ESSAYS

TOWARDS

ILLUSTRATING

SOME

ELEMENTARY PRINCIPLES

RELATING TO

WEALTH AND CURRENCY.

BY

JOHN PETER GRANT, ESQ.

This business of money, and coinage, is, by some men, and amongst them some very ingenious persons, thought a great mystery, and very hard to be understood. Not that, truly, in itself, it is so; but because interested people, that treat of it, wrap up the secret they make advantage of, in mystical, obscure, and unintelligible ways of talking; which men, from a preconceived opinion of the difficulty of the subject, taking for sense, in a matter not easy to be penetrated but by the men of art, let pass for current, without examination. Whereas, would they look into those discourses, and enquire what meaning their words have, they would find, for the most part, either their positions to be false; their dedications to be wrong; or (which often happens) their words to have no distinct meaning at all. Where none of these be, there their plain, true, honest sense would prove very easy and intelligible, if expressed in ordinary and direct language.

LOCKE. *Considerations on lowering Interest, and raising the Value of Money.*

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It is a great errour to suppose, that, because a subject appears simple and clear to those who have studied it, it is, therefore, unnecessary to attempt any explanation of it to others. The author of the following pages is sufficiently aware, that he has advanced nothing, which is not already as well known to men of science, as that colour does not reside in the bodies it diversifies, or that the knowledge of distance is not derived primarily from the sight.—But, of those who may be inclined to blame him for having obtruded on the Publick a dry detail of nearly self-evident propositions, he would only request, that they may peruse the speeches spoken by, and treatises published under the authority, and with the applause of, persons high in reputation and in office, regarding this topick; or that they may start it in conversation with persons to whom it were natural, and is important, that it should be familiar; in order that they may judge, how far he stands in need of an apology, for having attempted to strip of some hard words, and unintelligible abstractions, a subject, which, since the days of Mr. Locke at least, ought to have required no illustration;—a subject, however, of such importance at the present moment, as to involve the question, whether, after having annihilated one fifth part of all fixed incomes, of all subsisting debts, and of the publick revenue, the Bank of England shall, for no state purpose, unless it be the nefarious one of defrauding the publick creditors, be permitted to proceed to the annihilation of one half, or two-thirds, of the remainder.

In saying this, it is not intended to cast any imputation on the Directors of that establishment. It is no imputation on Bankers and Merchants, that they are not Statesmen and Financiers. They were, in the opinion of the author, originally placed by the imprudence of the Government, and certainly they have been continued by its folly, in a situation for which their habits rendered them peculiarly unfit; where their laudable zeal for the advancement of their Corporation, could not but lead them astray; where all their preconceived notions of the interests of commerce, could not fail to betray them; and where the state of the Currency of the

country, necessarily induced by the placing it absolutely under their control, has left them no longer masters of their conduct.

As little is it intended, from the following attempt to illustrate the true principles on which the Currency of a Country should be regulated, to infer, that, where they have been so far departed from as in this kingdom, they should instantly, or at any definite period, or by any precise course which he can point out, without the consideration of many difficult details, be recurred to. It were the part of a quack, and not a physician, in his zeal to eradicate the main distemper, to disregard collateral symptoms, and dangers arising from accidents in the constitution, or in the previous treatment. But it is, in the first place, necessary to be well acquainted with the natural state of the body when in health, and the nature, and causes of the diseases it is subject to. They, that would apply this knowledge to a particular case, must be admitted to the bed-side of the patient, and suffered to question the apothecary, and the nurse.

London, 14th April, 1812.

ESSAYS

RELATING TO

WEALTH AND CURRENCY.

ESSAY I.

Of Value and Wealth.

DR. SMITH has observed*, that every commodity has two sorts of *value—a value in use*, and *a value in exchange*. Thus, of all commodities, one of the most *valuable in use*, is water: but it is, of all commodities, the least *valuable in exchange*. The terms *value* and *valuable*, I employ for the purpose of expressing what Dr. Smith calls, *value in exchange*; meaning to reserve the words *usefulness* and *useful*, to express what he terms *value in use*. I apprehend these to be the ordinary acceptations of the words.

Wealth and *wealthy*, *riches* and *rich*, are, in like manner, susceptible of two meanings, though in general employed to signify the possession of commodities *valuable in ex-*

* Wealth of Nations, b. 1, c. 4.

change. But they are sometimes differently applied; as we speak of a country *rich in copious springs*, without meaning thereby to attribute *value in exchange* to the water which flows from them. Frequently, in reasonings which ought to be more accurate, as well as in common discourse, these two meanings are confounded; and what is applicable to one, is asserted of the other. In the following pages, the terms *wealth* and *riches* are limited to express *the possession of commodities valuable in exchange*.

"Every man is rich or poor," says Dr. Smith, "according to the degree in which "he can afford to enjoy the necessaries, con-"veniences, and amusements of human life*." Here the term *rich* is employed in its most extensive signification. It results from the definition, that rich and poor are relative terms. When we say of one man, he is rich, and of another, he is poor, we mean that he is richer or poorer than most men. We cannot say that a man is absolutely rich, or absolutely poor, any more than we can say that he is absolutely tall, or absolutely short; and this is equally true, in whatever sense the term *rich* is used.

"But," continues Dr. Smith, "after the "division of labour has once thoroughly "taken place, it is but a very small part of "the necessaries, conveniences, and amuse-

* Wealth of Nations, b. 1, c. 5.

"ments of life, with which a man's own la-"bour can supply him. The far greater "part of them he must derive from the la-"bour of other people, and he must be rich "or poor, according to the quantity of that "labour," (he might have added, 'and of "other commodities belonging to other peo-"ple'), "which he can command, or which "he can afford to purchase*."

Rich, or wealthy, therefore, is a term referring to the interchange of commodities; and it is so, whether we apply it to an individual, or to a state. Thus we should hardly say in common discourse, and could not say according to our limited definition of the words, that a man was *wealthy* or *rich*, who possessed the utmost abundance of all things necessary to his subsistence, provided they were articles for which, from their general abundance, there was no demand, and for which, consequently, no one would give him any thing in exchange.—We should say, that he *possessed abundance*, that he *lived in plenty*, that he *felt no wants*; but we should not say that he was *rich*. If we say of a person, that he is *rich*, we mean, that he possesses a great deal of one, or different commodities, which others will readily take off his hands, giving him in exchange their services, or such commodities of theirs as he may desire. Thus *wealth* is not *abundance*; or, if it be

* Ibid.

determined to designate abundance by this name, it is necessary to appropriate another name to that particular situation, which consists in the possession of such commodities, and in such quantity, as give to the possessor a command over the labour and possessions of others.

Still less does wealth consist in the possession of any particular metal, or any one commodity rather than another. A person, for instance, who has a thousand pounds weight of gold, in a country where a pound weight of gold will purchase twenty quarters of wheat, or twenty fat sheep, is neither richer nor poorer than a person, who, in the same country, possesses twenty thousand fat sheep, or twenty thousand quarters of wheat; because either of these latter persons may obtain, in exchange for his sheep or his wheat, a thousand pounds weight of gold, whenever he chuses, or as much of any other commodity, which he desires, as a thousand pounds weight of gold will purchase.

In these observations, there is little more than an attempt to define a word; but they do contain somewhat more. They point out, that the possessor of what is *valuable in exchange*, is in a different situation from him who has *abundance of what is useful*. It is very true, that, where all things useful are to be had, the possession of a sufficient quantity of what is valuable in exchange, will ensure the enjoyment of abundance of what is useful.

But the possession of abundance of what is useful does not infer the possession of what is valuable in exchange; since the latter quality is conferred on a commodity, not by its intrinsick usefulness, but by the desire, frequently capricious, entertained for its acquisition, and the comparative ease or difficulty of acquiring it.

In the country of Eldorado, where all the inhabitants had as much as they could desire of every thing suited to their situations in life, and no wish to vary these situations; where gold, and silver, and those stones which we account precious, formed the ordinary play-things of the children, and the pebbles found on the high-way, no person could be rich; and, there being no communication with the rest of the world, the community could not be rich. The two sheep, however, laden with the valueless pebbles of this country, which Candide saved, were sufficient to render him rich, as soon as he reached countries where wealth was known.

A country may be extremely abundant, where, yet, by the equal distribution of its abundance, few individuals may be rich. But the country itself, compared with other countries, may be rich; because, though no individual, from superabundant wealth, can contribute largely to the state, every individual, out of the plenty he enjoys, can contribute moderately to the state; and thus the state can command a large surplus of commodities *valuable in exchange*, with which to purchase the services, or commodities of foreigners. If we could suppose this country cut off from all communication with the rest of the world, its abundance within itself would remain; but it would no longer, in our acceptation of the term, be accounted *rich*. If it should so happen, that a country produced nothing but what other countries produced equally, in as large quantities as their inhabitants required, this would make no difference in the abundance possessed by the inhabitants of that country; but it would annihilate its wealth as a community.

Riches, or *wealth*, we have defined *the possession of commodities valuable in exchange*; —abundance may be defined *the possession of commodities useful or desirable in themselves*. That this is a real distinction, is obvious;—that it is not unimportant, will readily appear.

Where all *useful commodities* can be procured by purchase, *wealth*, as has been said, is sufficient to command them. *Wealth* is commonly best attained by dedicating the whole attention to the procuring some one commodity of *value*, the acquisition of which is favoured by particular situation. Thus the proprietor of a coal-mine will acquire more wealth, and consequently more corn and butcher's meat, where these can be purchased, by employing all his capital and industry in working his coal-mine, to the utter neglect

of the soil on the surface, than he would by diverting a part of his capital and industry to the improvement of the surface, and the raising directly of corn and butcher's meat. But, if he lived in a part of the country where these articles were not to be had to purchase, he would be necessitated to raise them himself. His *wealth* would not procure him *abundance*; and, in order to possess the latter, he must be content to acquire less of the former. The Spaniards, who first attempted settlements in America, frequently devoted themselves to the acquisition of the precious metals, to the exclusion of the ordinary precautions for subsisting their colonies. These colonists were not the less *rich*, for they had a great deal of a valuable commodity, a ready market, and the means of transporting it to market. But the source of their supplies was at a distance, and they perished of famine in the meanwhile. Yet they died *rich*, and their heirs would succeed to a great inheritance. If there be some things a man desires which cannot be had, he is not, therefore, the poorer, so long as what he possesses gives him the same command as before over the services of others, and over such things which are to be had. If, on the other hand, he has all that he happens to desire, this does not make him *rich*, unless what he has gives him a command over the services of others, and over such commodities as they may have to give in exchange.

The same thing is applicable to states. We could, no doubt, make wine in England, by raising grapes with such artificial heat as our climate requires. But while we can purchase wine in France, and while France will purchase our hardware, we shall have more wine by bestowing our labour on smelting iron, than by raising grapes. If France should refuse to deal with us, we should have less wine; but we should have as much wealth, as long as other countries would take our hardware, and give us in exchange such commodities as they produce.

Though thus, however, it were absurd to discourage the manufacture of iron, and give bounties on the raising of grapes, it were a very questionable policy that should devote our whole attention to manufactures for exportation, at the expense of rendering us dependent on other nations for food. We might thus become *richer*, but we should be liable to be starved.

Individuals, therefore, can only be *rich*, in relation to their commerce with other individuals; and a nation can only be rich, in relation to its commerce with other nations. If a partnership existed where the partners had no separate accounts, but their expenses were defrayed out of the joint stock, the partners could have no wealth till they came to divide, but the firm would have wealth. In like manner, the wealth of a nation does not consist of the mass of the riches of indi-

viduals, estimated with relation to their commerce with each other; or of the mass of commodities within its territory, estimated by their *usefulness* and not by their *value*; but of the mass of commodities within its territory, estimated by their *value in its commerce with other nations*.

The objects of all legitimate government are two, which must go hand in hand; the advancement of the happiness of the people, and the securing the state from foreign attack. For, as that is a just sentiment which the Cretan attributed to his legislator, that, "observing all the possessions of the vanquished to belong to the victor, he held "it ridiculous to propose any benefit to his "country, till he had provided that it should "not be conquered *;" so it were as obviously absurd to be at much pains to defend a country, whose inhabitants did not possess such a degree of happiness, as it were worth while to preserve. The aim of political economy is to promote both objects: to add to the comfort and happiness of the inhabitants, by providing them with abundance of all that is useful and desirable; and to add to the means of defending the state, by giving it a command, through the increase of its wealth, over the services of foreigners, and the produce of foreign lands for the purposes of war. Though the means adopted for one of these

* Fergusson's Essay on Civil Society.

purposes most frequently promotes the other, yet they are capable of distinction, and there are occasions when it is requisite to distinguish them.

It has already been remarked, that the value of commodities does not depend on their usefulness. The most useful of all things is the common air, which never can have any value, because all persons enjoy as much of it as they have occasion for. Water is in the next degree of usefulness, and, for the same reason, it can seldom possess any value. But there are situations in which its scarcity would give it the highest degree of value. There are few things less useful than diamonds, which are of all the most valuable. Iron and copper, the least valuable of the metals, are much more useful than silver and gold. Nay, the Pigot diamond, from its extreme size, though the rarity of that size ought to have given it an additional value, was found much less valuable than the same weight, and the same water would have been, if distributed into separate stones. In the latter case, there would have been several competitors found ready to purchase each stone, and to give a large consideration for the possession of a thing so beautiful, and so rare. But for the Pigot diamond itself, there were no competitors ready to give any thing like a proportional price for the whole together. There was no one ready, for the possession of a thing, which could only gratify taste by its

beauty, and vanity by its rarity, and expense, to sacrifice so much of other commodities, as would have been sufficient to purchase it at the same rate. There was, thus, no adequate demand for it; or, as it has been called, no adequate "effectual demand;" and consequently it possessed no proportional value.

It is therefore truly said, that the value of every thing, existing in a given quantity, depends on demand. Demand, again, depends not so much on the real wants of mankind, which, in civilized countries, are pretty well supplied, as on taste—perhaps on caprice—perhaps mainly on vanity. From whatever source, however, demand arises, value is derived from the proportion which the demand bears to the quantity ready to supply it.

There is a second observation very truly made,—that an extraordinary variation between demand and quantity, creates more than a proportional difference in value:—That is, if the whole of a commodity in the market be equal in value to a thousand pounds weight of gold, or to twenty thousand sheep, or to twenty thousand quarters of wheat, in a country where a pound weight of gold may be bought for twenty sheep, or twenty quarters of wheat, if the quantity of the commodity be suddenly reduced one-half, the demand continuing the same, a thousand pounds weight of gold, or twenty thousand sheep, or quarters of wheat, will no longer purchase the whole of the commodity in the market, though only one half of the former quantity; but the reduction of the quantity to one half, will vastly more than double the price, by the extraordinary degree of competition excited in the purchasers.

In the same manner, if the demand be doubled, the quantity remaining the same, the price, from the same circumstance, will be vastly more than doubled. On the other hand, if the quantity be suddenly doubled, the demand remaining the same; or if the demand be suddenly reduced to one half, the quantity remaining the same; the price will be vastly reduced below one half, from the extraordinary competition among the sellers.

It is obvious, that, in the former case, the riches of the individuals who held the commodity, would be vastly increased by the diminution of its quantity, that is, by lessening the abundance of the country. It is also obvious, that, in the latter case, the riches of the individuals who held the commodity, would be vastly decreased by the augmentation of its quantity, that is, by an addition to the abundance of the community.

If an estimate were to be made of the riches of each individual in the country, at the time when this commodity—say cotton, was at its ordinary value, and at a moment when the whole of it was in the hands of the merchants who imported it, the riches of the rest

of the inhabitants being estimated, for example, at a million of pounds weight of gold, or twenty millions of sheep, or twenty millions of quarters of wheat, and the riches of the holders of cotton, at one thousand pounds weight of gold, or twenty thousand sheep, or twenty thousand quarters of wheat, the sum of the individual riches of the whole community would be one million one hundred thousand pounds weight of gold, &c. If the estimate were taken at the moment, when, by the deficiency of one half of the supply of cotton, the remaining half of the usual quantity of cotton, in the hands of the holders of that commodity, were increased in value to vastly more than one thousand pounds weight of gold, and if the riches of the rest of the community were supposed still to be equal, as before, to one million pounds weight of gold, the sum of individual riches in the community would appear to be considerably increased, though the quantity of commodities in the country was actually diminished.

But there are collateral effects produced by a sudden rise in the value of any one commodity, which have been noticed.

It is impossible for persons to pay the increased price of one commodity without restricting their consumption of some other commodities; and this decrease of demand for these commodities, if not met by some new source of demand, would lessen the value of the whole quantity of them in the market, in the same way that the decrease of the quantity of cotton raises the value of the whole quantity of cotton in the market. The decrease in the value of these commodities, therefore, and the consequent decrease in the riches of the individuals who hold them, would counteract the effect of the deficiency of cotton, in increasing the riches of the holders of cotton. It would do more than counteract it; because the diminution of demand reduces the value of the total of each commodity, by a sum greater than that by which such diminution is expressed.

On the other hand, however, the increased riches of the holders of cotton would probably afford a new source of demand for these commodities, equal, or nearly equal, to that which had been dried up by the necessity of saving imposed on the consumers of cotton; and the sum of individual riches, therefore, would probably remain truly increased by the diminished abundance of the community.

It is no doubt true, that, as the value of any commodity depends upon the proportion between the demand for it and the quantity in the market, and since those commodities, for which there is the most constant demand, are always in the greatest plenty, and are consequently the least affected by small variations in demand, while other commodities, differently circumstanced, are extremely affected by such variations, it would depend very much on the habits or caprice of the people,

whether the saving they made, in order to acquire, as nearly as possible, their usual quantity of cotton, would fix itself on those articles which were much, or on those which were little affected in value by a variation of demand.

But it is more than probable, that the saving would be made in those articles, which, from their nature, or the habits of the community, could be the most easily spared; but were, to a certain amount, in general use;—that is, in those for which there is, in ordinary times, a certain, but not the most extensive demand, and which, consequently, are usually supplied in a certain, but not the greatest quantity.

Thus, to take the illustration employed on this subject by a noble author*, suppose a sudden deficiency in *sugar*, and consequent rise in its price, should induce any little community to save in the articles of *butcher's meat*, *wine*, and *mustard*, in order to make up the supposed sum of 150*l.*, the amount of the increase in the value of the whole quantity of sugar in the market. If, according to the noble author's supposition, the saving were made in each of these articles equally, 50*l.* in butcher's meat, 50*l.* in wine, and 50*l.* in mustard, there is no doubt that the abstracting of 50*l.* of demand from mustard, would produce a much greater pro-

* Enquiry into the Nature and Origin of Public Wealth, by the Earl of Lauderdale.

portional decrease in the value of that commodity, than the abstracting 50*l.* of demand from wine would produce in the value of wine; because 50*l.* bear a much larger proportion to the value of all the mustard usually in the market, than to that of all the wine. Mustard is a cheap commodity, because very little of it is used, and it is easily raised. The whole quantity at any time in the market is small, because very little of it is wanted. Again, the abstracting 50*l.* from the demand for wine, would, for the same reason, produce a greater proportional decrease in the value of that commodity, than the abstracting 50*l.* from the demand for butcher's meat would produce in the value of butcher's meat. It is true, that wine is dearer than butcher's meat; because, though the demand for it is less, the quantity bears a smaller proportion to the demand. But though an equal quantity of butcher's meat be much cheaper than wine, the whole quantity of butcher's meat in the market is of greatly more value than the whole quantity of wine: consequently, 50*l.* bear a less proportion to the value of the whole quantity of butcher's meat, than they do to the whole quantity of wine. It is, however, more than probable, that the chief saving would be in wine. The whole quantity and value of mustard, consumed by any of the families, would be so small, that any possible saving in that article would produce very little effect on their expense.

On the other hand, butcher's meat being an article of the first necessity, no very great deduction could take place in the consumption of *it*. Greatly less than 50*l.*, therefore, would be all the saving in mustard, and greatly less than 50*l.* would be all the saving in butcher's meat, while that in wine would be greatly more.

Suppose the saving in mustard and butcher's meat, taken together, should amount only to 50*l.*; then the saving in wine must amount to 100*l.* From what has been said, it is evident that the sum total of the riches of the holders of wine would, in this case, be reduced in a ratio out of all proportion to the reduction which would take place in the sum total of the riches of the holders of butcher's meat, or of mustard.

