to the regulations before the revolution.

† See Dr. Kelly's table of assays, accounts, p. 75.

‡ P. 20.

year 1808. * At that time the exchange of New York on Great Britain was 110, but in April following, when the Americans might have been informed of the proceedings on this side of the Atlantic, and have had some confidence in their continuance, it fell to 104, in June to 101, and in January 1810 to 96. But the exchange with distant countries is more subject to fluctuation than that with our neighbours, not only because the freight and risk are usually higher, but because the merchant is debarred, for so long a time, of the use of his capital.

Having discovered a new standard for our currency, Mr. Bosanquet finds afterwards a new standard for the course of our exchange, in the fluctuation of the price of corn. A scarcity at home induces importations, and so far tends to render the balance of trade unfavourable: but, on a careful examination of the tables by which he attempts to demonstrate the truth of his proposition, we find that the exchange never deviated from par, even in those years in which the importation was the greatest, by a greater sum than the expense and risk of transporting bullion, joined to a moderate profit for the merchant. Consequently the new standard, in application to fact, as well as to theory, is found to be erroneous.

The same writer draws a parallel between the paper currency of this country and that of Sweden.†

* See Report, p. 1, and Mr. A. Goldsmid's evid. p. 2, and Musbett's tables.

† Quoted at p. 21.

According to Mr. ———'s evidence, the exchange with Sweden, owing to the refusal of the Swedish bank to pay in specie, fell (between January 1809, and May 1810) to 24 per cent. *even with London*, about 40 per cent. with the continent. To admit the parallel, implies that the low state of exchange with England arises from the same cause as that with Sweden, the stoppage, as far as respects payments in specie, of the national bank. * Who would hesitate to say that the paper of the Bank of Sweden was then depreciated?

Mr. Bosanquet does not think, with the Committee, that the price of gold and the exchanges go hand in hand, but he admits that they have not differed more than 5 or 5½ per cent.,† taking into calculation the expense and risk of transportation. This circumstance may prove that the balance of payments was at that time, 1809, much against the country, but not that the price of gold and the rates of exchange do not nearly coincide: and we find accordingly that, in a very few months afterwards, the difference between them had decreased between 3 and 4 per cent.

His formidable objection to the Report is that the Committee have considered the trade for the last two years, contrary to fact, to be favourable to England: but they did not include in their estimate (as

* "— yet to account for an effect exactly similar, under similar circumstances," &c. P. 21.

† The computed, or intrinsic par of the exchange does not affect this statement. P. 25.

a question of trade they should not) the foreign expenditure of government. As these subsidies must necessarily be included in estimating the balance of payments, the reasoning of the committee, so far as respects this balance, appears to be refuted. But the main question with them was not whether the balance of trade, or that of payments, was against, or in favour of, England; but whether these were sufficient to account for the high price of bullion, and the low rates of exchange: and conformably to experience, and to the sentiments of nearly all writers on political economy, they decided that they were not sufficient to account for them.

My opinion is, that a balance of payments, against this country, has an effect precisely the reverse of that which Mr. Bosanquet ascribes to it; that by forcing out of circulation a considerable portion of our currency, it increases the value of what remains. On this ground, a correction of the error into which the committee have fallen, strengthens the validity of their conclusion. If the truth of the maxim, *as the circulating medium is scarce or plentiful, commodities and labour, computed in it, are plentiful or scarce*, which by general reasoning, and on Mr. Hume's authority, I have endeavoured to establish, be granted, this latter proposition, if we still continued our payments in specie, or bank issues had not increased, would necessarily follow.

Having examined the two propositions in political

economy, upon which the question turns, and found that in the whole annals of English commerce, they are strictly correct, except in a few very trifling, and only temporary cases, which also have been examined; it now remains to judge by them of the subjects before us. The present high price of bullion and low rates of exchange cannot any longer be considered as only temporary, and therefore to them any exception of the rules will not apply.

It appears by a former calculation, that taxation alone would not account for the whole of the increased price of commodities and labour. It could in no case account for any difference in the value of bank notes and of bullion, compared by the former standard, or for any variation in the course of the exchange between England and other countries.