It would depend on the proportion 50*l.* bore to the whole quantity of butcher's meat and mustard, by how much more than 50*l.* the whole quantity would thus be reduced in value. Something more it must be reduced, because the abstraction of demand always reduces the value of a commodity somewhat more than the demand abstracted amounts to. It would, in like manner, depend on the proportion 100*l.* bore to the whole quantity of wine, by how much more than 100*l.* the whole quantity of wine would be reduced in value. The value of the whole butcher's meat and mustard would, probably, be reduced very little more than 50*l.*: that of the whole wine, probably, much more than 100*l.* The sum of individual riches, consisting in wine, butcher's meat, and mustard, taken together, would be reduced considerably more than 150*l.*; while the increase of that consisting in sugar, by the supposition, would amount exactly to 150*l.*

These effects, however, would probably be, to a great degree, counteracted by the increased demand for the various articles of consumption, arising from the increased riches of the holders of sugar. If the rest of the community were necessitated to save 150*l.*, in consequence of the increased price of that article, the dealers in it would be precisely to the same extent more wealthy than before. It is very probable, that they would spend their additional wealth in purchasing so much more than their former consumption, of the articles in which the rest of the community had been induced to save. The same habits, and the same motives, would lead the saving of the one, and the increased expense of the other, to fix on the same class of articles. No great additional dignity, or enjoyment, could be derived from an increased consumption of mustard; while of butcher's meat they must have always consumed nearly as much as they could desire. Wine would appear at once sufficiently expensive to consume, and to display their wealth; and a sufficiently usual indulgence, to attract their taste. A sum, therefore, would be added to the ordinary

demand for wine, butcher's meat, and mustard, precisely equal to that abstracted;—that is, the demand for wine, butcher's meat, and mustard, would remain the same, and the wealth of the holders of these commodities would remain the same. If, as is probable, part of the increased gains of the holders of sugar, instead of being expended on articles of consumption, should be applied to the extension of their trade, it is also probable that the whole additional demand on the wealth of its consumers would not be met by savings in their consumption of other articles; but that a part would be withdrawn from the capital usually employed in the purposes of their respective trades, or usually accumulated, and lent out to others to be so employed. On the whole, therefore, probably the different collateral effects would balance, or go near to balance, each other; and the sum of individual riches would remain increased, by the additional value of the deficient commodity to the holders of it.

It is obvious, therefore, that the sum total of the *riches of individuals,* in any country, can form no criterion of the *abundance of that country.*

It is no less true, that the sum total of the riches of individuals, in any country, forms no accurate measure of the *wealth* of that country. The riches of individuals consist in the possession of commodities valuable in exchange with each other, no less than with foreigners. The wealth of a nation consists in the possession of commodities valuable in exchange with other nations, for which it may obtain, either other commodities for the gratification of its inhabitants, or commodities for the use of its troops abroad, or the services of the inhabitants of other nations, if it requires them. Whether the holders of cotton can obtain from their fellow-citizens, for the whole of that commodity which they possess, one thousand pounds weight of gold, twenty thousand sheep, or twenty thousand quarters of wheat, or whether they can obtain one thousand five hundred pounds weight of gold, thirty thousand sheep; or thirty thousand quarters of wheat, is, so far, a matter of no consideration to the country. It will possess the same number of sheep, and the same quantity of gold, and of wheat; and, if it export these articles, it will be able to export the same quantity, and of the same value in the foreign market, as before. If cotton be imported for the purpose of being exported again in a manufactured state, and the quantity imported be reduced, it will be able to export less of these goods:—but this circumstance will increase their value; and it may, therefore, possibly, be able to export as much of these in value, though not in quantity, as before. All this, however, depends on quite other circumstances than those which vary the sum of individual riches.

It is said, without, as I think, sufficient

consideration, that the denying that the sum of individual riches constitutes the amount of national wealth, arises from having overlooked the qualification under which that proposition is announced; namely, provided no individual is enriched at the expense of another individual *. But the fact is, that the notion of estimating the wealth of a country, by summing up the riches of the individuals who inhabit it, is absurd in itself, and this absurdity is not lessened by any qualification. Thus, in order to calculate the wealth of Great Britain, the value of all the lands and houses has been taken at so much, of all the raw materials on hand at so much, and of all the manufactured goods at so much; and it has been supposed, that the adding these, and the like estimates, together, gave the amount of the publick wealth. The objection to this mode of calculation is not, that in estimating the riches of one person, allowance is not made for such part of his riches as can only exist by means of transferring to his pocket part of the riches of some one else:—for instance, that, in estimating the wealth of the holder of manufactured goods, it is not considered that their value to the holder consists merely in what he can obtain for them out of the pocket of some other person, say, of the holder of raw produce: for in this way you would annihilate all wealth whatever. The

* Edinburgh Review, for July 1804, Art. 8.

riches of the holder of raw produce consist merely in what he can obtain for it from the manufacturer; and if you are to deduct from his wealth, all that must be paid him by the manufacturer, and from that of the manufacturer, all that the former must pay him, you will leave nothing behind for either. The ordinary wealth of any person, calculated from the average value of the commodity he holds, is as much estimated at the expense of other persons, who are its purchasers, or are supposed ready to become so, as his extraordinary increase of wealth from a sudden advance in its value.

The error of this mode of calculation consists in this, that our estimate is of necessity made in terms merely relative, and relative to one set of circumstances, when we speak of the wealth of individuals, and to another, when we speak of the wealth of nations. We can estimate wealth only by referring to the value in exchange of the commodities which compose it; and when we speak of the wealth of individuals, we refer to the value of the commodities they possess in exchange with other individuals, whether residing in the same or a different country. But when we speak of the wealth of a nation, we refer to the value of its commodities in exchange with foreign nations only. As far as internal exchange takes place, it is evidently matter of indifference, in our present view, in what proportions one commodity is exchanged for ano-

ther. If all the cotton in a country be exchanged for two thousand sheep, or one hundred pounds weight of gold at one time, and the same quantity be exchanged at another, in consequence of an increased internal demand for cotton, for four thousand sheep, or two hundred pounds weight of gold, the *plenty* in the country will remain unaltered, since in both cases it will possess the same quantity of cotton, of gold, and of sheep. But the sum of individual riches will be increased. If, on the hand, the quantity of cotton be, by fire or some other accident, reduced to one half, and there are no means of supply, so that the half which remains is exchangeable for three thousand sheep, or one hundred and fifty pounds weight of gold, the sum of individual riches must, in this case, also be taken as increased: for the estimate being made in gold, the common standard, the whole cotton will be valued at half as much more gold as before; and the relative proportion between sheep and gold remaining unaltered, the whole sheep will be valued at the same quantity of gold as before, and the gold itself will remain as before. Precisely the same thing would appear, if the estimate were made in sheep, instead of gold. The plenty of the country meanwhile would be diminished by one half of the cotton. Possibly its wealth might be diminished also, as it would export less cotton goods. But it might happen that its wealth would not be diminished: for, if the supply of cotton goods depended on the country in question, their scarcity would enhance their value in foreign countries, in as great a proportion as that of the raw material had been enhanced at home.

Neither does this distinction between the sum of individual riches and the mass of publick wealth arise from any confusion between the notion of *riches* and that of *the possession of money*,—an observation that appears hazarded with yet less consideration than the former*. I am not aware of any means by which the wealth, either of an individual or of a state, can be aptly expressed, but by reference to some common standard of value; by comparison with which, the exchangeable value of the commodities which constitute that wealth may be ascertained, for whatever other commodities it may be desired to barter them. Nor can I perceive what alteration would be made in the proposition above stated, if instead of saying, that the quantity of cotton in the market had varied in value from one hundred to one hundred and fifty pounds weight of gold, I should say, that it had varied from one hundred to one hundred and fifty pounds weight of gold, or from two thousand to three thousand sheep, or from four hundred to six hundred bullocks, or from two thousand to three thousand quarters of wheat, and so on, enumerating, as alternatives, all the commodities whose ascertained relative values are already described, by referring them all in common to their value in gold.

* Edinburgh Review, ub. sup.

To illustrate this matter shortly—If all the cotton be in the hands of one man, and, by the loss of half of it, the aggregate value rises from one hundred to one hundred and fifty pounds weight of gold, the holder of cotton is truly the richer by fifty pounds weight of gold. If he sell his cotton to a grazier for sheep, he will get more sheep for it. The grazier is nothing the poorer by the exchange; for, if he have parted with sheep to the value of one hundred and fifty pounds weight of gold, or three thousand quarters of wheat, he has received in lieu of them as much cotton as he can exchange for one hundred and fifty pounds weight of gold, or, three thousand quarters of wheat. If he again exchange the cotton for three thousand quarters of wheat, the corn-dealer is nothing the poorer, because, with the same quantity of cotton, he can purchase as much of any other commodity as he could before have purchased with his three thousand quarters of wheat.

If we pursue this transfer of cotton till it is purchased by the manufacturer, we shall find the manufacturer nothing the poorer for the increased price of his raw material. He charges it on his manufactured goods. Neither is the consumer any thing the poorer;

for, if cotton goods are dearer, he must content himself with a less quantity, or of an inferiour price; and if he still cannot bring his consumption within the limits of his usual expense in this article, he must save the difference, by lessening his consumption of other articles. His abundance, therefore, or his enjoyments, may be curtailed, but his wealth will remain the same. If cotton goods were withdrawn from the market altogether, so that none remained to be purchased at any price, should we esteem the persons accustomed to consume them the *poorer*, on that account, so long as they retained those other commodities to the same extent, and of the same value, of which they used to exchange a part for cotton goods?

If the sum of individual riches were taken, it would be found that the wealth of the importer of cotton had increased one half, while that of the grazier, of the corn dealer, of the manufacturer, and of the consumer, had remained the same. The wealth of the country, meanwhile, according to Lord Lauderdale's definition, that is, its plenty, had decreased. Its wealth, according to our definition, that is, the value of its commodities, in exchange with other countries, might either be diminished by not having so much to export, while the deficiency might not bear such a proportion to the quantity in the general market of the world as adequately to raise the price; or, it might bear such proportion,

and the wealth of the country might not be diminished; or it might bear a greater proportion, and the wealth of the country be increased.

The collateral effects of the increased internal price of one commodity on the value of others, have been noticed above. The loss of national, as well as individual wealth, occasioned by this disturbance of the accustomed course of commerce, is not the immediate object of enquiry.

Before quitting this subject, it is worthy of remark, that since there is no such thing as absolute value—since the value of one commodity is ascertained only by comparing it with another—and since the relative values of each depend on the amount of the occasional demand for each, compared with the respective quantities of each actually in the market, nothing is more surprising, than that to the accurate and philosophical mind of Dr. Smith, it should have appeared possible to find *a standard of value*. It is in vain to say that he could not have meant this, for he has written a whole chapter to prove it: and on the notion that labour affords an immutable standard of value, he rests the support of his fundamental distinction between the real and the nominal price of commodities*.

Nothing, however, is more true, than that labour varies in value like every thing else; and

* Wealth of Nations, b. 1, c. 5.

what Dr. Smith applies to the precious metals may be, with equal truth, applied to labour, and to all other commodities whatever. "As "a measure of quantity, such as the natural "foot, fathom, or handful, which is continually "varying in its own quantity, can never be an "accurate measure of the quantity of other "things, so a commodity which is itself con-"tinually varying in its own value, can never be "an accurate measure of the value of other "commodities." The truth is, that this notion of some natural standard of value is entirely derived from the confounding two things essentially different,—*value*, and *usefulness*, —or *value in use*, and *value in exchange*. Though it were true, in one sense, that "equal quantities of labour at all times "and places, may be said to be of equal value "to the labourer, and that in his ordinary state "of health, strength and spirits, in the ordi-"nary degree of his skill and industry, he "must always lay down the same portion of "his ease, his liberty and his happiness*,"— this would be merely the value of his labour in use. This would be the sacrifice of enjoyment which it cost him to part with it. But it is very far from true, that equal quantities of labour will, at all times and places, procure for the labourer equal quantities of any, or of all, other commodities. This is its value in exchange, and depends on the quantity of

* Wealth of Nations, *ub. sup.*

labour in the market, and the demand for it, compared with the quantity of those commodities against which it is to be exchanged, and the demand for them.

The same quantity of grain of the same quality will, in the ordinary state of a man's health, contribute in the same degree to his nourishment; and if he part with it, being equally hungry, he will, at all times and places, sacrifice the same portion of benefit and enjoyment. This is the value of grain in use, and if value in use were the measure of value in exchange, grain might then be said to be, at all times and places, of equal value. The same thing is applicable to gold and silver, and to every thing else.

It is obvious, therefore, how important it is strictly to confine the use of the word *value* to one sense; and if Dr. Smith could be imposed on by so gross a confusion of terms, we may infer, in the first place, that in so abstract a subject, no care should be omitted to assure ourselves of the accuracy of our ideas, and, in the second, that no opinion should be adopted on authority.

ESSAY II.

Of Money and Price.

It is remarked by Dr. Smith, that, though commercial nations have found it convenient to coin different metals into money; gold for larger payments, silver for purchases of moderate value, and copper, or some other coarse metal, for those of still smaller consideration, they have always considered one of those metals as more peculiarly the measure of value than any of the other two; and that this preference seems generally to have been given to the metal which they happened first to make use of, as the instrument of commerce: that originally, a legal tender of payment could only be made in the coin of that metal; the proportion between the values of the different sorts of metallick money being left to be settled by the market; but that in process of time, it was found convenient to ascertain this proportion, and to declare, by a publick law, that a guinea, for example, should exchange for one and twenty shillings.

It is not, however, universally true, that, "in this state of things, and during the

"continuance of any one regulated proportion of this kind, the distinction between the metal, which is the standard, and that, which is not the standard, becomes," as Dr. Smith says, "little more than a nominal distinction*." Two things would be requisite for this purpose. In the first place, that the quantities of the respective metals in the pieces coined of them, should always remain the same as they came from the mint; and secondly, that the proportion established by law, should always remain the exact proportion which the metals actually bear to each other in the market.

1. If one of these coins be kept up to the standard weight, and the other be suffered to fall below it, then one of two things must happen; either the coin which has kept its weight must disappear, or the debased coin must cease to be a legal tender. If the coin that has been suffered to fall below the standard weight, continue a legal tender in large payments, it will bring down the coin which has retained its weight to its own value. If the silver coin of England be supposed reduced by wear 25 per cent., and it were a legal tender in large payments, a debt of 40*l.* would be extinguished as well by the payment of eight hundred shillings, as by the payment of thirty-eight guineas and two shilling. Whereas, if the gold coin be supposed

* Wealth of Nations, b. 1, c. 5.

unworn, thirty-eight guineas and two shillings would, in a foreign country, where English coin passes only as bullion, be worth as much as one thousand shillings. As there are laws, with severe penalties, against the exportation of gold coin, the guineas would endure a certain degree of depreciation, but as soon as the profit of exporting them came to exceed the risk, the gold coin would disappear, and no man would keep gold to pay English debts, which might be as well paid in silver, with a saving of twenty-five per cent.

If silver be declared not a legal tender in large payments, then the gold coin which has kept its weight, will bring up the silver coin from its *actual* to its *regulated* proportional value. The gold coin will remain in England, being of rather more proportional value there than elsewhere, and twenty-one shillings will pass for a guinea in coin, though the quantity of silver they contain, would not exchange as bullion for quite so much as three-fourth parts of a guinea.

2. If the proportion established by law, be not the proportion which the metals actually bear to each other in the market, the distinction will also be more than a nominal distinction. If silver were estimated twenty-five per cent. higher, in relation to gold, than its actual marketable value in exchange for that metal, it is obvious that the same effect would take place, as if it were by wear reduced in the same proportion

below its actual value, its actual and regulated value being in this case supposed the same.

"In reality," says Dr. Smith, "during "the continuance of any one regulated pro- "portion between the respective values of "the different metals in coin, the value of "the most precious metal regulates the "value of the whole coin*." But this seems hardly correct. It is true, that twelve copper pence, though not worth seven pence in silver, will exchange for a shilling, and twenty-one worn silver shillings for a guinea of full weight. Twelve, or twenty-one ivory counters would do the same. The copper pence and the shillings pass, however, any more than the counters would, only as fractional parts of the coin whose value is unimpaired, but are not received in large payments as equal to the value they represent. In fact, it is that coin, which is received as legal tender in large payments, which regulates the value of the whole coin, if there be only one coin so received. If there be two or more coins equally so received, that coin, which is the most debased, or the highest rated, will regulate the value of the whole coin. Payments will generally be made in it, because they can be made so much the cheaper. Whatever quantity of other coins of full weight, or more nearly approaching to their

* Wealth of Nations, *ub. sup.*

full weight, remain in circulation along with it, they will partake of its debasement. But this quantity will soon become very small, when once the profit exceeds the risk of exporting them. The like will happen, if there be only one coin legal tender, and that coin be debased.

This is well illustrated by the history of English money*. Till the 18th Edward III. silver was the only money ordained by law to be received at a fixed value, though so early as 41st Henry III. gold pennies were coined, each weighing double the weight of the silver pennies, then, and long after, the highest denomination of silver coin. And in this coinage, gold was rated to silver as ten to one, and ordained by proclamation to pass at that rate. But this valuation being above the market price, they were represented against by the citizens of London, who obtained a proclamation, declaring that they should pass only by consent. In the 18th year of his reign, Edward III. coined gold florins valued, in the proportion of gold to silver, as twelve to one. But these also were too high. They were refused in payment, and withdrawn.

In the same year, however, this king coined gold nobles, in which he valued the gold, compared to silver, as eleven to one, and which he made current by proclamation.

* See Letter to the King, by the Earl of Liverpool.

They were taken at this rate, and gold coins then became, equally with silver, legal tender.

From this period to the 2nd of James I., two centuries and a half, various alterations were made in the gold coins, in order that they might keep pace with the silver coins, then undergoing frequent, and rapid debasements. But the just relative value, according to the market rate, seems to have been sufficiently attended to, till towards the end of the period; for it is not known that any complaints were made, or inconvenience suffered in this respect. The utmost variation in this long period was twelve per cent.; and it is remarkable, that the highest valuation was in 20th Edward III., when gold was rated at about $11\frac{1}{2}$ to 1. The average was about $11\frac{1}{7}$ to 1. The quantity of gold in coin was so small, and trade so much in its infancy, that it is probable a slight deviation from the exact value would not have excited much attention.

From the 2nd of James I. to the 15th of Charles II. a very rapid rise was constantly taking place in the value of gold, compared to silver. The mines of Potosi had been discovered about twelve years before the beginning of the reign of Elizabeth, and the inconvenience resulting from the consequent reduction in the value of silver, compared to gold, began to be felt in England about the commencement of that of James. Gold, without a due alteration of its regulated proportional value, as its value rose in the market, continued, equally with silver, a legal tender. The consequence was, that all payments were made in *silver*, as being overvalued, and the *gold* not submitting to the depreciation, was exported to foreign countries, where it found its true value, so that almost all the pieces coined of it disappeared.

This obliged James I., in the second year of his reign*, to raise the regulated value of gold eleven per cent. or thereby, "which produced for six years, more plenty of gold "than ever was before†." But it appears that the value of gold continued to rise so rapidly, that it began again to leave the country: and in the ninth year of his reign‡, king James was induced further to raise its regulated value ten per cent. But this rise was too great; the *silver* disappeared as rapidly as the *gold* had done, and still greater inconvenience was suffered than before.

So far, however, from applying the natural remedy, after useless proclamations had been issued for fixing the prices of foreign gold and silver, and enforcing the laws against exporting, not merely the coin, but gold and silver in any shape whatever, after fruitless consultations had, and one or two nugatory schemes proposed, the regulated value of gold was raised, in the seventeenth year of king James's reign, yet a little higher. The

* 1604. † Stowe's Chron. ‡ 1611.

inconvenience felt, may be judged of by the remedies attempted. Exporters were severely punished; melting the coin prohibited, as also the excessive use of *foliate*, the making gold and silver thread, and even the selling gold and silver bullion, except for enamel and fine works, to any person but the officers of the mint, even by one goldsmith to another. It cannot be doubted, that all these measures were acknowledged in subsequent proclamations, to be completely ineffectual.

The same thing went on during the reign of Charles I., in which one goldsmith is said to have melted annually, for six years together, from 1624 to 1630, 30,000*l.* worth of the silver coins in most general request.

In this reign, it appears that a large importation of silver was procured by a contract made by authority of government with the king of Spain, of which a considerable proportion was, by express command, brought to the mint from 1630 to 1643; but to so little purpose, as a remedy for the increasing scarcity and debasement of the silver coin, that we find the subject taken up, though ineffectually, by the house of commons in 1640, and again by parliament in 1647; when an invitation is held out to bring bullion to the Tower, an ordinance passed, prohibiting the currency of *clipped or diminished silver coins*, except for a limited time, at 4*s.* 10*d.* per ounce, and another ordinance, *permitting, as a special grace*, the exportation to the East Indies of 6000*l.* in foreign coin and foreign bullion of silver.