The present par of exchange with the continent is now, and has been for the last two years, nearly 20 per cent. below the former par. We have seen that so great a difference has never taken place, and can never take place so long as the same denomination of currency, in each country, purchases the same quantity of the precious metals as it did before. We have seen also, that the Mint and the market price of bullion can never vary more than the value of the risk of melting, or exporting specie, joined to a small profit for the speculator, so long as specie is the legal currency of a country: that, in fact, they have never varied more than 5 per cent. But at present they vary, and have for a long time varied from 15 to 20 per cent. Therefore, it necessarily follows that the currency of this kingdom is of less

value than it would be, were specie the legal currency. The altered par of the exchange is simply and necessarily the consequence of this depreciation; a consequence, as we have already shown, that cannot result from any other cause than an alteration in the relative value of the currencies.

Whether the depreciation of bank notes be owing to excess of issue, or to the ticklish foundation upon which their present validity is built, the ever-varying standard of public opinion, the fact itself, judging by the maxims, the truth of which I have endeavoured to demonstrate, is undeniable.

On what account Bank of England paper retained its original value till the latter part of the year 1808, and then, although the issues were not much increased, began to lose a portion of it, is considered a question of such difficult solution, as to be the chief argument of our opponents against any excess or depreciation. It is a question of great curiosity and interest, but one upon which the present inquiry does not appear, in any degree, to depend. That no depreciation existed a few years ago, is no proof that none exists at present. The criterion of depreciation stands upon a very different foundation. If it be alleged that the issues of the Bank, compared with the wants of the public, are not greater now than formerly, I answer, that this reasoning may imply a decreased confidence in the Bank of England, but that it does not throw the smallest light upon the question of depreciation. On this view of the subject, I offer the following observations, not on depreciation, but on excess, as the cause of it.

In the early part of 1808, the Bank agreed to advance to government a loan of three millions, not bearing interest, to be repaid within six months after the termination of the war, in consideration of the benefit to be derived from the treasury balances,* lodged in their hands. These balances, according to the statement of the Chancellor of the Exchequer, in the House of Commons, amounted, on an average, to ten millions sterling, at the least: in other words, the bank paper issued, with this sum deducted, was the whole of that quantity which would have formed a part of the circulating medium of the country, had these balances continued in the treasury. Thus, in order to keep the currency at a stationary point, the Bank, after the balances had been lodged in their hands, should have made a deduction in the issue of their notes, equal to the amount of these balances. The Bank, of course, never intended to adopt this line of conduct; and in reality did not adopt it: for we find that the amount of their notes in circulation was rather increasing than otherwise, and consequently that a sum equal to an average of the balance of the treasury, was gradually added to the former mass of circulation. It would have been a matter of indifference, both to the Bank and to the public, whether the additional sum had been issued in new notes, while the old

* During the latter part of the preceding year, the bank notes, locked up in the exchequer, amounted on an average to more than five millions sterling. Between the month of March of 1808, and the same month of 1810, the amount never exceeded 60,000*l.*, except for a short time in October and December of 1808, and of December only in 1809.

ones remained in the treasury; or had been issued in the same old ones, which, by the former system, had been retained from circulation. These considerations induce me to think that the Bank were outwitted in their bargain, and actually give 150,000% a year for what, in the existing state of the currency, was not worth a penny. An addition of ten millions, by the transfer of the balance of the treasury, and the subsequent conduct of the Bank, was thus made, to what would otherwise have been the amount of the circulating medium of the country.

The progressive increase of notes, had the treasury balances been still locked up from circulation, might have caused, by this time, some diminution in their value: but the gradual addition of these balances, to the currency of the kingdom, appears sufficient to account for the present depreciation of bank paper.

If it be objected to this reasoning, that the Bank were in the practice of receiving these balances long before the final arrangement of 1808, I may reply, that the absorption, throughout the kingdom, of an additional quantity of circulating medium, is necessarily very slow,* and that the objection offered is no argument against the ultimate result.

Thus, have I endeavoured to prove that the propositions, stated by the committee, are true both in theory and practice; and that whatever errors have crept into their estimates do not affect the accuracy of their conclusion.

* See p. 12 of this pamphlet.

CHAPTER IV.

The good and evil of the present system, and the good and evil of the former system, compared. A depreciation of the currency not injurious to a nation taken collectively: but injurious to possessors of public property, and of settled incomes, payable in whatever may be the legal currency. It lightens the burdens of government; but at the same time imposes a tax upon only one class of the people; its sanction by the government would consequently be an act of injustice. The expediency of a return to the old system considered. How the present evil may be removed; how diminished.

I AM now shortly to consider the good and evil of continuing the present system, and the good and evil of returning to the old one.

Lands and houses, and (*cæteris paribus*) all other sorts of property, bear with each other, and with gold, the same relative value as before the restriction bill, except so far as the demand for gold throughout the world decreases by the bank notes as a circulating medium taking the place of specie, and consequently throwing the quantity, thus displaced, into the general market.

This fact is undeniable, because any two sorts of property, when compared in value, cannot be influenced by the greater or less quantity of any circulating medium which may represent them.

Bank notes being the circulating medium, and not payable in specie, specie is no longer requisite, excepting for fractional quantities; and the restric-

tion of its exportation is not only without benefit, but contrary to the general interests of the country: because it tends, so far as it goes, to prevent the merchant from converting a dead stock, now become useless, into a trading stock.* Remittances of government, if suddenly required, may however form an exception to this rule.

The depreciation of the currency, whether by clipping the coin, by reducing the fineness of the metal, by substitution of paper, or by any other means, is not itself injurious to the people of a country, taken collectively, but is very injurious to many individuals.

In this proposition, the government and the people are of course blended into one interest. While capital itself continues the same, the country cannot be affected by the circulating medium, or the quantity of it which may represent this capital. But a depreciation of the currency is very injurious to those who retain funded property, or any settled income payable in this currency, because the income which they receive represents, under the depreciation, a smaller quantity of commodities and labour than it did before.†

A depreciation of the currency lightens the burdens of a government, which, as England, has

* Sir Philip Francis's belief that the disappearance of specie is a sure sign of approaching poverty, is thus very satisfactorily controverted.

† Mr. Cock imagines that the Bank restriction bill tends to prevent any subversion of the scale of property; whereas its effect, as far as it goes, is precisely the reverse. P. 44.

annually to pay the interest of a very heavy debt.* In the same proportion as the burdens of a government are thus lightened, those to whom it pays money are taxed: such tax is very partial, consequently very unjust.

Whatever be the state of the currency, the government of a country can (*cæteris paribus*), at all times, raise with equal ease, and equal burden to the people, whatever represents the same quantity of commodities and labour. For these, in fact, are what the government require, and what the people pay.

Besides the advantages which, under a depreciation, accrue to government in the payment of the interest of their debts, they are likely to reap others in the payment of their army and navy and civil officers. The salaries will hardly be raised till the depreciation becomes considerable. In the meantime they will not be so well remunerated as they were before, because their pay will represent a smaller quantity of commodities and labour, its only real value.

A paper circulation, as the representative of specie, is of advantage to a country so long as it can conveniently be converted into specie, because

* It is here supposed that the taxes are to be proportioned, as they were before, to the means of the people; that they are to rise as the value of circulating medium falls; that if any individual pays annually the value of ten bushels of corn, he is still to do the same.

a dead stock is thus changed into a trading stock. Such a currency may possibly be too great in a state subject to the inroads or invasions of an enemy; but in England, which is not so circumstanced, it cannot be too great.

Bills payable in specie at a certain time after date or sight partake of the nature of notes payable on demand, and serve as additional securities to the lenders of money. In no case can the circulation of either sort of paper money be detrimental to a nation, unmolested by her enemies. It cannot occasion any difference between the Mint and the market price of bullion; nor can it, except in a trifling degree, alter the relative value of gold and other sorts of property: for, as the whole gold of the mercantile world is to the whole gold plus the value of paper issued, so was the value of property, estimated in gold, before the paper currency took place, to the value of property afterwards. Consequently it cannot have any permanent effect upon the rate of exchange.

The injustice which arises from a depreciation of the currency is of itself a sufficient reason for its being no longer continued, unless the payment of the notes in specie appear to be a still greater public evil. It causes, so far as it is sanctioned by government, a breach of faith towards stock holders, because they receive paper instead of the gold to which they are entitled; and foreign holders, whom, to keep our faith with them, we scrupulously excluded

from the payment of the property tax, actually receive at present from 15 to 20 per cent. less than what is actually their due.