It is most probable, that the errour, committed by adhering to the valuation of James I., was not at this time very considerable, for several reasons: 1. James I. was obliged to raise the gold, by its being manifestly under-rated; and he states in his proclamation, that he was induced to raise it ten per cent., because it passed on the continent for silver at so much more than its regulated value; namely, his twenty shilling pieces for twenty-two shillings. 2. Had the errour been very striking, it is probable the remedy would have occurred, since the proper remedy had before occurred, when gold disappeared. 3. Several years had elapsed, during which, the errour had been diminishing by the increase in the marketable value of gold, compared to silver; and in a few years more, this cause actually did restore the equilibrium. Hence it appears, that a small errour in this matter produces the most important consequences.

About the commencement of the government of the Commonwealth*, as is supposed, the progressive rise in the relative value of gold, by the increasing plenty of silver, had accomplished the cure of the evil produced by the errour committed by James I. about forty-three years before. The exportation of silver coin ceased; silver was brought to the

* 1649.

mint in greater plenty than gold; and we hear of no more complaints of the the coin being clipped and reduced.

The value of silver continuing to decrease, Charles II. in the fifteenth year of his reign*, *i. e.* three years after his Restoration, was under the necessity of again raising the denominated value of gold in his coins.—He made a new coinage of twenty shilling pieces, afterwards called guineas, half guineas, double guineas, and five pound pieces; in which gold was estimated to silver as fourteen and a half to one, being a rise of eight and a half per cent.—Till this period, gold had, by proclamation, been, equally with silver, legal tender. But, on this occasion, though the proportion was thus estimated in the mint indenture, no proclamation was issued for making the new coins current at any fixed rate; which by law is necessary to make them legal tender at a fixed rate. *Silver*, therefore, became alone legal tender, "the gold coins varying," as Mr. Locke says, "in their value, according to the current rate," and passing, during the reigns of Charles II. and James II. at from twenty-one to twenty-two shillings, or, on an average, at twenty-one shillings and six-pence. At this average, the actual comparative value of gold to silver was fifteen to one.

Lord Liverpool very justly remarks, that "those who advised their Sovereign, no further

* 1663.

"to interpose his authority on this occasion, "certainly acted wisely; for if he had obliged "the people to receive these gold coins at the "rate before mentioned, they would certainly "all have been melted down and exported, "as fast as they were issued from the mint*." At least we may say with certainty, that those, which were not exported, would have been clipped, or otherwise reduced in weight, to bring them to their true proportional value. But, lord Liverpool proceeds to say, "that "the additional value, which the people gave "to these gold coins, above the nominal value "at which they were rated in the mint inden-"ture, evidently proves, that *the publick was* "*then disposed* to measure the value of every "thing bought and sold by the silver coins, "*as best adapted to the state of our com-*"*merce at that time.* These gold coins, "therefore, took their natural, or intrinsick "value, compared with those of silver, and "rose in their price, in like manner with "every other commodity." It is surprising, that it did not occur to this noble author, that this circumstance arose out of no whimsical disposition of the people, nor was in the least connected with the state of commerce; but followed of necessity from the law,—by which, though, where a man had contracted to pay a certain number of guineas, it might be, and was made, a question, whether, in

* P. 68.

ascertaining the damages for breach of contract, the guineas could be valued at more than twenty shillings, the estimated value by the mint indenture*; it was undoubted, that no man, owing a debt in pounds sterling, could be compelled to pay in guineas, they not having been made current by proclamation, but only in the current silver coin, at the rate fixed by proclamation. If, therefore, he chose to pay in guineas, he would only pay at their marketable value, nor would his creditor receive them for more.—Even where the contract was for *guineas*, the Courts got at the justice of the case, by *intending* that the contract had been for forty shilling pieces, also called *guineas*, or *double guineas*, and that the sum claimed, being truly the then market-able value of the single guinea, was only a balance unpaid of the greater legal value of the larger coins †.

Under these circumstances it is evident, that the silver coins were in truth the only money, and that the gold pieces, though so far coins, as to be under the protection of the laws against imitating or debasing the coin, were not *legal tender*, or, properly speaking, money. It followed, that there was no more temptation to export, or impair the gold coin, than to export, or impair any other commodity, for which there existed a demand,

* Salkeld's Reports, p. 446, where the guinea is valued at 30*s*. 8 W. & M.
† Ibid.

and which was allowed to find its true value in the market.

It will be observed, that, all this while, the coins of the country were received by tale, and not by weight. A crown piece, or a shilling, whether worn or of full weight, was equally capable of discharging a debt of a fourth, or a twentieth part of a pound sterling; whence a temptation arose to melt down, and sell as bullion, the heavy pieces, while the lighter were found to pass equally well as currency. Accordingly, the attention of the legislature was directed, from time to time, to the remedying this inconvenience, and encouraging coinage; people being unwilling to carry bullion to the mint, to receive for it, in coin, only the weight they carried there, when a less quantity of silver, in the current light coins, was equally valuable in circulation. In 1666, an act was passed for encouraging coinage, by which it was ordained, that the whole expense should be borne by the publick, instead of half, as had been the case before that time. This act was renewed in 1672, and, in 1680, the house of commons appointed a committee for regulating the coinage, and continuing the law concerning it; but no report was presented*. In 1685, the subject was resumed, and a bill passed for reviewing, and continuing, the two former acts; and, in 1689, a committee was ap-

* Commons' Journals.

pointed, by the same house of parliament, "to consider of the great abuses in impairing the coin of the kingdom, and how the same may be prevented." But this committee presented no report *.

It is obvious, that the gold coin, being permitted to find its value in the market, in relation to the silver coin, which alone was the established money, there could be no temptation to impair it; and the complaints accordingly made of melting down, and impairing the coins, were confined to those made of silver. Accordingly, on the 9th of April 1690, a petition of divers working goldsmiths, in and about the city of London, was presented to the house of commons, setting forth a great scarcity of silver, in consequence of a great exportation, not only by the East India Company for many years, but by divers Jews, and merchants, who had bought up great quantities for exportation, and given three-half-pence per ounce above the value; which hath encouraged the melting down of much plate, and *milled new monies*, whereby, for these six months past, not only the petitioners, in their trade, but the mint itself, hath been stopped from coining.

This petition was referred to a committee, who on the 8th of May following, reported, "that great quantities of silver had of late "been exported, chiefly by the Jews, and "were ready to be exported, which did make

* Ibid.

"it scarce, and dear, to the utter ruin of the "working goldsmiths; and that English, as "well as Jews, would, doubtless, for their "advantage, melt down our *crown-pieces*, and "sell for foreign silver, to the undoing of the "whole nation for want of money, unless a "present remedy were found;" "that very "small quantities had of late been coined, and "the profit of melting down 1000*l.* of milled "money for exportation was 25*l.* ready money, "silver being coined at the mint at 5*s.* 2*d.* and "sold for exportation at 5*s.* 3½*d.*" But the committee could not agree on a remedy; whereupon the report was re-committed, with instructions to prepare a bill, and to sit *de die in diem*, with power to send for persons, papers, &c. Notwithstanding the anxiety expressed, however, nothing was done. On the 19th of May, the committee presented a bill "to discourage the exportation of bullion, and to encourage the importation and converting thereof into the current coin of this realm." But it was only read a first time, and dropped*.

Two sessions of parliament were allowed to pass, without any attempt being made to remedy the evil, which continued to increase; but on the 8th of December, 1692, sir William Temple brought in a bill, "to prevent "the exportation of gold and silver, and "melting down the coin of the realm." This bill was read a first and second time without opposition; but the motion for its committal

* Commons' Journals.

was carried only by a majority of an hundred and thirty-seven to an hundred and twenty six; whereupon it was laid aside*.

In 1693, an act was passed for discovery of clippers of the coin; and in 1694, a committee was appointed to receive proposals for preventing the counterfeiting and clipping the coin, and to report †.

The evil had now arisen to an alarming height; and with the defect in the law, whereby the coins were suffered to pass by tale, without regard to weight, other causes had co-operated to produce the most formidable debasement and scarcity. To these causes, it will be proper presently to advert.

In the mean while it is to be observed, that from the 18th of Edward III. to the 15th of Charles II., the gold and silver coins were equally legal tender, at certain fixed proportional values. When, towards the reign of James I., the value of silver had so decreased, that gold was greatly under-rated in the coin, all payments came to be made in silver. The gold was exported and disappeared, none being brought to the mint, where its value was lower than elsewhere.

When, in the second year of king James's reign, this errour was corrected, the value of gold in coin, as compared with silver, being raised probably something above its market-able value, the gold, of its own accord, rapidly returned, and remained in greater abun-

* Ibid. † Ibid.

dance than at any former period; till the uniformly increasing importations of silver from the new world, again raised its value considerably above its estimated value in coin, when it again began to disappear, and was again caused to flow back, with a fuller stream than ever, by again raising its estimated value.

When thus, in the ninth of James I. the value of gold in coin came to be over-rated, that is, when the value of silver came to be under-rated, the very same thing instantly happened to silver, which, under the same circumstances, had so lately happened to gold. All payments now were made in gold, because they could be made so much the cheaper. All the heavy silver coins disappeared, because they were worth more as bullion than as coin. No person carried silver to the mint, for the same reason. The silver coins were clipped to make a profit, since they would pass only as counters; and none remained in circulation but such as were worn or reduced.

Thus, the history of this short period of seven years illustrates, in the clearest manner, the position, that, when coins made of two metals, are each a legal tender, any errour, in their relative estimation, instantly causes that metal, which is over-rated, to become the sole measure of property, and medium of exchange, banishing from circulation that which is under-valued. But, if further illustration were wanting, it is abundantly

supplied by the history of the next thirty-six or forty years, during all which time the scarcity of silver, and debasement of the silver coins, continued to increase, in spite of all means the government could adopt; so long as gold continued to be over-rated, and both metals remained legal tender *.

When, in the reign of Charles II., silver became alone legal tender, the gold coins found, in the market, their price in silver money, like any foreign coin, or other commodity; the stamp only ascertaining the fineness of the metal, and being, probably, if they appeared unworn, deemed, for the most part, evidence of their weight. It appears, therefore, that down to the Revolution, a period of twenty-five years, the gold coins existed in sufficient abundance, and without material debasement. During the same period, the silver coins, though not always in equal plenty, or equally unreduced in weight, were subject to no cause of diminution in either respect, but what arose from their passing by tale, without reference to weight.

By wear, these coins must have become, in the course of time, unequally reduced; and they were, besides, originally coined of unequal weight, so long as the practice of coining by the hammer continued; it being deemed at the mint sufficient, in coining by the hammer, if a certain weight of metal were struck into the regulated number of

* Note [A]

pieces, without ascertaining very accurately, that these pieces were all equally heavy*.

Hence it must have arisen, that the heavy prices would be generally culled out, so soon as the difference became such as to afford a sufficient inducement, and would be melted, or sweated down, or clipped; for which latter operation, the want of graining round the edges of the hammered money rendered them particularly adapted, without being very obviously altered in appearance. The price, therefore, of silver bullion, or its value in the current silver money, would, as well as the price of other commodities, be estimated, not according to the quantity of silver, which the current silver money was supposed, by the regulations of the mint, to contain, but by the quantity contained in the average of the current coin actually in circulation, composed of all the light pieces, and of some heavy ones which remained. Though, by the regulations of the mint, an ounce of standard silver bullion was actually coined into five shillings, and two twelfth parts of a shilling, or three ounces into fifteen shilling pieces and one sixpenny piece,

* Locke on Money, sir J. Stuart Pol. Econ. b. 3, c. 5, § 3.

We learn from Mr. Lowndes, that the practice was, to cast the silver into long bars. Those bars were then cut with shears into several square pieces of exact weights, which were afterwards, with the tongs and hammer, forged into a round shape, and then blanched, and stamped with a hammer. (Report, p. 94.)

three ounces of standard silver bullion, could not be purchased for fifteen shillings and sixpence, because these sixteen pieces of the coin actually in circulation, would not, on the average, weigh nearly so much as three ounces. Not only, therefore, would the silver coins be reduced in number by melting the heaviest, and in weight by clipping, and other fraudulent practices, but a sufficiency of silver bullion would no longer be carried to the mint to supply the tear and wear, since it would be coined at a loss. Just as if any one were to issue counters, or tokens, at a shilling a piece, some made of gold, some of silver, and some of ivory. Those of gold and silver would very soon disappear, being worth, as metal, the former, perhaps, one and twenty times as much, and the latter half as much again, as what the issuer undertook to pay for them as counters; nor would any person carry gold and silver to have it struck into such shilling counters, when these metals were so much more valuable in a different shape.

That during the twenty-five years which elapsed from the coinage of Charles II. to the year 1690, the silver coins were constantly suffering debasement,—that the heaviest were exported at a profit,—that the supply from the mint was inadequate to the demand,—and the public inconvenience considerable, is apparent from the foregoing detail. And it appears from the report of the committee of the house of commons, on the 8th May, 1690, little more than a year after the accession of William and Mary, and before the commencement of the war, that the price of silver bullion, purchased in the silver currency, was two and a half per cent. above the mint price; consequently, that, at that time, the silver currency was debased more than two and a half per cent. For it is observable in all cases of a debased currency, the price of bullion or other commodities, is not exactly in proportion to the debasement of the currency, but always a little, frequently a great deal, under it. It is some time before prices accommodate themselves to the state of the currency. The currency, on the other hand, unless in the case of discredited paper, always maintains, during the course of depreciation, a credit in publick opinion somewhat above its true value; while the depreciation meanwhile keeps going on, and outstrips, as it were, the efforts of prices to keep pace with it.

The debasement and consequent depreciation of the currency, at the time of this report, would seem to be entirely owing to the causes above-mentioned; and these causes would, therefore, appear sufficient to induce great inconvenience to commerce, and to admit of no other remedy but making the coin pass by weight, as well as by tale. All sight, however, of these was lost in the more formidable debasement soon after produced by other and more powerful causes, operating with a rapidity hardly equalled in history.

In the year 1695, the silver coin in most general use was reduced in weight nearly, if not quite, fifty per cent., an effect wholly beyond the power of the causes noticed above to produce, and which has been lately shewn by the earl of Lauderdale, to have arisen from the over issue of tallies, the government paper of that day, which were struck for such low sums as 10*l.* and 5*l.*, and poured into circulation with such profusion, as to arrive early in 1694, at thirty per cent. discount, though they bore interest at 7 and 8 per cent.*

At this time, Mr. Lowndes, the Secretary to the Treasury, in a tract published, recommending the raising the denomination of the silver coins, or lowering the quantity of silver in them, so that an ounce of silver should be coined into six shillings and four-pence 3.2 farthings, stated the market price of silver bullion at six shillings and five-pence. But Mr. Locke denied that silver bullion was any where to be had at that price; and asserted, that, on his own principles, in order to produce any effect, Mr. Lowndes must make the coin *yet much lighter*. What the actual price in the end of the year 1695, and beginning of 1696, was, I have not been able to ascertain; but there is no doubt of its having been nearer to 7*s.* than 6*s.* 5*d.* per ounce. Guineas, we

* Note [*B*]

know, were at 30*s.*, and the state of the coin was thus estimated at the time:

The whole silver money in tale at -		£5,600,000
Of which there was supposed to remain undiminished in weight, or what was called broad money, about	£1,600,000	
And of clipped money -	4,000,000	
		£5,600,000

This clipped money was ascertained, at an average, to be deficient in weight about 48 per cent*. The expense, therefore, of calling it in, and exchanging it for heavy money, was estimated at 2,000,000*l.* It actually amounted to 2,200,000*l.* so that there must have been rather more current than was estimated. The heavy coins were said to have entirely disappeared, but it is probable some small proportion of those not exported would remain in circulation, at least at a distance from the metropolis. If somewhat more than a third be supposed to have continued current, the average debasement of the coin would amount to 46 per cent. The excess in the price of guineas at 30*s.*, would be about 40 per cent. and of bullion at 7*s.*, about $35\frac{1}{2}$ per cent. It has been before remarked, that price cannot keep pace with the depreciation of a currency ra-

* See lord Lauderdale, page 112, note 1 and 2. The average deficiency of the experiment at the mint was about 49 per cent.—that of the private experiment in London the same—that of the experiments in the country about 46 per cent. The average of the town and country together, about $47\frac{1}{2}$ per cent.

pidly undergoing depreciation, and guineas being the only coin of any certain value remaining, would naturally be sought after in lieu of the current silver coin, of which the value of any one piece, or number of pieces, bore no fixed proportion to that of any other of the same denomination; so that no person could tell what he was actually receiving. It is not surprising, therefore, that the market price of guineas should approach much nearer than that of bullion, to the actual amount of the debasement of the coin*.

The market price of other commodities is said to have approached nearer to the amount of debasement than that of guineas †.

In 1696, as is well known, it was determined at once to call in the debased money, and to recoin the whole currency of the country at its standard weight, at the expense of the government:—a measure, which, whether we consider the clamour raised against it, the difficulty of its detail, the more formidable obstacles arising out of the state of the finance, the importance of its consequences, or the novelty of the situation, throws, perhaps, a stronger light on the eminent wisdom and vigour which distinguished the statesmen of

* Lord Liverpool evidently under-rates the price of bullion at that period, and does not appear sufficiently aware of the time necessary to bring prices to adjust themselves to a depreciated currency, or the irregularity always observable in its effects.

† Lord Lauderdale, *ub. sup. & ib. cit.*

that day, than is derived from any other single circumstance in their history. By the establishment of the Bank of England, in 1694, and the appropriation of funds to the discharge of the government paper, its superfluity had been removed, and its credit restored. The superabundant issue of notes by that bank, which the state of the coin encouraged, and which, as always happens by the re-action of superabundant paper currency on the coin, had continued to contribute to the debasement of the latter, was now counteracted by the necessity imposed on the bank of paying in heavy money. The bank felt a sudden shock, for which it could alone blame its own imprudence, or, more properly, its inexperience; and the utmost clamour was raised by the withdrawing from mercantile men the extravagant credits, which had caused much mischief to the community. Fortunately for the country, it was not agreeable to the character of king William's mind, to chuse ignorant men, of whatever speciousness, or even natural talent, to fill the departments of his government. He could distinguish between ingenuity, and the firm judgment, and solid knowledge, which can only be acquired by a steady application of the understanding to those objects, which ought to engross a statesman. The marquis of Halifax was at the head of these arrangements, and he was not afraid of being accounted a theorist, because he contemned vulgar sophistry, and called to his

assistance, from his retirement, the first philosopher, and most learned man of his age. The popular outcry was withstood—the Bank, though in its infancy, rose unhurt from the struggle—the currency resumed its proper character—prices returned to their proper level—publick and private credit and confidence were restored. A few months witnessed the completion of these extraordinary and happy events.

Two errours, however, were committed:— First, no precautions were taken for preventing the silver coin from being reduced below the standard weight, by wear or other means of debasement. Secondly, though silver continued the only money, or legal tender, there was inserted in an act passed in this year, 7 and 8 Wm. III. c. 19, a clause, which was interpreted as fixing the current value of guineas with reference to the silver coin. This clause ran in these words:—

"Whereas the uncertain value of coined "gold has been highly prejudicial to trade, "and an encouragement to certain evil disposed persons to raise and fall the same, to "the great prejudice of the landed men of "this kingdom: Be it enacted, that from and "after the 10th day of April, 1696, no person shall utter, or receive, any of the pieces "of coined gold, commonly called guineas, at "any higher, or greater rate, or value, than two "and twenty shillings for each guinea, and so "proportionably for any greater, or lesser "piece of coined gold. And whosoever shall "offend herein, shall incur the penalties, &c."