Should it be asked whether, if the precious metals, by the discovery of a new mine, or any other cause, were as abundant throughout the world, compared with commodities and labour, as bank notes are in England, the same depreciation of these circulating media, and the same injustice would ensue; I should answer, that the same depreciation certainly would; but the cause of it being independent of government, and its engagements still fulfilled, not the same or any injustice.

The only other disadvantageous consequence of the present system appears to be the unsteady par of our exchange, and the unsettled relative value of currency, constantly at the mercy of a small body of men.

This body, it is true, are of the most respectable class of the community: but they are interested in the issue of their notes, and an extensive issue is moreover considered, not only as a favour to the merchants, but in the light in which they now view it, as a public good rather than an evil.

A growing depreciation of the currency is likely to be a great check to agricultural improvement; because landlords, aware of the circumstance, will be cautious how they grant long leases. At present the Duke of Northumberland refuses, for what reason I know not, the renewal of any leases, upon any terms.

If the Bank of England had in its possession enough specie to discharge its obligations, and were without delay to pay its notes, exchanges would immediately rise to their former level; because specie, bullion, and bank notes, would be of nearly equal value. But as this cannot be done without a very considerable diminution of its issues, it remains to be shown whether the evil of recurring to the former system be so terrible as to render expedient a continuation of the injustice of the present.

From a straight course of conduct

“ ——— facilis (est) descensus ———
Sed revocare gradum, ———
Hoc opus, hic labor est.”

Let us first examine the evil that will accrue to government; and secondly that to the people.

The committee, observes Mr. Bosanquet, say nothing about the price of bullion, which is expected, doubtless, to return, when the Bank shall have sufficiently controlled the Exchange. I reply in the words of Mr. Chalmers: “One truth is clear, that every community which has an equivalent to give may always procure as many of the precious metals, wherever they may exist, as it wants.*” Hence we may conclude with Mr. Hume, and with subsequent writers on political economy, who were equal in judgment to him, that while we preserve our

* This also may serve as a reply to Mr. Cook, who says, that if the Bank of England had paid their notes in specie, “Buona parte would have absorbed all the specie of this kingdom.”

people, our skill, and our industry, we may allow the specie to find its own way in the world without any other protection than what is due to the justness of our standard in fineness and weight, or any other care, than to give continual notice to the credulous, to beware of the tricks of the clipper, the sweater, and the coiner.” Chalmers’s Estimate of the comparative Strength of Great Britain, 3d edit. p. 268.

If no additional revenues have been raised by government, to compensate the depreciation of the currency,* except the income and *ad valorem* taxes which rise and fall accordingly; we have no reason to expect that any would be reduced should it attain its former level.

Deducting the interest of the debt, and the pay only of the army, navy, and civil officers, we will estimate the annual expenses of government at 12,000,000*l.* The depreciation of the currency appears to be at least 16½ per cent.: so that 10,000,000*l.*, before the depreciation, answered every purpose that the 12 millions do at present. Thus, the revenue being the same in both states of the currency, the government would find an annual surplus of two millions, occasioned solely by the Bank’s resumption of its payments.

If the depreciation increases, perhaps if it con-

* On this supposition, the taxes have not advanced, for the last two years, with the means of paying them. This explanation refers to a paragraph in p. 51, and corresponding note, which assume that they may be so increased without increasing the hardships of the people.

times, the imposition of new taxes, payable in the existing currency, will be inevitable.

The disadvantages that would arise to the people from a recurrence to the old system, would be, that a part of the trading capital of the country must be again converted into dead capital or specie: and the necessity of suddenly so doing would not only occasion great embarrassments to commerce, but the ruin of many of those merchants who had been accustomed to discount largely with the Bank.* These are forcible reasons against any sudden change: but if sufficient time were granted to prepare against it, only the ultimate result should come into consideration.

Under the present economy of the use of circulating medium,† it does not appear probable that the diminution of profit to the community would

* "If there be a superabundance of notes, it is very easy to reduce it." Bosanquet.

† "Would not country banks be more liable to a run, inasmuch as persons holding their notes, in case of an alarm, would be more eager to exchange these notes for gold, than they now are to exchange them for notes of the Bank of England?—I have no doubt that effect would take place.