Now, though it is certain that, under this act, the *maximum* price only of guineas was fixed by law, it is no less certain, that the immediate effect of it was to fix both the *maximum* and *minimum*. Guineas had been, as has been said, as high as 30*s.* They were gradually reduced by the legislature to 28*s.* and 26*s.*, at which the *maximum* was fixed; and, in so doing, the legislature probably accompanied pretty nearly the natural course of things. It is, however, undoubted, that there was no more occasion for legislative interference to reduce the price of guineas, than to reduce that of wheat, or of any other commodity, whose price had risen in an equal proportion with that of guineas, as the currency became debased and depreciated, and would with equal steps be accompanied by that of guineas in its descent, when the currency was restored to its due value. It appears, that herein the legislature yielded to the prejudices of well-meaning persons, who could not get rid of the habit of attributing more importance to the place occupied in the market by the precious metals, than to that of other commodities, and of conceiving that laws can regulate price; and it is probable, that the statesmen, who consented to it, were not aware that this negative enactment would produce a positive effect. Knowing that 22*s.* was above the market price, they

probably thought, that no harm could arise, by protecting the unwary from having guineas imposed on them at any higher rate. They knew that the fixing a *minimum*, by the regulation of Charles II., under the market rate, had not prevented the price from finding its level above that *minimum*. The gold coins were not by that act, in 1696, rendered legal tender, any more than they had been by Charles II.; and they might think, that neither would the fixing a *maximum* above the market rate, prevent the price from finding its level below that *maximum*. The cases, however, are not similar.—When, in Charles II.'s reign, a creditor demanded payment of his debtor, it was optional to the latter to pay in gold or silver, and he would not consent to pay in gold, unless it was estimated at its true value. After the 10th of April, 1696, it became optional to the creditor to receive payment in gold or in silver. The debtor, though he could not force his creditor to receive payment in gold, would endeavour to put him off with gold if he could, because it was so much the cheaper; and, the difference not being very great, the creditor would in most cases be content to take his payment in gold, for the sake of a ready settlement of his debt. The same thing would happen in the sale of commodities, the difference not being sufficient to establish two prices, which, indeed, very rarely take place. And this disposition in creditors, and purchasers, receiving the direct countenance of the legislature, and officers of the revenue, prices would adapt themselves to gold, though not the legal tender, instead of silver, which would accordingly disappear, as being undervalued in the coin.

On this occasion, it is certain that these effects took place, and that by many persons, probably by most, the above act was understood to have fixed the price of guineas; for, on the 14th of February, 1698, a representation from the Commissioners of Trade to the Lords Justices, drawn by Mr. Locke, was presented by order to the house of commons. In this representation, the extent of the evil, its cause, and its remedy, are at once displayed in a manner that leaves no doubt as to the author.

To their Excellencies the Lords Justices.

Sept.

MAY IT PLEASE YOUR EXCELLENCIES,

In obedience to your Excellencies' order in council, dated the 8th of this month, that we should take into our consideration the value of guineas as they are now current, at twenty-two shillings, and the prejudice which had been represented to your Excellencies to arise from thence, to the trade of this kingdom, and particularly to the importation of silver bullion; and that having spoken with merchants, and other fit persons, we should report to your Excellencies our opinion thereupon, and what we conceive your Excellencies may fitly do in the matter: we have accordingly spoken with several eminent merchants, and other persons, whom we thought most capable to give us information therein, and thereupon most humbly report:

That the merchants and others we have consulted thereupon, are generally agreed, that the importation of gold, occasioned by our over-valuing it in the currency of guineas at twenty-two shillings, is a prejudice to this kingdom, in our trade, and an occasion that so much silver as the value of the gold so imported is worth, hath been either carried out of England, or hindered from coming in; and that we cannot expect any silver bullion, from Spain, or elsewhere, should be imported, and coined here, whilst we put so great an over-value upon gold; because it is easy for merchants to know the value of both, in all places where they deal, and to exchange their silver there for gold; and most certain that they will only import hither to be coined what makes most for their own advantage.

But besides their opinion, the thing demonstrates itself; for it is certain, that gold, in Holland, from whence the greatest part of what has been lately coined has been brought over to us, is above six per cent. cheaper than it is here; that is to say, the same quantity of gold that will yield here, at the mint, a sum equivalent to one hundred ounces of silver, will there be bought for less than ninety-four ounces of the same silver; and from thence it evidently follows, that whoever imports gold, gains six per cent. here more than if he imported silver to be coined, and carries away for it either so much of our silver, or so much of our commodities, as that six per cent. amounts to; which is both ways alike prejudicial to this kingdom.

That this over-value of guineas draws gold in upon us, the mint is an unquestionable evidence, where, from the 1st of May last to the 12th of this present September, have been coined 250,713 guineas, but in silver only 72,366*l.* 8*s.* And it is also observable, that the silver so coined has been only some remain of our clipped and hammered money, and not bullion imported. Nor can it be hoped that this course of coinage now in the mint, viz. the coining of gold in a much greater proportion than silver, should alter, but that it will be continued on, to the exportation of our silver, and very great loss to this kingdom in trade, so long as gold here shall have the value of twenty-two shillings sterling for a guinea.

The prejudice arising from hence to trade, and the advantage that may be expected from the fall of guineas, are also more particularly observed to us by merchants, from the rate of exchange; for the course of exchange between England and Holland having, of late, by the importation of so much gold from thence, been brought considerably lower than the par, the consequence of which is, that we pay so much more for every thing we bring from thence, and receive so much less for every thing we send thither, that course has, even since your Excellencies' commands to us to make inquiry into this matter, by spreading the rumour and expectation of some change, already received an alteration of about one per cent. to our advantage; and it is not doubted but, as the price of guineas shall be more certainly reduced towards their true value, the exchange will rise proportionably.

This being the state of the matter, we are humbly of opinion, that it is necessary guineas, in their common currency, be brought down to 21*s.* 6*d.* at least, and further humbly conceive, that your Excellencies may fitly do it, by giving directions that the officers of the receipt of his majesty's exchequer, and all other the receivers of his majesty's revenue, do not take them at a higher rate.

This appears to us to be the more convenient way, because it may at all times be a ready and easy remedy upon any further variation that shall happen in the world in the price of gold, or even in case this now proposed lowering of guineas should not prove sufficient, for it being impossible that more than one metal should be the true measure of commerce, and the world, by common consent and convenience, having settled that measure in silver, gold as well as other metals, is to be looked upon as a commodity, which, varying in its price as other commodities do, its value will always be changeable, and consequently the fixing its value in any country, so that it cannot be readily accommodated to the course it has in other neighbouring countries, will be always prejudicial to the country which does it.

The value of gold here, at the price of 21*s.* 6*d.* a guinea, in proportion to the rate of silver in our coin, will be very near as 15½ to 1; the value of gold in proportion to silver in Holland and the neighbouring countries, as near as can be computed upon a medium, is as 15 to 1; so that by bringing down guineas to 21*s.* 6*d.*, gold will not be brought here to so low a price, as in our neighbouring countries; nevertheless, we are humbly of opinion, that the abatement of six pence in the guinea, will be sufficient to stop the present disproportionate importation of gold, because the charge of insurance, freight, commission, and the like, will eat up the profit that may then be made thereby, and hinder that trade; but if, contrary to our expectation, this abatement should prove too small, guineas may, by the same easy means, be lowered yet further, according as shall be found expedient.

All which, nevertheless, is most humbly submitted.

Whitehall, 22nd September,
1698*.

Ph. Meadowes. John Pollexfen.
John Locke. Abr. Hill.

In consequence of this representation, the house of commons came to a resolution, "That under the act 7th and 8th William III. chap. 19, no person is obliged "to take guineas at 22*s.* a piece†." The price then fell to 21*s.* 6*d.*, at which rate they were received by the officers of the revenue. But this price being found still too high, and the suggestion in the above representation, to reduce still lower, if necessary, the price fixed by the public officers, not being acted on, the silver coin continued to be ex-

* Commons' Journals. † Ibid.

ported in great quantities, and gold became in fact, though not in law, the measure of value.

Though great inconvenience was suffered by the want of silver coins for small payments, and these coins disappeared with great rapidity, yet the whole expense incurred in restoring to them their due weight had not been thrown away. To give full effect to the measure, indeed, it would have been necessary totally to repeal the clause of the act 7 and 8 William III. chap. 19, relative to the passing of guineas, and to declare, that they should thenceforward pass at the market rate without restriction; and it would also have been necessary to remedy the other errour noticed above, by enacting that the silver coins should no longer be current than they retained a certain weight. The receiving of the gold coins by the officers of the revenue, should either have been prohibited, or they should have been taken at the Exchequer, at something below their marketable value. Thus, an abundance of silver coin undiminished in weight would have been preserved. Silver would have remained in Britain, as elsewhere, the standard of value. And a sufficient quantity of the gold coins of full weight would have always remained in circulation for large payments, as had been uniformly the case since the coinage of Charles II.

As it was, much was accomplished, though something considerably short of perfection.

The gold, at its over-value of 21*s.* 6*d.*, continued to force silver out of circulation, and the latter continued to decrease in plenty and weight, till, in the year 1717, it demanded the interposition of government. In this year, the ministers of George I., under the advice of sir Isaac Newton, reduced the value of the guinea to 21*s.*, at which rate it was made current by proclamation, and became by law, once more legal tender in common with silver; the indisputable position laid down by Mr. Locke being lost sight of, that "one metal alone can be the money of account and contract, and the measure of commerce in any country."

Sir Isaac Newton was aware, that, in order to reduce the value of the guinea in England, to the same proportion to silver which it possessed on the continent, it would have been necessary to take ten-pence or twelve-pence, from its then estimated value—"a guinea," according to the report submitted by him, "being generally worth no more than 20*s.* 8*d.* in the market, though its value occasionally varied." He stated his proposal as an experiment, adding, that the effect "would shew hereafter better than can appear at present, what further reduction would be most convenient for the publick*." In matters of policy, it not unfrequently happens, that the caution,

* Lord Liverpool's Letter, p. 83.

in other affairs characteristick of wisdom, defeats its object, when it hesitates to eradicate, while it has the power, an ulcer, which those who succeed may not care to touch, till it breaks out again with increased violence. Mr. Locke's suggestion of following up, by a further reduction if necessary, that which he proposed in 1698, was not afterwards thought of for nineteen years; and sir Isaac Newton's, then, has, in like manner, been consigned to oblivion ever since.

From this time the gold coins have remained legal tender, at an over-rate, and have, consequently, been the sole measure of value in Great Britain, banishing all the heavy silver coins from circulation, and excluding, in a great degree, silver bullion from the mint. Meanwhile the gold coins, passing by tale, and not by weight, were of course reduced in value, in order to keep pace, in some degree, with the light silver coins. Though a heavy guinea was overvalued, in comparison with heavy silver coins, it would become undervalued in comparison with light silver coins. They, therefore, both decreased gradually in weight together; the silver, however, keeping the lead in debasement. The state of the coins at the accession of his present majesty, George III. and their decline from that period, is thus described by lord Liverpool, in his Letter to the King.

"At your Majesty's accession to the "throne, in 1760, the coins of your realm "were in an imperfect state; those made of "silver in particular. The crown pieces had "almost wholly disappeared; though of these "there had been coined, at the general re- "coinage in the reign of king William, and "occasionally afterwards, a number that "amounted in value to 1,553,047*l*.* Great "numbers of the half-crowns had, in like "manner, disappeared; and the number that "remained, was by no means adequate to "the purposes for which they were intended; "though of these there had been coined, "during the before-mentioned period, a num- "ber that amounted in value to 2,329,570*l*. "Such of the half-crowns as remained in "circulation, were, in a certain degree, de- "faced and impaired. The silver coins, "which were then principally current, con- "sisted of shillings and sixpences. The "number of shillings that had been coined "during the same period, amounted in va- "lue to 3,232,680*l*. The number of six- "pences, and pieces of smaller denomina- "tions, so coined, amounted in value to "960,795*l*. The shillings had, at this time, "lost almost every mark of impression, whe- "ther of head, or of reverse, or of inscrip- "tion, or of graining at the edges. The

* According to an estimate made by the officers of the mint, from the accounts in their possession.—*Note by Lord Liverpool.*

"sixpences were in a worse state. I do "not know of any account that was taken "of their deficiency in weight, at this period, "but, from experiments that have since been "made, I think I may assert, that the de- "ficiency of the shillings, even then, amount- "ed to one-sixth of their original weight, "and that of the sixpences, to at least a "fourth.

"The causes of the very impaired and "deficient state of these silver coins were, "that the heavy pieces had in general been "melted down, or exported, and the re- "mainder diminished by wear, or by filing. "A considerable profit was derived from this "last practice; and very little silver bullion "had been brought to the mint to be coined; "for the value of silver bullion, as estimated "at your majesty's mint, was lower, com- "pared with that of gold, than the prices at "which these metals respectively sold in the "market. It appears, that from the year "1717, when sir Isaac Newton made his "report on the relative value of gold and "silver, as estimated at the mint, and as "sold at the market, to the year 1760, the "quantity of silver which had been brought "to the mint to be coined, amounted in va- "lue only to 584,575*l.* 14*s.* 11½*d.*; a very "small supply indeed, for so long a period "as forty-three years, of that species of coin "which is most in currency, and conse- "quently is most exposed to deficiency by

"wear, and to loss by other contingencies. "Though the gold coin was in a less imper- "fect state, at your majesty's accession to "the throne, it was, even then, on the de- "cline; and this decline increased so rapidly, "that, in the year 1773, the deficiency in "weight, of the gold coins then in circula- "tion, was become very considerable; so "that as soon as any new gold coin was "brought from the mint, these perfect pieces "were exchanged, or bought up, for the old "deficient coins, and immediately melted "down, or exported. Indeed the general "deficiency of the gold coins in circulation "was so notorious, that it was estimated in "all our exchanges with foreign countries; "and all payments to such countries, were "enhanced in proportion to the deficiency of "these coins: and such was, at that time, "the state of the currency of this country, "that there was very little of good or per- "fect coin, of any metal, circulating in it. "The evil was so great, that government "found it necessary to take this difficult "subject under their immediate considera- "tion, and to endeavour to apply a remedy "to it. On this occasion, I addressed a let- "ter to a noble lord, who was then chan- "cellor of your majesty's exchequer, sug- "gesting what appeared to me the proper "remedy for this evil. I proposed, that, "with a view to the general reform of the "coins of the realm, all the deficient gold "coin should, in the first place, be called in, "and re-coined; that a compensation should "be made to the holders of this deficient "gold coin, under certain limits and restric-"tions; and that, after this operation had "been completed, the currency of the gold "coin should, in future, be regulated by "weight, as well as by tale, (which was con-"formable to the ancient laws of this king-"dom), and that the several pieces should "not be legal tender, if they were diminished "by wearing, or otherwise, below a certain "weight, to be determined by your ma-"jesty's proclamation. Your majesty was "pleased to approve of this advice, and to "propose to your parliament, on the 13th "day of January, 1774, the calling in, and "re-coining, all the deficient gold coins; "and the chancellor of your exchequer "opened the whole of this plan to the house "of commons, who approved of the mea-"sure, which was carried into immediate "execution, without any complaint, and with "great success. The defects which had pre-"viously existed in this species of coin, were "thereby removed, and the regulation then "established, of weighing the gold coin, has "been the means of preserving it at nearly "the state of perfection to which it was then "brought *."

* Letter to the King, p. 2.
Lord Liverpool's work being very difficult to be met with, I make no apology for quoting this passage at length, or for having, in a former part of this Essay, abridged his history of the coins.

At this period it was enacted, by a temporary law, continued by two subsequent statutes, and now in force by 38th Geo. III. chap. 59, that no tender of silver coin, of any sum exceeding 25*l.* shall be legal tender. From that time, the silver coins continued in a progress of debasement, till, in the year 1798, all the crown pieces, and probably more than half the half-crown pieces, and a third of the shilling and sixpenny pieces, had disappeared; and the shilling and sixpenny pieces remaining, were found, by experiment, to be diminished in weight, the shilling $24\frac{2}{3}$, and the sixpenny $38\frac{1}{3}$, per cent.; leaving in circulation at that period, out of a coinage from the reign of William III. of 8,076,000*l.* and upwards, not so much, in real value, as 3,960,000*l.*

Lastly, in this present year, 1812, all our gold coins have for some years disappeared; all our half-crowns, and very nearly all our shilling and sixpenny pieces; there being no currency remaining but notes of the Bank of England and country bankers, Spanish dollars, stamped by the Bank of England, passing, under authority of the bank, at 5*s.* 6*d.*, and a new coinage, issued, not by the Sovereign, but by that bank, of three shilling, and one shilling and sixpenny pieces, made of standard silver, at the rate of nearly 22 per cent. below the just weight, for the avowed purpose of enabling them to retain a place in circulation along with the paper currency.

ESSAY III.

The same Subject continued.

Silver is the common money of Europe; gold is the standard money of Britain. To ascertain the price of gold in Europe, it must be compared with silver. To ascertain the price of silver in Britain, it must be compared with the gold coin. This arises from the gold coin, which is legal tender, being over-valued in England, where it passes only at a certain weight: so that English gold coin contains, as nearly as possible, the quantity of standard gold which it purports to contain. The silver coin, on the other hand, passes, in payments not exceeding *25l.*, as legal tender, by tale, and remains worn and light, containing vastly less than its proper quantity of silver. In payments above *25l.* it is allowed to pass by weight alone, at the mint rate of *5s. 2d.* per oz.; according to which, silver is estimated in the proportion between the gold and silver coins, at less than its value in gold, according to the actual rate at which gold and silver are exchanged in England.

Meanwhile, accounts are kept in England, as in other European countries, in denominations of silver money. A pound sterling means twenty shillings, or two hundred and forty pence; of which pence it is ordained, that sixty-two, (or five shillings and two pence), shall be coined out of an ounce troy-weight of that mixed metal, called *standard silver*, composed of eleven ounces two penny-weights of fine silver, and eighteen penny-weights of copper, as alloy. But as the silver coins, from their worn state, are of quite uncertain value; as it is quite uncertain what quantity of silver they may contain, it being only certain that they do not contain the quantity they ought to contain by the regulations of the mint,—great inconvenience would arise: but that they are never received, or offered in payment, except as fractional parts of a guinea.

A pound sterling, therefore, in practice, is twenty twenty-one parts of a guinea. Twenty-five pounds one shilling sterling, can only be paid by twenty-three guineas of legal weight and eighteen shillings. A shilling is thus, so far as regards its current value in England, little more than a counter, representing the twenty-first part of a guinea; as a halfpenny is, in like manner, little more than a counter, representing the twenty-fourth part of the twenty-first part of a guinea. A guinea, on the other hand, is not the representative of any thing. It is a commodity

of a certain value itself, and is given and taken in exchange, in England, as well as elsewhere, according to the true relative value which the quantity of gold it contains bears to the commodity against which it is exchanged. A pound weight of standard gold, or eleven ounces of pure gold and one ounce of alloy, are, by the regulations of the mint, coined into forty-four guineas and a half. Forty-four guineas and a half, therefore, do not *represent* a pound weight of standard gold, but they *are* a pound weight of standard gold; and the stamp impressed on them, merely certifies that such is the quantity, and such the fineness, of the gold they contain.

Where a duty, or seignorage, is imposed on those who take bullion to the mint to be coined, the coin may be worth more, in exchange for other commodities, than the weight of bullion; because it costs more to obtain it in the shape of coin, and it is worth while to pay as much more for it, as is equal to the expense of coinage, inasmuch as the trouble of weighing and assaying is saved, and it will more readily pass—just as manufactured plate is worth more than bullion. Coin may be worth, beyond bullion, a little more than the mere expense of coinage, on account of the penalties imposed on private coining, and the risk. In England, no seignorage is exacted, but some delay takes place at the mint. This delay acts as a small duty; and guineas, therefore, in England, may bear a small value, beyond the exact quantity of bullion they contain.

There are in England, laws, with severe penalties, against exporting the coin, and melting it down; and no bullion can be exported without an oath taken, that it has never constituted part of the coin of the realm. This, when there is a demand for gold to be exported, lowers the value of guineas, below their weight in bullion, by a sum equal to the estimated risk of the exportation, or the price of the perjury: which sum was stated in evidence before the late committee of the house of commons on the price of bullion, to be equal to three shillings per ounce, or about four per cent. When, however, guineas get to the Continent, as they do get, and will always get, in spite of all laws, so long as there is a demand for gold to be sent there from England, forty-four guineas and a half will exchange for exactly the same quantity of silver, or of any other commodity, as a pound weight of gold, of the same fineness, in any other foreign coin of known fineness; that is, for a little more than a pound weight in bullion, because the trouble of assaying is saved. In England, when there is no exportation of gold to the Continent, they will exchange for somewhat more, on account of the delay, and consequent loss of interest, and the inconvenience attending the sending bullion to the mint, and the preference given, in all exchanges, to the coin of the realm.

When there is an exportation of gold, they will exchange for less, from the circumstance just mentioned. In a foreign country, these circumstances do not operate.

In England, as has been said, the value of every thing, silver included, comes to be measured in gold. Abroad, the value of every thing, and of gold itself, is measured in silver. If twenty quarters of wheat be, in England, worth 46*l.* 14*s.* 6*d.* equal to forty-four guineas and a half, that is, to one pound weight of gold, and I want to ascertain the relative value of wheat at Hamburgh, supposing gold in coin and in bullion to be, at the moment, of the same relative value in England, I must ascertain how much silver a pound weight of gold will exchange for at Hamburgh. If it will exchange there for fourteen pounds weight, or for so much standard silver, in the silver coin current at Hamburgh, as weighs fourteen pounds, and if twenty quarters of wheat are sold at Hamburgh for thus much of the silver coin current there, then wheat is of equal value in England and at Hamburgh. Supposing any other commodity to be of equal value in England and at Hamburgh, that is, supposing the proportion between the demand and supply of this commodity to be equal in both countries, then twenty quarters of wheat will exchange, in both countries, for the same quantity of that commodity. But, if I estimate the wheat purchased in London by the quantity of silver supposed, by the regulations of the mint, to be contained in 46*l.* 14*s.* 6*d.*, viz. about fifteen pounds weight, I incur a double errour. In the first place, as the 46*l.* 14*s.* 6*d.* is paid in forty-four guineas and a half, or a pound weight of gold, and as a pound weight of gold will not purchase above fourteen pounds and a half weight of silver bullion in London, the mint price of silver being about one-thirtieth part below the average market price, I commit an errour of half a pound weight of silver, in estimating the value in London; and, in the second place, as the wheat at Hamburgh is paid for in silver, if silver be, as it has been, in about the same degree more valuable in exchange for gold in Hamburgh than in London, I commit another errour to the same amount, in estimating the value in Hamburgh. On the whole, I should, by this mode of estimation, calculate the values to be equal in both places, if the wheat sold in Hamburgh for fifteen pounds weight of standard silver, whereas it would be equal if it sold for fourteen, an errour of above seven per cent., equal to a handsome profit on the transaction. It is evident, that, by laying out in London one pound weight of gold, or forty-four guineas and a half, in the purchase of wheat, if I sold that wheat at Hamburgh for fifteen pounds weight of silver, with fourteen pounds of which I could repurchase there my pound weight of gold,

I should exactly profit one pound weight of silver, which, by the supposition, would purchase in Hamburgh one fourteenth part of a pound of gold, making my profit equal to one fourteenth part of my original outlay.

If there is a demand for gold to be exported from London to Hamburgh, I must take into consideration the amount by which gold in guineas is rendered less valuable in London, than gold in bullion, by the difficulty of exporting the former, always recollecting to value my guineas in London as gold bullion, or, rather, as equal to the gold bullion for which they may there be exchanged.

By this transaction having thus profited seven per cent., it is natural for me to state, that wheat is seven per cent. dearer at Hamburgh than in London, or, that seven per cent. may be made by exporting wheat to Hamburgh. But this would be an erroneous statement; for the profit arises upon two separate and distinct transactions; first, the purchase and sale of wheat, and secondly, the purchase and sale of silver. And this, owing to the standard circulating currency of England being gold, and of the Continent silver, takes place in all mercantile transactions between England and the Continent.

The merchant, however, keeps his accounts in pounds sterling, and fractional parts of pounds sterling. He receives his remittances from his correspondent abroad in bills of exchange, calculated also in pounds sterling, or before being entered by him, reduced to pounds sterling; so that the intermediate steps do not appear.

Thus, the transaction above-mentioned, would be stated as follows:

Paid for twenty quarters of Wheat -	£46	14	6
The fifteen pounds weight of silver, in Hamburgh currency, for which it was sold, would purchase at Hamburgh, one pound weight of gold, and one-fourteenth part of a pound weight of gold, or a bill payable in London for forty-four guineas and a half, and one-fourteenth of forty-four guineas and a half, which, being converted into sterling money, make the amount of the bill received and entered, as the produce of the sale of wheat -	£50	1	3
shewing a profit of - -	£3	6	9

If, however, instead of remitting me in gold, or in a bill of exchange, which, being payable in England in gold, must be purchased at Hamburgh at the rate of gold there, estimated in silver, the current money there, my correspondent had sent me the fifteen pounds weight of silver, which the sale of my wheat produced, I should have found my profit amount only to half a pound weight of silver; my original outlay of forty-four guineas and a half being equal in England to fourteen pounds and a half weight of silver; or, calculated in pounds sterling,

My outlay being - -	£46	14	6
Of my fifteen pounds weight of silver, fourteen pounds and a half would purchase forty-four guineas and a half (a pound weight of gold.) The remaining half pound would purchase one-twenty-ninth part more, making the whole in sterling money - - - -	£48	6	9
Profit on the sale of the wheat -	£1	12	3

In order to simplify the statement, I have considered the exchange as at par; that is, that no premium is paid on either side, on the transmission of money between the two places. It is evident, that the course of exchange cannot be accurately stated, any more than the relative prices of commodities, without taking into consideration the relative value of gold and silver in each place, so long as the money of one place is gold, and of the other silver. In all calculations, whether of the price of commodities, or the course of exchange, the currency of different countries ought first to be reduced to its actual value in silver bullion, which being the general money of the world, affords an universal, and accurate means of comparison.

As the *value* of one thing can only be estimated from the quantity of some other thing, for which it may be exchanged at the time, and as there is nothing the demand for which, and the supply of it, are at all times and places in the same uniform proportion, it is abundantly evident, that there is no *standard of value.* A pound of gold may be exchanged, perhaps, for fourteen pounds of silver, or for twenty quarters of wheat, or for twenty fat sheep, of a certain weight, or for the labour of an agricultural labourer for a year. We may, therefore, say, that the value of a pound of gold, in silver, is fourteen pounds; in wheat, is twenty quarters; in sheep, is twenty sheep; in labour, is one man's labour for a year, and so on. But no one of these things affords a "real measure of the exchangeable value of gold," or, "an ultimate and real standard, by which its value can at all times and places be estimated and compared*." Nor does the gold afford such a measure or standard of their value. Neither does the labour approach to such a measure or standard, one jot nearer than the gold.

No one of these commodities is more truly the "real price" of the rest, than money is their "real price." Nor is money more truly their "nominal price," than each of them is the "nominal price" of the rest, or the "nominal price" of money itself. There is, therefore, no such thing as a "standard of value," or as "real price."

But silver, the universal money of the civilized world—that commodity for which every other may be exchanged, and had in exchange, in every commercial country on the globe, and to which the relative value of all commodities is every where, and at all times adjusted, readily affords, "*at the same time and place*, the exact measure of the real exchangeable value of all commodities*." But this is not owing to any thing in the nature of silver, which distinguishes it from any other commodity; but merely to the circumstance of its having been fixed on as the medium of exchange, for which its value, and its divisibility, eminently qualify it. But any other commodity, if it could always be as readily exchanged, and had in exchange, would form an equally good medium of comparison. Thus, if a pound of gold, or twenty quarters of wheat, or twenty sheep, or a year's labour, might each be had for fourteen pounds of silver, they must be equal in value to each other. Twenty quarters of wheat would purchase a pound of gold, or twenty sheep, or a year's labour, as well as fourteen pounds of silver would purchase them; and the comparative values of these different commodities would be as well expressed, by referring to the respective quantities of wheat for which they might, at the same time and place, be exchanged, as by referring to their price in silver. For wheat, however, they could

* Wealth of Nations.

* Ibid.

not at all times and places be exchanged; but for silver they may, and are. There is a sort of tacit agreement, that silver shall always be received *at its value*, though there is no understanding that it shall be received *at a fixed value*; to talk of which, indeed, were the same thing as to talk of *a fixed vibration*. They are, therefore, more readily estimated in silver, which thus becomes the *common measure* of their value.

This, that is, value estimated in money, is what we generally and strictly denominate *price*. We sometimes, it is true, speak of the price of one commodity as estimated in another commodity; but I apprehend, less correctly. When, in these pages, I have occasion to compare two commodities directly together, I speak of their *relative value*.—When I employ the word *price*, I would be understood to mean their value in the current standard coin of England, if referring to their price in England; and of their value in silver bullion, of a known fineness, or in silver bullion reduced to pounds sterling, taking into consideration the relative value of gold, if referring to their price elsewhere.

It is, however, only at the same time and place, that money affords an exact measure of the exchangeable value of commodities. *Price*, as has been said, is no more capable of being fixed than *value*; for, as *value* is but the price of one commodity estimated in one or more other commodities, so *price* is no-

thing more than the value of a commodity estimated in money.

Of *absolute value*, we can form no idea. When we speak of value, we always, of necessity, refer to a comparison of the commodity we speak of, with one, or more, other commodities, for which it may be exchanged, and of which, therefore, more or less may be had in exchange, as their relative values vary. This comparison is generally made by means of referring both to their value in money. Thus, a quarter of wheat may be worth a quarter and a half of barley. This is generally expressed by saying, that wheat is at 60*s*., or as the price may be, and barley at 40*s*.; and, at the same time and place, the latter is an exact enunciation of the former proposition. But, at different times or places, it might be far from it; for 40*s*. at one time or place, might be worth as much, calculated in other commodities, as 60*s*. at another. Thus, 40*s*. might purchase, at one time or place, as much butcher's meat, or as much labour, as, at a different time or place, could be had for 60*s*.—If barley, therefore, in the former situation, were at 40*s*., and wheat, in the latter situation, were at 60*s*., it would by no means be true, that wheat, in this instance, was worth half as much again as barley; for, though it might fetch half as much more money, it would exchange for only the same quantity of butcher's meat, of labour, or of any other commodity, the proportion between the supply of which, and the demand for it, had continued the same in both instances. The change, therefore, would have taken place in the value of money; either the supply of which must have increased, or the demand for it diminished, in the proportion of sixty to forty.

If we were speaking of England in this case, at least of England since the reformation of the gold coin, it would be the value of gold which had decreased. If of a country where silver is the standard currency, it would be the value of *silver*. If, again, we were comparing different countries, or different periods in the history of the same country, in one of which silver was the standard currency, in the other gold, it would be necessary, in order to an exact result, first of all to reduce the prices meant to be compared to their value in the same metal, by comparing the relative values of the two metals at each of the times or places. By this means, if we found their relative values the same, we should ascertain that both had equally decreased in value: if we found their relative values vary, but the price of all commodities, whether calculated in gold or in silver, increased, we should ascertain, that the value of both was diminished, but not exactly in equal proportions.

The value of every commodity depends, as is well known, on the proportion between its supply and the demand for it. The value

of every thing, therefore, is subject to four causes of variation, resulting from changes directly relative to itself, supposing the proportion between the supply of all other commodities, and the demand for them, to remain unchanged.

1. An increased demand, without an adequately increased supply.

2. A diminished supply, without an adequately diminished demand.

These two circumstances raise its value.

3. A diminished demand, without an adequately diminished supply.

4. An increased supply, without an adequately increased demand.

These two latter circumstances lower its value.

But the value of a commodity, as compared with any other commodity, is subject to four other causes of variation, resulting from the same changes directly relating to the commodity with which it is compared; supposing the proportion between its own supply and the demand for it to remain unchanged.

Thus, if the value of wheat be estimated in barley, it is subject to *eight* different causes of variation; *four* resulting from variations in the proportion of its own supply to the demand for it, and *four* resulting from variations between the supply of barley and the demand for it. Of these eight circumstances, four raise the value of wheat as estimated in barley, and four depress it; or, which amounts to the same thing, depress or raise the value of barley, as estimated in wheat. It is obviously impossible, from the mere expression of a change in relative value, to determine to which of these circumstances, or to what combination of them, such change ought to be attributed.

But every commodity may be exchanged for a variety of others, and a great variety of others is necessary to satisfy the wants of its possessor. When we speak, therefore, of the *value in general terms*, of any commodity, we refer to the command it gives us in exchange, not over any one other commodity, but over a variety of other commodities, of which we stand in need. Thus the value of wheat is not what it will fetch in barley; but what it will fetch either in barley, or in oats, in butcher's meat, in labour, &c. &c. &c. The demand for any commodity, and the supply of it, are liable to constant fluctuations; but there is an equally constant tendency to restore the equilibrium. There is a perpetual undulation of surface, and there are occasionally more violent inequalities. But the general mass is unceasing in its endeavours to preserve its level; and there are limits both to the extent, and endurance, of its deviations. Though some particular commodities may vary greatly, at particular times, in the proportion between supply and demand; yet by much the greater number

of commodities thus preserve their due balance. We, therefore, in estimating the value of a commodity, do not refer it to any other particular one, which may have undergone the same changes, in the proportion of supply and demand, with itself; but to this greater number of commodities, the aggregate of which, so to speak, have preserved their balance. Thus, though we have no idea of value in the abstract, since value depends on, or rather signifies, comparison and exchange, we have a distinct idea of value resulting, not from a comparison of a commodity with any other particular commodity, but, from a general comparison with the usual average of all those commodities, for which it may commonly be desirable to exchange it.

The *value*, therefore, of a commodity, properly speaking, is liable only to those four causes of fluctuation, which depend on the changes of proportion between the demand for it and its supply; while its *price* depends on eight circumstances; four referable to the changes of proportion between the demand for such commodity itself and its supply, and four referable to the same changes of proportion between the demand for money and its supply. In speaking of *value*, we refer to a general comparison with the usual average of all those things, for which it may commonly be desirable to exchange the commodity in question. In speaking of *price*, we refer to a comparison with one particular commodity, namely, money.

The value of money is affected, like that of every other commodity, by the difference in the proportion which the supply of the metals, which compose it, bears to the demand. The discovery of the mines of America could not fail to increase the supply of the precious metals. And there is reason to believe, that it has, ever since, been undergoing a gradual and progressive increase.

Though only one of the precious metals can, at one time, be, in any country, the standard currency, money is every where coined both of gold and silver. The supply of both these metals may increase together; or that of only one. It is obvious, that the value of money can be affected only by the supply of the metal which is the standard. In England, the price of all commodities being practically adjusted to the value of gold, no variation in the supply of silver can affect the value of money, unless the value of silver were to fall below its mint proportion to gold; and, in like manner, the value of money on the Continent of Europe cannot be at all affected by the supply of gold, the price of all commodities being there adjusted to the value of silver only. That some difference takes place in the proportions in which these metals are supplied, is evident from their relative values at different times; for the difference in the relative degrees of demand, must always be extremely small. The demand for silver, and that for gold plate,—for silvered, and for gilt articles,—for silver, and for gold coins,—

generally keep pace pretty nearly with each other; and the demand, probably, remains pretty steady for both.

1. If with wealth and luxury, the demand increases for the purposes of plate, and silvering, and gilding, this is, in a great degree, counteracted by the progress of the arts, and of taste; for, if persons, who formerly employed brass articles, now have them silvered, and if many more persons now use plate than formerly, the massiveness of plate is greatly reduced. More of its value is put on the workmanship, and less on the quantity of metal.

2. The greater the quantity of wealth, the more commodities there are to interchange; and the more frequent that interchange, the greater quantity of money may be supposed requisite to conduct it. But this is very powerfully counteracted by several circumstances.

First; by the more rapid transition of money from hand to hand; so that the same sum, which has made one payment, is quickly applied to another.

Secondly; by the various contrivances of bankers, whereby the same sum of money, being successively transferred, without actual delivery, to many different hands, answers the purpose, almost at the same instant of time, of many different independent payments.

Thirdly; by economising in the use of metallick, through the substitution of what is called paper money.

It is probable, that, from all these circumstances, the demand for the precious metals does not undergo any very material increase; and, consequently, that the variations of their value depend chiefly on the amount of the supply.

Though the precious metals thus vary in their *value*, both relatively to other commodities, and relatively to each other, it is obvious, that the metal which constitutes the standard currency can have no *price*. It is itself, that which constitutes *price*; and it were not more absurd to talk of the latitude of a place situated on the equator, than, in Great Britain, where the quantity of gold for which any commodity may be exchanged, constitutes what is denominated the price of that commodity, to talk of the price of gold; unless in so far as the value of the coin, relatively to gold bullion, is increased, by the fashion of the former, or diminished, by the risk of exporting it*.

* Note [C]

ESSAY IV.

Of Paper Currency.

The quantity of money which any person keeps by him, in order at all times to command whatever commodities he may desire to purchase, is a portion of his wealth, withdrawn from other purposes, to perform for him the same sort of service with a machine. It abridges the labour with which he acquires those commodities; inasmuch as it saves his going from place to place, and hand to hand, to make all the different previous barters, which would otherwise be necessary, in order to acquire such particular commodity, as the possessor of the object of his desire might accept in exchange*. It is an expensive machine, and one of which a great portion is, for the most part, idle: as if, in a remote and poor country, an individual were obliged to erect a corn-mill, at his own expense, when, perhaps, all the corn he had to grind, might not

* See Inquiry into the Nature and Origin of Publick Wealth, ch. 3.

keep it at work more than two or three times in a month. In rich and populous countries, a corn-mill is kept up at the joint expense of a whole parish, or district; and no more corn-mills are erected, than are in constant employ. Thus, as commerce advances, it occurs, that a substitute for money may be found, in the issue, by bankers in good credit, of promissory notes; and, in this manner, the same sum of money is made to answer the occasions of many individuals.

On these notes, while in circulation, the bankers make a profit equal to the interest of the sums for which they are issued; and, in order to extend the circulation, they can afford to advance, on bills of exchange and other securities, such sums as those who deal with them, may, from time to time, require; by which means, the necessity for the latter to keep by them large sums of money, is superseded. For a great part of the circulation within the district, where the credit of the banker is established, these, his promissory notes, will answer every purpose of money. But without this district, they are useless; and the subsistence of the system, therefore, depends on the power of instantly converting them into money, whenever the holders apply to the banker for this purpose.

As bankers' notes thus supply the place of money, they have been improperly called *paper money*; and this denomination has given rise to an idea, that, as they perform the

functions, they are, in fact, a species of money. They are, however, merely the representatives of money. It is evident, that their character is not varied, whether they are issued by private bankers, or by bankers privileged and authorised by the state, or by the government itself, pledging for their payment the security of the state. Whatever may be their credit, they are still merely engagements to pay certain sums of money, when they shall be demanded, or at certain times announced in the terms of them.

It is essential to the notion of money, that it is not a representative of value, but a commodity valuable in itself; that it does not pass for more or less, as may be ordained or agreed on, but at its own real and marketable worth;—that it does not owe its estimation to convention, but to its power of satisfying the actual wants and desires of mankind. A piece of money is neither more nor less than a piece of metal of a certain ascertained weight and fineness, and it is worth neither more nor less than any other piece of the same metal, of the same weight and fineness, with this addition, possibly, that the trouble of ascertaining and adjusting the weight and fineness is saved. The oxen, in which the armour of Glaucus and Diomede was valued, were as truly, to all intents and purposes, *money*, as the guineas, doubloons, and dollars, that now pass as such in Europe. These oxen were not representatives of value, but commodities valuable in themselves. They did not derive their value from any convention or ordinance, but from the demand for them, arising from their usefulness to man, compared to the number of them in the market; and had a mark been affixed to certain of them by publick authority, declaring their weight and their age, it were as reasonable to suppose that those thus distinguished should exchange in the market for more gold, or more silver, than others of the same weight and age,—as that certain pieces of gold, or of silver, struck into coins, should exchange in the market for more oxen, than other pieces not so stamped, but of equal weight and fineness. In both cases, the mark would confer as much additional value as would be equivalent to the trouble saved in the examination, and the greater facility of exchange; but no more. The additional value, thus conferred on the one or the other, would be more or less, as the trouble so saved was more or less: but the mark could confer value in no other way. Thus, all over the world, as well as in their native country, coins of known fineness, and weight, bear a higher value than bullion*.

It is essential to the notion of bank-paper, that it has no value in itself; and that the person issuing it, is, at all times, bound to

* Bullion Report—Goldsmid's Evidence.

exchange it for money. While this person continues able to fulfill his engagement, that is, while the paper currency is in its natural state, it must be of precisely the value of money; or, rather, it supplies the place of money, and represents it. English bank notes for 46*l.* 14*s.* 6*d.* purchase twenty quarters of wheat; because a pound weight of coined gold, the quantity contained in forty-four guineas and a half, *i. e.* in 46*l.* 14*s.* 6*d.* is worth twenty quarters of wheat. The bank is bound to give forty-four guineas and a half for them when demanded, that is, a pound weight of coined gold; and it is not bound to give any thing else for them; nor is any other person bound to give any thing for them at all. If, by a sudden influx of gold, a pound weight should be worth only half the former quantity of wheat, or other commodities, the bank would still only be bound to give for its notes the quantity of coined gold expressed in them; and, consequently, no one else would take them for more than the value of that quantity of gold. If, on the other hand, gold should become worth vastly more than formerly, the bank would still be bound to give the same quantity in exchange for its notes, which would still pass at the value of gold; for, if they did not, they would be instantly carried to the bank, and gold received for them.