"Supposing no alarm to take place, do you not conceive that any excess in the quantity of country bank notes, which may be pushed into circulation, is now removed by an application of the holders, to exchange these notes for Bank of England notes, or bills on London, in the same manner as a similar excess would be prevented by a demand for guineas, or for bills on London, in the event of there being no suspension of cash payments?—I incline to think that is not so restrained. I conceive that there is country bank paper in circulation to a larger amount than there would be if payments were made in gold; I mean, for example, that if twenty millions of bank paper is now issued, and that gold

greatly exceed a million a year; a sum not to be placed in competition with the injustice which holders of funded property experience.*

It is also to be observed, that whether the kingdom be in a state of war or of peace the same immediate, and the same ultimate effects, would indubitably follow. For the sole evil would consist in the conversion of trading stock into dead stock; and this is totally independent of the external state of the nation.

The committee are of opinion, that the Bank may resume the payment of its notes at the expiration of two years.† It may be a doubt with many whether this time would be sufficient for those, who discount largely with the Bank, to reduce their concerns into the requisite compass. A more easy retracing of our steps would be to pass an act compelling the Bank to withdraw monthly from circulation a certain portion, 100,000*l.* or 200,000*l.* of its notes, till the price of bullion, computed in bank money, fell to the Mint price, or till the proprietors

went into circulation, a less sum in gold and in notes than the amount of the whole paper now in use, would be found sufficient. Evidence. See also page 47 of this pamphlet.

* Taking the interest of the debt at twenty millions, and the depreciation at 15 per cent., those to whom it is payable suffer a loss of three millions a year.

† Sir John Sinclair says, that "the committee, though authorised merely to report the result of their inquiries and their observations thereupon, have exceeded the bounds of their commission, by stating their *opinions*, and suggesting remedies." But who doubts, that according to the common usage of language, the expression signifies both the opinion and the suggestion of a remedy.

thought proper to pay their debts in specie. For the execution, even of this moderate measure, some time might be requisite, and six months might be given.

Should the intended motion of the Chairman of the Committee, in the House of Commons, be negatived, it seems probable that this alternative, as a measure more lenient and more gradual in its effects, might be adopted.

But should both be rejected, what palliative can we apply?

To decrease the evil without much inconvenience to the public, the Bank might be compelled to withdraw gradually from circulation a certain portion of its notes,* till the price of gold bullion should fall to 4*l.* 10*s.* per ounce, or some other fixed sum. As long as it continued below this, the issue of paper should be left to the discretion of the Bank directors; but whenever it rose above it, the same regulations should be in force.

This at least would prevent that further growth of the evil which, if the present practice be suffered to continue, we have great reason to dread.

If Mr. Horner's motion be carried and pass into

* No part of the portion withdrawn, ought, in this instance, to be in one and two pound notes, on account of the inconvenience which the public would experience for want of money of these denominations. If the system of banking is beneficial to a nation, by the conversion of dead stock into trading stock, so also is the currency of 1*l.* and 2*l.* notes. They are not accompanied by any apparent disadvantage, and I see no reason for prohibiting their circulation, even after the resumption by the bank of payments in cash.

a law, and the Bank find it impracticable to fulfil their engagements, it may be the duty of government to return as much of that money which has been advanced for the public use, as may enable them, without any further legislative interference, to preserve their credit.

It may be raised by means of a loan, or by exchequer bills, which, whether paid in bank paper, or in specie, will answer the same end; or as the purpose of it is to liquidate a portion of the public debt, a little of the interest of the sinking fund might be devoted to this use.

In any of these cases, the most profitable course for the Bank to pursue, would probably be to sell what bullion they possess, in expectation of its falling in value, and not to purchase any more till they can coin it and issue it without a loss.

As a measure of political economy, I cannot conceive the case in which a reversion to the present system would be expedient. The interest of the Bank being in some degree blended with that of the government, any sudden, unusual, and unexpected run upon it, might be provided for by a temporary loan of exchequer bills; and this accommodation, as it would, without any further interference, quickly terminate, I consider less injurious in its consequences than a stoppage of payment in specie.

It is evident, that, according to the sentiments which I have expressed, the decision of the question cannot, and will not, be influenced by political opinions; and we may confidently expect that the

two systems, with respect to the government and the community (if these two interests can be separated), will be impartially compared; and that whichever is found to be most beneficial, will be confirmed as our future rule of conduct.

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