It requires a knowledge of the confusion of ideas, that prevails on this subject, to make it appear pardonable to notice principles so obvious, and undeniable. But, a notion seems sometimes to be entertained, that currency, instead of being bartered, like all other commodities, at its relative exchangeable value, passes from hand to hand as the representative of what is called *abstract value;* or a description of value supposed to result from comparing commodities, not with any other particular commodity, but with all other commodities.

I think it is sufficiently apparent, that there is no such thing as *abstract value,* or *a standard of value.* A very little attention will render it equally so, that currency, whether metallick, or paper, by no means represents, or ever was meant to represent, *average,* or *general value.*

We know very well what we mean by saying, generally, that the value of barley has increased since last year. We do not mean, that it will exchange for more wheat, or any other single commodity: but that it will exchange, not only for more wheat, but for more potatoes, for more labour, for more butcher's meat, for more wool, for more of every thing in general demand. We do not mean, that the dealer in wheat alone, or the dealer in wool alone, must sacrifice more of their particular commodity; but that I, who deal in no particular commodity, but possess many commodities, or the means of procuring them, must sacrifice more of all these commodities, in order to acquire my usual quantity of barley.

This we express, very accurately, by saying, that barley is worth more money than it was last year; because money, varying very little in supply, or demand, from year to year, affords, from year to year, a very good standard of value. But, if we meant to express, that barley had varied much in value from what it had a century ago, we should not convey this accurately, by a reference to its value in money; because money itself has varied exceedingly in value during the century. Bread-corn, though it varies more from year to year, varies less than any commodity, from century to century. We should, therefore, more accurately express this, by comparing it with bread-corn. It were as easy, however, to denote quantity, without referring to ascertained measures, as to denote value, without referring to some one, or to several, known commodities, in which that value may be estimated.

We can say, in general, that a commodity has increased in value, without reference to any other commodity in particular. If we are asked, How much? We can answer, One-fourth part;—one-half;—or, it has doubled. In this case, we estimate it by the proportion its present value, in exchange for other commodities in general, bears to that which it formerly possessed,—by the proportion which the quantity of other commodities in general, now commanded in exchange by a given quantity of barley, bears to that which the same given quantity could formerly command. And this, through habit, we usually do, by a comparison, either secret or declared, with money, as standing in the place of other commodities in general; assuming, what may be either true or false, that money has not varied in value, with respect to other commodities in general; or, in other words, that it has not varied in the proportion between demand and supply. We can, however, with a little effort, abstract our ideas from this particular comparison, to one more general; and, having so done, we can express ourselves intelligibly. But, if we attempt to conceive value, without reference to some comparison, either general or particular, we at once feel, that we are incapable of forming any idea, or intelligible expression. When we say, a man is very tall, we do not mean that he is exactly six feet two, or six feet four; or that he is taller than James, or John. But we do not the less institute in our minds a comparison; namely, with men in general. Is there any thing in this like an abstract idea? or can we, therefore, form an idea, corresponding to the expression of absolute height, not referable to a comparison with something that is high?

It is true, that, for measures of length, or height, we are able to fix on substances not liable to vary in that particular. Thus, a certain

portion of some such substance being set apart, and the length thereof denominated a yard, all yard measures being adjusted to this standard, the length called a yard, ascertained by these measures, will be always the same. But, if all substances had been so constructed, by nature, as to be liable to lengthen and shrink, with the variations of the atmosphere, the standard measure itself being liable to vary, the length, called a yard, would have varied also. What was a yard of cloth to-day, might be a yard and a half to-morrow. But would a yard, therefore, have been an abstract idea? or would it have been the less truly a denomination of length, depending on an actual comparison with a certain individual thing, though that thing varied in its length? or, would this circumstance give us any assistance in forming an idea of abstract length?

In like manner, though all commodities, the precious metals, as well as others, are liable to vary in value, and, consequently, there is none, on which we can fix as a steady medium, whereby to compare, or as a fixed standard, whereto to refer, the value of the others, it does, by no means, follow from hence, that such medium, or such standard, as we do fix on, is a creature of the imagination, or the mere subject of an abstract contemplation of the mind. But, after having turned, over and over again, in our brain, these speculations, and abstractions, we find ourselves, of necessity, return from whence we set out;

namely, to this simple proposition, that the value of one thing is nothing else, than the quantity of some other thing, or things, which may be had for it.

Thus, if we are asked, What is the actual value of barley? we have no means of answering, but by estimating it in some one, or more other specified commodities, and stating the rate at which it may be exchanged. We have no more notion of *abstract value*, than we have of *abstract weight*, or *abstract measure*. And it were as reasonable to suppose, that a piece of paper, with the words, "one pound, troy-weight," written on it, would serve to weigh goods with, as that a similar piece of paper, with the words, "one "pound, sterling," written on it, would serve to estimate their value *.

From this confusion of ideas, have arisen the measures adopted, at different times, by governments, for the purpose of giving to the currency, a value different from that of the metal which is its standard; which measures never have had, nor ever can have, any other effects, than to defraud the creditors within their jurisdiction, and to encourage a misconception, very mischievous to the governments themselves, of the true nature and use of money. These measures have been various.

The debasement of the coin, or, what comes to the same thing, the raising its de-

* Note [D]

nomination, has been the most frequently resorted to; the obvious effect of which was, merely to pay all creditors with so much less than they had contracted for, as the debasement, or difference of denomination, amounted to. That some little time would elapse, before prices came to adjust themselves to the new state of the currency, is probable *; but that they did so in no great length of time, we all know: and things, therefore, remained on their former footing, with the exception of what might be suffered in the convulsion.

A second measure has been, to impose on the coin a high seignorage: and this, to a certain extent, has, undoubtedly, the effect of raising its value, beyond that of the standard metal in bullion. But this is not a fictitious value, but precisely the same sort of value which is added, by the goldsmith, to gold bullion, when he fashions it into a snuff-box. Governments, however, have always prohibited coining by private persons, under severe penalties. In this, they have done precisely the same thing, as if they had assumed a monopoly of making snuff-boxes. If they make as many snuff-boxes as are wanted, and as cheap as the goldsmiths can make them, no person will interfere with their monopoly. They may even put somewhat a higher value on their manufacture, because of the penalty. But, whenever the value imposed exceeds the

* Hume's "Essay on Money."

expense of manufacture, so as to leave a profit, more than adequate to the risk of incurring the penalty, the market will be stocked with illegally-manufactured goods, whether coins, or snuff-boxes, till the value is reduced to the real exchangeable worth of the metal, and the workmanship. Not only so, but the great profit will induce many to run the further risk, of imitating the coin in baser metal; by which the genuine coin will be forced out of circulation, as fast as it is issued. Universal experience shows, that no excess of penalty, or degree of vigilance, can prevent coining, when the temptation is adequate.

A third measure, is one very generally adopted, in modern times, though on principles so manifestly erroneous, as to excite surprise at their having been ever acted on, and still more, at their continuing to be so. This is, the prohibiting the exportation of the coin. We are all sufficiently ready to laugh at the absurdity of the Spaniards and Portuguese, who, on discovering the mines of America, took every possible measure, but in vain, to prevent their produce from circulating beyond the precincts of their own dominions; imagining, that, if they could keep to themselves all the gold and silver, they should monopolize all the wealth in the world. But we do not perceive, that laws, at this instant, not only in force, but actually carried severely into execution, among ourselves, proceed on no better than the same notions of policy, and

are attended, and must, of necessity, be attended, with no other than the same success.

If the currency of a country consist entirely of the precious metals, and a greater quantity of coin be at any time in circulation, than the circulation requires, it must either find a vent abroad, or be melted down for plate at home; or, if both these avenues could be closed by the imprudent efforts of the legislature, it must remain in circulation at a diminished value. It is exactly as if a greater number of gold snuff-boxes had been made, than were in demand for home consumption, and the melting, or exporting them, were effectually prohibited. They would no longer sell for what they cost in bullion and workmanship; but for such sum as would bring up the demand to the quantity. Their value would no longer be the ordinary value of the gold they contained, since they would no longer be applicable to the ordinary purposes of gold; but would be regulated entirely by what those would be induced to give for gold snuff-boxes, who, at their ordinary value, would never have thought of buying them. The effect of these laws, therefore, under these circumstances, if they could be carried into full effect, would be merely to depreciate the currency; and they can produce no other effect. As it is, it being impossible to carry them into full effect, they depreciate the currency, whenever it is superabundant, without preventing its exportation. In spite of all laws, and all penalties, and all vigilance, the precious metals, whether in coin or otherwise, always have found, and always will find their way, from countries where they are superabundant, to those where they are in demand; and these laws, these penalties, and this vigilance, have merely the effect of lowering the value of the metallick currency, by a sum equal to the risk incurred by their severity. Just as the snuff-boxes would be sold in England for so much less, as would equal the expense of ensuring their exportation.

When the currency consists partly of the metals, and partly of paper, any excess is corrected by the withdrawing part of the paper, which, when the channel is full, instantly flows back upon the issuers. These partial runs on the bankers for cash, in exchange for their notes, oblige them to limit their discounts, and consequently contract their issues; so that the currency regains its level, without the necessity of discharging any part of the specie by exportation. There being little occasion, therefore, to export specie, these laws, in this case, produce no perceptible effect on the value of the metallick part of the currency. One effect, however, they must in a certain degree produce; and, in so far, in the best and most natural state of the currency, they are calculated to do harm; while, under no circumstances, can they possibly do any good.

It is of advantage, so long as its convertibility into coin ensures it from being issued to the extent of unduly increasing the sum of the currency, that as much as possible of the currency should consist of paper, and as little as possible of the metals. In the first place, paper is a cheap instrument of exchange, and gold and silver are a dear one. In the second place, the more widely bankers can circulate their notes, the greater accommodation they can afford merchants, manufacturers, and cultivators, in enabling them to trade, to a certain extent, on future capital, as if it were already realised. But these laws, so far as they are effectual, prevent the substitution of paper for specie. Their tendency is to keep all the specie in the country, where, probably, one-fourth part would be sufficient, and where it yields no returns, instead of facilitating its exportation to foreign countries, on which the same profit would arise as on the exportation of any other commodity; while its place at home would be more beneficially supplied by paper. That the possession of a great quantity of specie in circulation, is the sign, or the means of wealth, is so far from being true, that it is a sure proof of a low state of mercantile advancement, and a great obstacle in the way of all improvement of capital, and the progress of industry.

The last expedient that governments have resorted to, except the government of Great Britain, has been the forced circulation of paper issued by themselves. It has been reserved for Great Britain, in the present day, to force the circulation of paper issued, not by the government, but by companies of bankers, for their own private emolument.

Though the temptation on the part of the government seems very different, the effect of such forced circulation of paper on the currency, is the same in both cases. Whether government be the issuer, or a company of bankers, the reception of the paper will depend on the opinion entertained of its credit. The authority employed to enforce its circulation, may tend to create a suspicion regarding it, but can never add to its credit in either case; nor is it in the power of any government to make paper pass, in new transactions, for more than it is supposed to be worth. It may, indeed, be made to pass for more in the discharge of contracts formerly subsisting; and thus, all those, who have to receive money under such contracts, will be defrauded. But it is manifestly impossible to prevent new contracts from being entered into, with a due regard to the actual value of the currency. Thus, in France, the ingenuity and the power of the revolutionary government were exhausted in vain, to prevent the depreciation of its paper currency; which continued increasing, till a man paid as much in assignats

for breakfast at a coffee-house, as in specie would have maintained him for a great part of the year.

Paper thus issued, not convertible at will into money, is subject to two distinct causes of depreciation:—First, if any doubt be entertained of the ultimate solvency of the issuer; and secondly, if the issue be superabundant.

The first cause requires no illustration. But it may be proper to remark, that, though a suspicion of the credit of the paper may exist, it cannot cease to have some value, so long as the government takes it in payment of the taxes; and its depreciation, deducting this cause of value, will depend on the opinion entertained as to the extent of loss that may eventually accrue.

But the over issue of paper depreciates it, though there be no fear entertained of any eventual loss; for, though nothing is more true, than that paper currency, being merely the representative of gold and silver, can have no value but as their representative, it must be recollected, that it is the representative of gold and silver for home consumption only. Gold coin, though prohibited from being exported, is capable of exportation, and is daily exported. The risk must be paid for; and gold coin, when there is a demand for exportation, is, by the amount of that risk, of less value than gold that may be exported. But paper, the representative of gold coin, is utterly incapable of exportation. It is precisely in the situation in which the gold coin it represents would be, if the prohibitory laws could be absolutely enforced. It must be disposed of, not at its value in the general market of the world, but at what it will fetch in the narrow market to which it is confined. If gold snuff-boxes could, in like manner, be confined, they might sell at 25, or 50 per cent. less, than the same weight of gold, of equal fineness, in a shape which enjoyed the benefit of a more extended market. A promissory note, to deliver a certain number of these gold snuff-boxes, of a certain weight and fashion, would pass current, if the grantor of the note were in good credit, not for the value of the quantity of gold, as exportable, contained in them, but for the value of these unexportable articles,—that is, for 25, or 50 per cent. less, than the value of the gold in an exportable shape. Here, then, we should have a particular quantity of gold in one shape, exchanging at quite a different value from the same quantity in another; the manufactured gold at less than the unmanufactured. But the manufactured gold would not, therefore, exchange at an ideal, or arbitrary value, as the representative of abstract value, or of the general value of the bulk of commodities; but at its real exchangeable value in a market overstocked with it, from which it could not escape. Nor would the promissory note exchange as the representative of abstract value, or general value, or the value of the commodity some time

back; but as the representative of the commodity itself, at its then exchangeable value in the market to which it was confined. If there were any doubt of the grantor of the promissory note being able to produce the snuff-boxes stipulated on demand, this were another reason for the note being of less value than the quantity of gold bullion contained in the boxes it engaged to deliver; for it would be of less value than the boxes themselves. But human ingenuity cannot divine a reason, why an engagement to deliver on demand, twenty snuff-boxes, containing an ounce of fine gold each, should not be worth twenty ounces of fine gold, except these two:—Either that it is not believed, that twenty snuff-boxes, of this weight, can be delivered when demanded:—or, that, when delivered, they will not be worth the same quantity of gold in a different shape; which can only arise from there being too many of them in the market.

Two circumstances are observable, where the value of currency is reduced by an excessive issue of paper, while the security remains unimpeached, which, at first sight, may to some appear extraordinary.

1. Whatever metallick currency remains, passes on a footing with the depreciated paper, in exchange for other commodities, though, at the instant, bullion is at a premium, and, perhaps, the metallick currency also, when directly exchanged for paper. But this happens equally

when the coin is debased. Whatever good coin remains, passes only on a level with the bad, in exchange for other articles. It may, perhaps, at the same instant, be at a premium, in direct exchanges against the debased currency. The fact is, that prices are adjusted to the general state of the currency: nor, unless the depreciation be excessive and striking, and not always then, does it occur to state two prices. All former engagements are of course discharged in the debased currency, which gives the tone to the whole.—Bullion merchants, however, soon discover it. They buy up the good coin, and it soon leaves the debased coin in quiet possession of the field.

2. Again, if there be permanent government securities, and the government be in good credit, they will probably sell at a high price. This arises from the same cause which raises the price of other things; the superfluity of money; and, if the interest be paid in paper, the purchases are made in paper likewise.

The advantages derived by a government, from forcing the circulation of paper, can be only three: first, the defrauding its creditors, by lowering the value of the currency; secondly, the acquiring the disposal of all the metallick part of the currency; and, thirdly, the banker's profit on the issue, which, when the paper issued is government paper, will be made by the government. The first is an

object which the most profligate government would hesitate to avow. How very poor an object the second is, will be readily conceived, when it is recollected that, in the first instance, when the currency is in its natural state, it is rather more expensive to send abroad the precious metals in a coined, than in an uncoined form—that the utmost quantity of gold and silver in circulation, at any particular time, where paper has been at all introduced, is, of necessity, very small—and that it can only be laid hold of once. When this is gone, the excessive issue of paper tends most powerfully to prevent any gold or silver from ever coming back; and, consequently, this advantage can never be derived a second time. Of the whole gold in circulation in Great Britain, at the time of the bank restriction, what the government could, at any one time, lay hold of, could not have defrayed the expense of one campaign—probably, hardly that of one expedition; while, through the high price of bullion, and depression of the exchange, produced by the state of the currency consequent on that measure, the government has, for a long course of time, been losing from twenty to twenty-five per cent. on every remittance made for the service of the war abroad.

Large as the profits must be, of supplying paper for the circulation of a great country, and large as those of the Bank of England have actually been, on that part of such supply as this bank has afforded, this consideration will hardly be thought to offer sufficient inducement, to a regular, and wise government, to incur all the mischiefs of a deranged, and depreciated currency. If, however, it was determined to incur these mischiefs, or, if it be now determined to continue them, we cannot but admire, that the British government should reject the benefit. If additional taxes must be imposed, to meet the additional expense of foreign remittances on account of the publick, and of all stores, &c. purchased, there seems no good reason, why a part of these taxes should not be met by the profits arising from the system. At the same time, that it were not difficult to show, that the management of the system would be at least equally safe, and its termination more easy of accomplishment, if the whole controul were directly vested in the government itself.

On the whole, therefore, we may conclude, that the forcing of the issue of paper by private bankers, as a permanent measure, and a measure of state, appears wholly absurd and preposterous; and that a forced issue of paper can, in the end, be productive of none but mischievous consequences, and can hardly be of any temporary advantage worth adverting to, except to a revolutionary government;

where national bankruptcy, and a total change of private property, may be desirable, and a momentary, and violent struggle, at the risk, or with the certainty of these effects, essential.

ESSAY V.

Of the Effects of Wealth and Currency, on Price and Value.

FROM what has been said, it is evident, that the effect of a forced circulation of superabundant paper, is not to raise the *real price* of commodities; but to create what may be truly called a *fictitious*, or *nominal price*. Commodities do not, under these circumstances, exchange for more of the standard metal, in which the currency is calculated; but this quantity assumes a higher denomination. The increase of wealth, on the other hand, truly raises the price of commodities; not so properly by introducing into a country a greater quantity of money, or of actual gold and silver, as by enabling a small quantity to perform the functions of a larger.

In order to form a distinct notion of the way in which this happens, it is necessary always to recollect, that *money* is not *wealth*, and that nothing is *money*, but *metallick currency*. It is true, that *wealth* is commonly estimated in *money*, and that what circulates from hand to hand, is, for the greater part, not *metallick currency*, but *paper*, its repre-

sentative. But the nature of wealth is not altered by the mode of its estimation, and the reasoning, applicable to metallick currency, will equally apply to paper, so long as it continues truly the representative of metallick currency.

The more wealth is acquired by the inhabitants of a country, the more capital they will keep, in such a shape as to be constantly at command. Every thing is capital of which the owner can dispose; but the greater part of every person's possessions, are of a nature not at all times to be instantly exchanged for their true marketable value. The merchant, whose warehouses are full of various valuable commodities,—the manufacturer, who has on hand a large quantity of valuable materials,—the farmer, whose granaries contain all the corn produced during the year,—the country gentleman, who possesses land, worth thirty times the income it yields,—have each large possessions, and a large capital; while, possibly, they are unable to exchange any part of them, at the instant when they wish to procure some immediate object of desire. To remedy this inconvenience, they take care, besides this sort of capital, to keep always by them a certain portion of their wealth, in such a commodity, as they can, at all times, exchange for whatever they desire, namely, in money.

The more wealth there is, the more money people can afford to keep for this purpose. In very poor countries, there is very little so kept. Not only is there less exchange of commodities, and, consequently, less occasion for money to effect the exchange; but, as there is less wealth altogether, so is there kept, in a constantly convertible shape, a less portion even of what wealth there is. A poor country produces little more than suffices for its most absolute wants. It cannot, therefore, afford, for the mere purpose of gratifying, somewhat more readily, and conveniently, the casual desires of its inhabitants, to keep a large part of its little surplus produce unemployed; or to lay it out on the purchase of a valuable commodity, such as money, to be kept unemployed.

As riches increase, money becomes more plenty; as does every other commodity which the country desires. It becomes very much an object of desire, not only from the convenience above stated, but as matter of profit. It is found that things may be bought cheaper for ready money, than on credit. Some persons, not so provident, or so fortunate as others, find it advisable, or are impelled by present desires, to part with their possessions for less money paid down, than they would fetch some time hence, in order, with that money, to avoid present inconvenience, or to purchase present enjoyment. On the other hand, the possessor of a comparatively small sum of money is enabled to keep up commodities of large value, in order to

catch a favourable state of the market. As the number of persons increase, who keep money at command for these purposes, the competition increases for the purchase of commodities; and the ability of the holders increases to keep them up. Their *price*, consequently, increases; that is, their *value in money*. Their value, meanwhile, as compared with each other, may remain stationary; or, if it varies, it will be regulated, not by the quantity of money in the market, but by the relative proportions of supply and demand, as between the commodities themselves.

Before the invention of banking, every man must have kept by him, in a strong box, the ready money he required. Afterwards, he deposited it with a banker, with whom he thought it more secure, and equally under his command. Suppose twenty persons each to have deposited 1000*l.* sterling in gold with the same banker. He would very soon discover, that, at an average, all their demands would be constantly met by greatly less than half the sum. He might therefore keep 10,000*l.* to answer their demands, and he could afford to give credit, to other persons, to the amount of the remaining 10,000*l.* He might, therefore, safely, on the same principle, give credit to twenty more persons, to the extent of 1000*l.* a-piece. The whole sum of 20,000*l.* would thus enable each of forty persons to command, at any instant they might require it, a sum of 1000*l.* in ready money; that is, it would be equal to the sum of 40,000*l.*, kept by forty persons, in ready money.

Suppose any commodity in general request set up to sale, before the practice of banking, there would be in the market twenty competitors, each ready to command, if he chose, 1000*l.* for its purchase. If the same commodity were set up to sale, after the banking system was established, there would then be forty competitors in similar circumstances. There can be no doubt, but this additional competition, other things being equal, would greatly enhance the price. It would make no difference, that the sum of actual gold at the bankers, from whose coffer the price was to come, remained only 20,000*l.*, as before. The competition would be the same as if it had been raised to 40,000*l.* For no more than 1000*l.* could be paid for the commodity, or drawn from the banker, whoever became the purchaser; and by which of the forty this should be done, would be matter of perfect indifference.

None but a prodigal would keep unemployed, or borrow from the banker, in order to keep it unemployed, a sum, which, if he had occasion to use it, he could not reckon on replacing, from some source of expected revenue, or profit. The purchaser, therefore, of the commodity, would replace with the banker the 1000*l.* he had drawn, as soon as the expected revenue, or profit was received.

But, however certain he might be of the power to replace it in a given time, he would, nevertheless, owe his being in a condition to bid for the commodity, entirely to his having the requisite sum at command of ready money, either of his own, or advanced to him on credit. Other persons possessed of three times his wealth, but having less of their capital immediately at their command, in the shape of money, however desirous of acquiring the commodity, would be unable to enter into competition for it, with him who had borrowed the money of his banker—nor would it alter the case, though the former were certain of being possessed of the money, before the latter would be compelled by the banker to restore it. The latter, having no ready money of his own, is, by the indulgence of the banker, placed in the class of monied men. When he replaces his money, he is in the same situation as at first, and is continued in the same class by the same indulgence.

All modes of advance by bankers, on credit, whether on the security of land, or personal bonds, in sums to be drawn and replaced, within certain limits, as occasion requires; or in bills of exchange; unite in producing the same effect on the market, as the influx, to the extent of such credits, of an additional quantity of metallick currency. But, besides this mode of advance, many persons, as wealth increases, after retaining at their own command, in money, such part of their wealth, as they think necessary for their convenience, are induced, from various circumstances, to lend it in money on bonds, mortgages, and other permanent securities. Each of these loans has the effect of converting into ready money an equivalent part of the capital on which it is secured, which would otherwise remain locked up, producing only revenue. Add to this, that much is lent to adventurers, on the hopes of speculative profit, where there is no corresponding capital. If it be recollected, that, by the extension of the banking system, every sum of ready money, actually deposited, operates on the markets, equally with the introduction, not, as supposed above, of double, but as is more probable, of ten times the value in coin, some vague idea may be formed of the effect of increasing wealth on prices.

But the effects of all these circumstances on prices, can be produced only in one of two ways; either, by introducing, and detaining, a greater quantity of actual coin, or, by enabling a smaller quantity of coin, by means of credits, to perform the functions of a larger. The former follows from the greater plenty of the precious metals in the world; the latter from the increasing wealth of the country.

These effects are not, in any degree, derived from the increased quantity of floating capital in other commodities, or, in any way connected with it. Bread-corn is, of all commodities, next to the precious metals, the most readily, and generally, disposable at the market rate. Supposing it should be the fashion for persons desirous of having a large portion of capital always at command, to accumulate great quantities of wheat, instead of money;—this would reduce the value of wheat, in exchange for other commodities, but could not affect their *value in money*, that is, their *price;* because the proportion of demand and supply, between them and money, would remain unchanged.

If a man should possess of wheat, or of diamonds, as much as would, in the ordinary state of the market, exchange for half a million of pounds sterling, he would possess a great quantity of floating capital. For any thing, which he wished to purchase, he could afford to give a great deal of floating capital. He could afford, either to give, in exchange for it, a great quantity of wheat, or of diamonds, or to give a great quantity of wheat, or of diamonds, for as much money as would purchase it. But, if the thing were to be sold only for money, the quantity of money, for which it would exchange in the market, would be regulated, not by the wealth, in wheat, or diamonds, of this individual, but by the number of individuals, desirous of acquiring it, possessing money, and the quantity of money they possessed, and the equality of its distribution. If twenty other persons possessed each 1000*l.*

sterling in gold and silver, or paper their representative, there might be twenty competitors for the commodity. If the proprietor of wheat bade for gold and silver, in order to prepare for the purchase ultimately the object of his desire, the possessors of gold and silver might obtain in exchange more wheat, or diamonds, in proportion to the desire he felt to acquire the former with a view to his ultimate purchase, and his ability, from his wealth in these latter articles, to indulge it; that is, the value of gold and silver, estimated in wheat, or diamonds, would increase; in other words, the price of wheat, or diamonds, would diminish.

If he bought from one of the twenty persons all his gold and silver, there would still remain just twenty competitors, able each to advance 1000*l.*

If, in order to lessen the competition, he bought from five persons all their gold and silver, there would be fifteen persons able to advance 1000*l.*, and one person able to advance 5000*l.* But this would probably diminish the price, by lessening the number of competitors; and, though one of them could now afford to give 5000*l.*, it would not be necessary for him to give more, than as much as would just exceed what others could afford.

But, do the circumstances which affect the price of commodities, or their value in money, produce any change on their value in

other respects? It is obvious, that where the alteration has taken place in money only, commodities will remain, with respect to each other, in the same relative situation as before.

The effect of wealth is to increase the supply of all commodities in request; and it can, therefore, have no effect in altering the value of commodities among each other, except, that, by abridging labour, and facilitating the production of such as were, in a ruder age, more difficult of acquisition, it renders these exchangeable for a less quantity of such as are more simple, and more universally possessed in all states of society. Wealth, therefore, produces high prices, and plenty— Provisions exchange for more money, but labour exchanges for more money also; and the same quantity of labour, the demand for it continuing the same, produces and procures a greater quantity of provisions, and of all the necessaries and conveniences of life.

Another cause of increased prices, is taxation; though this seems to cause rather an *apparent*, than a *real* increase.

The imposition of a tax on any commodity, is, merely, an attempt by the government to cause to be paid to itself a part of the value of such commodity, estimated in money. If the merchant were to put up with this loss, the price would remain the same. But he endeavours to shift it, as Mr. Hume says, from his own shoulders, by adding the tax to the price. If the consumer were to submit to this, the real price of the commodity would remain the same. The only difference would be, that, along with this price, the consumer would pay to the merchant the amount of the tax, which the merchant had before paid to government. But, by every such imposition, the demand is lessened. The tax paid remains the same, but the real price is lowered. The merchant is obliged to put up with less profit on what he has on hand, or the grower with less profit on the future supply, and the consumer to pay something more; till the commodity again finds its level: and, according to the degree of demand, the tax is borne, in greater or less proportions, by the merchant, or grower, out of his profits, and by the consumer, out of other funds, than those usually destined by him to purchase the commodity in question.

The effect, however, of every particular tax, must be, to lower the *real price* of the commodity taxed, by lessening the demand; except in so far as the money thereby raised by government is laid out in the purchase of that commodity. And the effect of all taxes, by withdrawing money from the possession of its owners, and lessening the number of purchasers, and what they can afford to give, must be, to lower the *real prices* of all commodities; unless in so far as a new source of demand arises, in the sums expended by the government within its own territory.

When the tax, as happens for the most part, is, in the first instance, advanced by the merchant, he must add to the price, not only the amount of the tax itself, or, rather, such part of it as the demand will bear, but, also, a profit on his additional advance of capital. By thus much its *value*, and its *real price*, are increased. It is worth so much the more, estimated in every other commodity, and, consequently, in money.

Of all other commodities, it is obvious, the value among each other, and the price, must remain unaffected, except as the demand may be altered; which must tend to lower the relative value of those, the demand for which happens to be lessened in the greatest proportion, and, as already said, to lower the *price* of all; since so much money is withdrawn from the market.

But it does not readily appear in what way taxation can raise the price of articles not taxed, however it may depress it.

A forced circulation of superabundant paper, has all the effects on prices *nominally*, that the introduction, and detention, of a like quantity of specie, would have *really*. And these effects, as has been shown, are not confined to the direct result of causing more currency to be bartered in exchange for commodities, in consequence of there being more currency in the market; but extend to the indirect, and incalculable result, arising from the increased competition for the purchase of commodities, and increased power of withholding them from the market, through the multiplication of credits. To this multiplication, *the mode in which paper is issued* for circulation contributes, independently of its quantity. If 10,000,000*l.*, in gold and silver, were suddenly introduced, it must find its way into circulation by degrees, and, in its progress, give rise, with more or less rapidity, according to the intercourse established, and the state of the banking system, to the credits it is calculated to create. But, the issue of the same quantity of paper, is, in its origin, an advance on credit.

ESSAY VI.

Of the Balance of Trade, and Course of Exchange; and of the Effects of a Forced Circulation of Paper Currency.

It is evident, that, when a country purchases any commodity from a foreign country with money, the value of the money it parts with is exactly compensated by that of the commodity it receives: and, when it sells any commodity to a foreign country for money, the value of the money it receives is exactly compensated by that of the commodity it parts with. To suppose otherwise, were to suppose, that either its own, or the foreign merchants, would part with their commodities for less, or purchase those of others for more, than they were worth. It is also evident, that money not required for circulation is useless. It is a manufacture in an over-stocked market, whose value is lowered by want of demand. The surplus, therefore, cannot be detained, if there is a market elsewhere; and, if it could, it would be detained at a loss. It is, therefore, certain, that no country ever possesses more money than its circulation requires.

It is no less certain, that, if it do not produce gold and silver, it can export no more of these metals than it imports; and that, unless it can prevail on some nation to give it gold and silver for nothing, it must, for all of these metals which it imports, export an equal value in commodities.

Whatever articles are purchased, the amount in value of the possessions of the community, in commodities and money together, remains the same, till such articles begin to be consumed, or impaired. Then, by the amount of such consumption, or wear, the sum of the value of its possessions will be diminished. This, however, does not ultimately lessen, but increase, the wealth of the community.

If the carpenter, the bricklayer, and the plaisterer, lay out part of their earnings with the brewer for ale, which they consume, they must increase their industry, in order to procure this indulgence; and, if they do not indulge so freely as to interfere with their industry, or to lessen the capital which enables them to turn their industry to the best account, this additional spur will probably cause them to acquire more additional profit, than will meet their consumption of ale. This additional profit, laid out as capital in their respective trades, will afford constantly increasing means of profit. On the other hand, the profit their increased consumption affords the brewer, enables him to extend his pre-

mises, and to give the carpenter, the bricklayer, and the plaisterer, additional employment in their respective trades. He consumes more barley, and hops, in his manufacture; he keeps more servants, and consumes, therefore, more bread, and butcher's meat. The growers of barley, and hops, the butcher, and the baker, partake in the increase of wealth. They mutually consume each other's produce, and encourage each other in producing; and, as they increase in wealth, they all afford more employment, and, consequently, additional wealth, to the carpenter, the bricklayer, and the plaisterer.

It is obvious, therefore, first, that there is no profit in exchanging commodities for money, rather than for other commodities; and, consequently, that, when we speak of the balance of trade with any particular place being in favour of a country, meaning thereby, that, on the settlement of the accounts of commodities exported to, and imported from, that place, a balance falls to be paid in money to such country, we do not speak of a circumstance favourable to that country, but merely announce a fact; secondly, that the balance of trade of a country, which does not possess gold and silver mines, on a settlement of accounts with all the places with which it deals, must be precisely equal, except for the sum it may be necessary, from the increase of its internal traffick, to add to the money circulating within itself, and the consumption of its inhabitants in the article of plate, &c., and that its wealth is by this circumstance wholly unaffected.

It follows, also, that no part of the outlay of the inhabitants of a country, whether on foreign or home commodities, prevents the accumulation of wealth: and that *the mass of its commodities* is thereby undiminished in value, except in so far as some are consumed, and others impaired, in the use. If, therefore, a community could be found, whose members could subsist without eating and drinking, and who did not require to make use of any articles of convenience, but such as were not liable to be worn out, such a community would accumulate commodities with surprising rapidity. But it would be necessary, also, to ensure them the possession of industry, without the common motives to action; and the love of exertion without having any object in view: And, to give to this accumulation the name of *wealth*, it would be necessary, that the neighbouring communities should be very differently constituted. Their power of purchasing must remain unreduced by any failure in the demand for their own produce, arising from a want of consumption by the community in question; and their desire for the accumulated commodities must go on increasing, with a rapidity equal to such accumulation.

The wife of Dr Franklin, however, introduced wealth into a little American village, by accidentally giving the women a taste for finery: and the Dutch increased the wealth they derived from their Spice Islands, by annually destroying great part of their produce.

The introduction of paper currency, is a saving to the community, of the profit made by employing in trade the whole of the money for which it is substituted, with the deduction of the sum necessary for the issuers to keep by them in money, to answer the demands of such as have occasion for money.

If it be not convertible at pleasure into specie, it is impossible but it should become excessive; since the issuers derive a benefit from the issue, and, from its never coming back upon them, have no regular, or distinct intimation of the excess. The specie must consequently disappear; but no other effects will be perceived, till it has disappeared. Its constant discharge will prevent the currency from being excessive; and the country will be equally rich, in possessing the commodities for which it has been exchanged, as in possessing the specie itself. But, so soon as this means of waste ceases, the currency will overflow; and, having more of this paper than he used to have of money, every person will be able to pay more of it for commodities purchased within the country. The country will, on this account, be neither richer nor poorer. The nominal price of commodities will have risen; but their value will remain the same.

The paper will be truly said to be depreciated; that is, it will be exchanged for less specie than it purports to represent, and for a smaller quantity of other commodities, than would be obtained for the value in specie, which it purports to represent. And this will happen without any doubt of the perfect solvency of the issuers. For, supposing them to be worth hundreds of millions, and their paper not to exceed 30,000*l.* yet, if all the sum necessary for the circulation, where it will pass, be limited to 15,000*l.*, it is evident that half of it will be useless—that the persons holding it will take less for it than its nominal value, rather than have no value for it at all—and that thus it will become depreciated.

If the issue should stop, and the amount of depreciation be ascertained, no person, who took it at such depreciation, would be a loser; because he could get for it as much as he gave.—But, while the depreciation is going on, every person who takes it is subject to lose a little; and those, who have contracted to receive a certain sum in money, and are paid in this paper at its nominal value, lose exactly the amount of the depreciation.

It has been said, that the community loses nothing by this depreciation. But it appears obvious, that it can gain nothing. The circulating medium of a community, if it consist of specie, forms part of its wealth; for it can be exchanged to other places for the commodities they produce. Paper money, on the other hand, possesses no value; and consequently the increase, or diminution of its quantity, neither increases, nor diminishes, the wealth of the community. Suppose each bank note to represent a pound sterling, and that they have become depreciated one half; it will require two notes to be paid in every transaction, where, before the depreciation, one would have done. There is nobody the richer, or the poorer for this; because, in fact, two notes just represent the same sum which one note represented formerly: except persons, who, having, before the depreciation, stipulated to receive a certain number of bank notes, are paid this number now that their value is reduced one half. These persons have lost exactly half their property. On the other hand, their debtors have paid their debt with half the sum they received. So that what has happened is neither more nor less, than a transfer of half the property of the creditors into the pockets of the debtors.

But, as every new issue increases the depreciation, so it increases the necessity for a further issue, in order to afford the same degree of accommodation to those who borrow of the banks. To carry on the same trade as formerly, requires double the amount of nominal capital; and, to receive the same accommodation as formerly, requires double the number of bank notes. This increased issue of notes, increasing the quantity of currency, depreciates it still more; or, which is the same thing, raises still higher the nominal price of commodities; which, again, requires a further increase in the issues. This must go on in a double progression, till payments in specie are resumed.

The merchant buys goods in his own country with bank notes, taken at half their nominal value. When these goods are sold to foreign merchants, who have no connexion with the state of the currency in the country with which they deal, the native merchant receives payment, according to the market rate, in silver, the common money of the world. With this money he purchases, from other foreigners, the commodities of which the country stands in need, which he again sells to his countrymen for bank notes, taken at half their nominal value. By these means, the exact number of bank notes are replaced to him, which he originally paid for his goods; he deriving on the transaction just the same rate of profit, as he would have derived, if the whole transaction had been conducted by the intervention of specie, instead of that part of it only, which takes place abroad, being so conducted, and that part, which takes place at home, being conducted by the intervention of paper.

Suppose one native merchant to have bought goods from a Hamburgh merchant on credit, and to be consequently in his debt to the amount of 2000*l.* of real money; and

another native merchant to have sold goods to another Hamburgh merchant on credit, to the same amount. It is clear, that the obvious way of adjusting accounts would be, for the Hamburgh merchant, who owed the 2000*l.*, to pay them to the other Hamburgh merchant, who had to receive 2000*l.*, and to get from him, in lieu thereof, an order on the native merchant, who owed 2000*l.*, to pay them to the native merchant, to whom 2000*l.* were due. But, as payment, as between the two native merchants, was to be made in bank notes, the debtor would require to pay four thousand bank notes, being equal in value to 2000*l.*, and the order which the one Hamburgh merchant would have to purchase from the other, would be an order for four thousand twenty-shilling notes. As he would purchase this order, for four thousand twenty-shilling notes, with 2000*l.*, it would appear, to any one unacquainted with the state of the currency of the country, and the real nature of the transaction, that he was deriving a great benefit; in other words, that the course of exchange was greatly against the country: whereas, in fact, it would be exactly at par, the apparent difference, arising merely from the nominal and real value of the currency of the country not being the same.

It might, however, very well happen, that a real profit should be made by the Hamburgh merchants, in drawing their payments from the country in question. Suppose there were three of the native merchants who owed 2000*l.* each to different Hamburgh merchants, and suppose there were four of the native merchants to whom other Hamburgh merchants were indebted 2000*l.* each; the whole sum due from Hamburgh to this country, would be 8000*l.*, and the sum due from this country to Hamburgh, would be only 6000*l.* As there would be some expense, and trouble, in each of the Hamburgh merchants sending, in specie, the 2000*l.* he owed, these merchants would prefer paying any thing short of that expense, to one of the other merchants, who, having to receive 2000*l.* from this country, could give him an order, or bill, for it, which might be sent by the post.—As there would be four persons in want of these orders, and only three persons who could give them, a competition would arise; and the holders of the orders would be able to get their utmost value for them; that is, probably, something short of the expense of sending the actual money. This would be so much profit to the holders of the orders. It is possible they might even sometimes get a little more, from the effect of the competition, and the inconvenience, and trouble of procuring a conveyance. But they never could get much more, and in general probably not so much. The real course of exchange, in this case, would be in favour of this country as with Hamburgh.

As the balance of trade, as between any country, not having mines of its own, and all the places with which it deals taken together, can never be otherwise than even in the long run, it can never happen, that the general course of exchange, as between any country and all the places with which it deals taken together, can be really much otherwise than at par; that is, if it be against it with one place, it must be nearly proportionally in its favour with another. If it is apparently much otherwise, it must arise from the state of its currency. That it may be a little otherwise, will appear presently.

If England should receive from Hamburgh, more commodities than the value of the goods it sells to Hamburgh, so that the balance is against it with Hamburgh, and consequently bills on it are at a discount there, equal, or nearly equal, to the expense of sending money from England to Hamburgh to pay its debts there; it has no means of paying these debts at all, unless it have sold to some other country so much more goods, than the whole of the goods it has received from thence, as equal the amount of its debts to Hamburgh. The balance, therefore, between England and this country, will be in its favour, and bills on it will bear a premium there, approaching, or equal to, the expense of sending money from thence to England, to pay the debt due to the latter.

When it is said, therefore, that the balance of trade, between any country and all the places, taken together, with which it deals, is exactly even, it is meant to state this absolutely, with the trifling exception above-mentioned; but, when it is said, that the course of exchange between any country, and all the places, taken together, with which it deals, is exactly even, it is not meant to state this absolutely; for the rate of exchange is neither more nor less than the expense, and trouble of transmitting money from one place to another; the saving of which expense, and trouble will, like all other commodities, bear various prices, not exceeding, or not much exceeding, the actual expense, according to the degree of competition in the market. But, as the expense of sending money to England from the country, with which the exchange was favourable, might be greater than that of sending money from England to Hamburgh, the unfavourable exchange with the latter place might be more than compensated by the favourable exchange with the former. If, on the other hand, the balance were the other way, the favourable rate of exchange with the latter would not compensate the unfavourable rate with the former; and England would suffer a real loss on this trade, to the amount of the difference. In order to make it worth while to continue this trade, it must afford

some other advantage to counterbalance this loss.

But the rate of exchange, though it can never exceed, or at least much exceed, the expense of transporting money to and from a country, is affected by another circumstance. There are dealings between America, for instance, and Hamburgh, as well as between these places and England. The American merchant, therefore, when, in consequence of there being more money to remit from America to England, than America has to receive from England, he finds himself disappointed in purchasing bills in America on England, knowing that there are dealings between England and Hamburgh, will endeavour to ascertain whether he can purchase such bills at Hamburgh. In consequence of the balance due by Hamburgh to England, he will find this easy; and, in payment of the bills on England, so purchased by him at Hamburgh, he will permit the Hamburgh merchant to draw on him in America; which draft, again, goes in payment of a debt due from Hamburgh to America. So that the rate of exchange between Hamburgh and England, is varied by the new demand from America for bills on England; and the extent of this demand must depend on the course of exchange between America and Hamburgh. Thus bills on England may bear a premium at Hamburgh, though the balance of trade be in favour of the latter place; provided the course of exchange make it necessary to send money from America to Hamburgh, and provided the balance, due from America to England, exceed that due from England to Hamburgh. On the supposition that England traded with no other places, and that, consequently, these balances were equal, there would be no direct course of exchange between England and America; and the exchange between England and Hamburgh would be at par.

In proportion, therefore, to this intercourse between nations, the course of exchange, as between any two, is subject to the less variation: and, if that intercourse were perfect, the rate of exchange would be universally at par.

We have thus seen, that the issue of a paper currency, not convertible at pleasure into specie, leads inevitably to the issue of such paper in greater quantity than the demand for internal circulation requires;—that it does so because, in the first place, there is an obvious, and direct interest in the issues of such paper, to issue thereof as much as possible; and, secondly, because they have no means of instantly perceiving when their issue has exceeded the demand. We have seen, that such over-issue directly alters the relative value between all commodities and the currency, not with reference to any supposed want of capital in the persons issuing the

paper currency, but merely from its excess, and from its being impossible to dispose of such excess in foreign countries. We have seen, that the rise in the value of commodities, as estimated in the currency, creates a new demand for the issue of more currency, and that this issue, again, raises the value of commodities; so that, unless the currency of the country be restored to its convertibility into the precious metals, which are the common currency of all the world, the increase of the paper currency must go on in a twofold ratio, so long as the credit, and capital of the country subsist. We have seen, that this does not affect the real course of exchange between the country and other places; though it alters it nominally perhaps in a very high degree. We have seen, that by this depreciation of the currency, no alteration is produced in the wealth of the country; except that, by the advance of capital to some individuals, it enables them to make a profit which they would not otherwise have an opportunity of making; and, thus far, it is the means of increasing the wealth of the country; but, on the other hand, it is clear, that it must also give rise to a great deal of unwarrantable speculation, from the failure of which it is questionable if there will not occur more loss, than will counterbalance that benefit. But we have seen, what is the most important consequence of all, that it completely alters the nature and effect of all contracts, and transfers, by a sort of magical operation, the property of those persons, who were originally the principal possessors of property, into the pockets of those, who were originally possessed of little or none. It is hardly necessary to remark, that it must thus overturn the whole state, and condition of society; by reducing, in the scale of wealth and consequence, those, who were wont to take the lead, and, by advancing into their places those, who formerly depended for bread on their industry. Where a revolution is desirable, no means can be adopted more effectual; though none attended with private injustice more minutely felt, or more extensively diffused. Where a revolution is not desirable, nothing ought to be more sedulously avoided; since, if the stability of a government be supposed at all connected with the retaining political power and influence in those hands, in which it has been accustomed to be placed, and, if political power or influence be supposed at all connected with wealth, the sudden transfer of property from the rich to the poor, so as not merely to equalize them, but at once to make those poor who were rich, and those rich who were poor, cannot fail to produce a revolution the most entire.

These effects of a depreciated currency are sufficient to set aside any consideration of its effects upon the wealth of a country; since, in a country possessed of a good government,

its wealth is matter of consideration so far only as it contributes to the strengthening of that government, and thus to the defending the country from foreign attacks, and securing its internal peace and prosperity. But its operation is no less powerful in affecting the wealth of the country, by thus depriving creditors of the security apparently held out to them in their contracts, than in the direct injustice it inflicts on creditors, and the consequent revolution it produces in the state of society. For, when persons find, that the received standard of value is liable to daily diminution—that, in fact, it is in a state of progressive decrease—being puzzled as to the substitution of any other standard of value, not liable to the same fluctuation, they will enter into no contracts which regard a tract of future time. No landlords will grant leases, at least, for any considerable length of time; nor will any one enter into any other engagement, under which he is to receive, for a considerable length of time, a fixed annual sum, calculated in the currency of the country. Even persons, who lend a sum of money, to be repaid in a given time, will not be certain, that the repayment of the same sum, at the stipulated period, will be a repayment of the value advanced. Thus, the foundations of credit will be sapped; and not only all the inducements, but all the possibilities, of rational adventure absolutely destroyed.

These are the great, and necessary evils, attendant on a depreciated currency. We have seen that its effects, on the price of specie—on the price of commodities—and on the rate of exchange, are merely nominal. But we have also seen, that, when the value of specie is greater than that of the currency, that is, when the currency cannot be exchanged for the quantity of specie which it purports to represent—when the price of all commodities, as estimated in currency, has rapidly increased, especially if there be a difference in the price, as estimated in specie, and as estimated in currency—and when the rate of exchange with any place permanently exceeds the expense of transporting specie from the country to that place, or the balance of its trade with all places, taken together, estimated in its currency, be materially against it—we may conclude, that these things cannot arise, but from a depreciated state of the currency; and, if it be maintained that all, or any of them, have existed without it, we may conclude, that there is some mistake, as to the fact, or some circumstance connected with it, not sufficiently explained. Indeed, it were as difficult to conceive, that two and two do not make four, as that any of these things can exist, for such length of time, as to be the subject of any inference whatever, without a depreciated currency.

It is certain, that the issue of paper currency can afford no facility to a government,

in supporting a foreign war, or other foreign expense. By issuing paper itself, it may, indeed, make a banker's profit; but this profit, being made at the expense of its people, resolves itself merely into a tax; which may be otherwise levied. Other advantages, we have seen, it possesses none, for a regular government.

If we suppose the government, instead of issuing paper itself, to force the circulation of paper, issued by private bankers, it is evident, the bankers will make a large profit. They will, therefore, be readily induced to make the government such advances as they can. This may be an accommodation to the government, arising from the system. But, if the bankers have all their property vested in the country, it is difficult to see from what places they can get specie for the government, or by what means, that are not open to the government itself. It is obvious, that the bankers may be the means of exchanging money with facility, within the country—that they may supply, by their paper money, the place of specie, for internal currency—that, by advancing this sort of money, on the security of expected profits, or of property not converted into money, they may greatly facilitate the purposes of trade, and, making a profit on such advances themselves, enable the community to make a further profit, by thus anticipating, and more frequently turn-ing over, their capital—finally, that they may be the means of adjusting payments, by, and to, foreign places, with greater facility, and less expense. But it is also obvious, that they have no means of bringing into the country specie, or any other commodity, except in exchange for commodities sent out of the country. In truth, as they have often occasion for specie in their own transactions, they naturally become, to a certain extent, dealers in specie. But, in order to buy specie, they must have something to give for it. They can only give to other countries those commodities which their own affords; in which respect, they are precisely in the same situation with any other merchant, desirous of importing any other commodity. And whether the medium of exchange, within the country of which he is a native, be gold and silver, or brass and iron, or bits of stamped lead, or printed paper—whether this internal currency be convertible into one commodity, such as gold, or silver, of ascertained value all over the world, or not—whether it be of the value it is stated to represent, or debased and depreciated—is, neither to the bankers, nor to the dealer in specie or bullion, nor to the dealer in any foreign commodity whatever, of any consequence. The price ultimately paid, as the price of such commodity, must be some commodity which his native country produces; and their respective va-

lues, according to which he makes his purchase, must be adjusted by a standard, common to the place where the purchase is made, to his native country, and to the other places with which his native country trades.

NOTES,

REFERRED TO IN THE PRECEDING TRACT.

Note [*A*] p. 47.

Gold, as well as silver, is sometimes mentioned, in the publick ordinances, as necessary to be retained within the kingdom. But it is evident, that gold was, during all this period, in great plenty, and that the measures adopted related merely to silver*. Silver sold, during the reign of James I., at a penny, two-pence, three-pence, &c. above the mint price †. On 6th September, 1647, the lords and commons passed an ordinance, prohibiting the currency of clipped, or unlawful diminished *silver* coins; but permitting them, for a limited period, to be received in payments, at 4*s*. 10*d*. per ounce. A strange notion, that persons should consent to pay silver at the rate of 4*s*. 10*d*. per ounce, when the mint price of 5*s*. 2*d*. was found too low to prevent its exportation!

Note [*B*] p. 51.

See the luminous account of this interesting part of our financial history, in "The Depreciation of the Paper Currency of Great Britain proved," by the Earl of Lauderdale; and the authorities there cited. Lord Lauderdale observes, that, "at the revolution, "when gold was to silver rather above the proportion of "1 to 15, as appears from the convention of Leipsick, "when the German coinage was regulated, guineas be-

* See Lord Liverpool's Letter to the King, pp. 59, 60, to 69, and authorities there cited.

† Ib. p. 65.

"ing, in England, at 21*s.* 6*d.*, or as 15.6 to 1, Sir James "Steuart infers, with certainty, that the English silver "coin was at standard weight." Mr. Locke says*, "twenty guineas, though coined at first for 20*l.*, go "now as current for 21*l.* 10*s.*, as any other money, "and *sometimes for more, as the rate goes.*" They were therefore full one-thirtieth part above the market price in silver of full weight,—or more than $3\frac{1}{4}$ per cent.

The price of bullion, by the Commons' report above mentioned, was, in 1690, $2\frac{1}{2}$ per cent. above the mint price. In 1691, the author of the "Remarks on a Paper given into the Lords," and of a paper "for Encouraging the Coinage of Silver," which it was Mr. Locke's object to answer, states, that silver bullion was at 5*s.* 4*d.* per ounce, that is, *3.22* per cent. above the mint price. The appointment of a committee in 1689, the petition and committee in 1690, the testimony of all contemporary writers, and the propositions for raising the denomination of the coins, (then so much insisted on), prove the scarcity, and debasement, of the silver. Mr. Locke, in 1690, expresses great apprehensions from the clipping of the coin; "which," says he, "will, one time or other, be sensibly felt, and "which, if it be not taken care of, and speedily "stopped, will, in that enormous course it is now in, "quickly break out, I fear, into open ill effects, and, "at one blow, deprive us of a great part, (perhaps "one-fourth), of our money †." The debasement could not, in 1690, be attributed to the currency of tallies, which were not issued in superabundance till afterwards. But this debasement was sufficient to cause great mischiefs. A debasement of the silver coin, to a similar amount, after the reformation of the coin, will be found to produce the like injurious effects. In less than four years from the time he wrote, and three from the time he published, this prediction, it was more than accomplished. Yet then no danger was perceived, any more than now; except by a few.

The irregularity of the effects of a debased, or depreciated currency, on prices, and the time which necessarily elapses before they accommodate themselves to the actual state of it, are well illustrated by the history of the money of France, under the ancient government; where, as remarked by Mr. Hume, in his Essay on Money, it was always found, during the frequent operations of the French king on the coin, that the augmenting the numerary value, did not, for some time, produce a proportional rise of the prices.

* Considerations on lowering Interest, and raising the Value of Money, printed 1691, but written, as appears, twelve months before, except a few remarks added, on "a Paper given in to the Lords."

† Ibid. p. 161.

Note [*C*] p. 90.

It is long since Mr. Locke stated the self-evident proposition, "that one ounce of silver is, and eternally will be, equal in value to another ounce of "silver *." "Silver," says he, "and silver alone, "is the measure of commerce." (Gold was, at that time, it will be recollected, not legal tender). "Two "metals, as gold and silver, cannot be the measure of "commerce together in any country: because the "measure of commerce must be perpetually the same, "invariable, and keeping the same proportion of va"lue in all its parts. But so only one metal does, or "can do, to itself. So silver is to silver, and gold to "gold. An ounce of silver is always of equal value "to an ounce of silver, and an ounce of gold to an "ounce of gold, and two ounces of the one, or of the "other, of double the value to an ounce of the same. "But gold to silver change their value one to another: "for, supposing them to be in value as 16 to 1 now, "perhaps, the next month, they may be as $15\frac{3}{4}$, or "$15\frac{7}{8}$, to 1. And one may as well make a measure, "*v. g.* a yard, whose parts lengthen and shrink, as a "measure of trade, of materials that have not a settled "value one to another." "Mr. Lowndes says far"ther," observes Mr. Locke, in another passage of the same treatise, 'that silver has a price.' "I an"swer, silver to silver can have no other price but

* Short Observations on a printed Paper for Encouraging the Coining of Silver.

"quantity for quantity." If there be any difference in "value, it is, and can be, nothing but one of these "two:—First, Either the value of the labour imployed "about one parcel of silver more than another, makes "a difference in their price; and thus, fashioned silver "sells for more than its weight of the same silver, "and, in countries where the owners pay for the coin-"age, silver in coin is worth more than its weight in "bullion; but here, where the publick pays the coin-"age, they are of very near equal value, when there is "no need of exportation: for then, there is no more "odds than the trouble of carrying the bullion to the "mint, and fetching again, is worth; or the charge of "refining so much of it as will bring it to standard, if "it be worse than standard.—Or, secondly, Some pri-"vilege belonging to one parcel of silver, which is "denied to another, viz. here, in England, a liberty of "exportation allowed to silver in bullion, denied to "silver stamped. This, when there is need of expor-"tation of silver, gives some small advantage of va-"lue to uncoined silver here, above coined*."

It is very surprising, that, in this "Letter to the King†," a work full of valuable information, Lord Liverpool, who, in order to show that only one metal can, at the same time, be the measure of value, in any country, quotes Mr. Locke, by whom that metal is called the money of account, or the measure of commerce or contracts, Mr. Harris, who calls it the standard of money, and Sir William Petty, should have been betrayed into an opinion, that the determining which of the precious metals shall be the standard, is matter of choice, or caprice with the people, or depends on certain unexplained circumstances in the state of commerce‡; and should give as a reason for making the standard coin of gold, that this metal is less liable to fluctuations of price than silver, "since, "from 1774 to 1797, gold bullion has remained uni-"formly a little under the mint price§, while the price "of silver, by one account, has varied 12 per cent., by

* Further Considerations concerning raising the Value of Money.
† Letter to the King, p. 13.
‡ Ib. pp. 69, 138, et seq.
§ Ib. p. 143.

"another 19, during the same time*." Whereas it is obvious, that, from 1774, gold has been alone legal tender, and the standard money. The whole difference of value, therefore, arising from time to time between the two metals, must always have been expressed as the price of silver, while gold, except for the fashion, could no more have *price*, than the mouth of the river of Amazons can have latitude. It may, nevertheless, be true, and I believe is so, that gold has not undergone so great a variation of *value*, as silver, though the variation has been considerable.

Note [*D*] p. 100.

It will be matter of surprise, some time hence, that, in this age of the world, it should have been gravely maintained, that the best mode of estimating the value of a commodity is to compare it with something having no value,—that grievous mistakes may be made by computing the worth of one object of desire, according to the quantity of some other object of desire, which may be obtained for it in exchange,—and that the only true way of ascertaining the amount of our wealth, our means of enjoyment, and the power our possessions give us over the services of others, is, by comparing them with certain undefined, abstract ideas,—certain impalpable creatures of the imagination, or the intellect,—certain sounds and denominations,—which can neither be enjoyed nor desired, bestowed nor received. But it will be deemed more astonishing, that the holders of this doctrine should have accused their opponents of dealing in abstractions, and in theory.

Mr. Gloster Wilson, in my opinion, by far the most ingenious supporter of these doctrines, has the following passage, near the commencement of his work, which appears to me precisely paralleled by the paraphrase I have taken the liberty to place beside it.

* Letter to the King, pp. 149, 150.

Extract from the Defence of Abstract Currencies.

Referring to lord Liverpool, he says, "His words are—'As a *measure*, *money*, like all other *measures*, should be made of *little* or *no value*; but then it would not answer the purpose of an *equivalent*. If, on the contrary, it is made in order to answer the purpose of an equivalent, of a *material of value*, it is subject to frequent variations, according to the *price at which that material sells in the market*; and fails, on that account, in the quality of a *standard*, or *measure*.'

"So justly sensible, indeed, was his lordship, that real *equivalence of value* was *no essential characteristic of money*, that a very principal object of his work was, to recommend that the *coinage of silver* he was then proposing, might be purposely kept, so as to allow for fluctuations, something under the *conceived value of that metal at the time*.

"And Sir James Steuart says, 'The advantage, therefore, found in putting an intrinsick *value* into that

Defence of Abstract Weights.

As a *measure*, *pounds and ounces*, like all other *measures*, should be made of *little* or *no weight*; but then they would not answer the purpose of an *equipoise*. If, on the other hand, they are made in order to answer the purpose of an *equipoise*, of a *material of weight*, they are subject to frequent variations, according to the *quantity of that material of which they consist*; and fail, on that account, in the quality of a *standard, or measure*.

So justly sensible, indeed was his lordship, that *real equipoise of weight* was no essential characteristick of *pounds and ounces*, that a very principal object of his work was, to recommend that the *stamped leaden ounces* he was then proposing, might be purposely kept, so as to allow for fluctuation, something under the *conceived weight of that metal at the time*.

And Sir James Steuart says, "The advantage, therefore, found in putting an intrinsick *weight* into

substance which performs the function of *money of account*, is compensated by the instability of that intrinsick *value*.'

"I must own, I myself," says Mr. Wilson, "doubt this chimerical union of discordant qualities having any just place in our essential notion of *money*.

"Real *equivalence*, to my mind, conveys no idea I can distinguish from that of direct and simple *barter*. To me, it seems evident, that *imaginary equivalents*, or *measured credits of value*, can alone give a distinct and consistent idea to *mediums of currency*.

"*Equivalence* implies a total *discharge of the debt*.

"Credit alone seems to require the accurate *admeasurement of debts*: and, therefore, as simply *tokens of credit*, I consider all *measures of value*, all *mediums of currency*, or *species of money*.

"Even with regard to *credits*, however, it is necessary to have something to show for them; but the less that is, the less it interferes with the credit*.

that substance which performs the function of *pounds and ounces*, is compensated by the instability of that intrinsick *weight*."

I must own, I myself doubt this chimerical union of discordant qualities, having any just place in our essential notion of *pounds and ounces*.

Real *equipoise*, to my mind, conveys no idea I can distinguish from that of direct and simple *weighing*. To me, it seems evident, that *imaginary equipoises*, or *measured credits of weight*, can alone give a distinct and consistent idea to *pounds and ounces*.

Equipoise implies a total *cessation of the vibrations of the balance*.

Credit alone seems to require the accurate *admeasurement of goods*: and, therefore, as simply *tokens of credit*, I consider all *pounds and ounces*, or *other denominations of weight*.

Even with regard to *credits*, however, it is necessary to have something to show for them; but the less that is, the less it interferes with the credit. As

* "My wound is great, because it is so small."
The repartee of the Duke of Buckingham is well known:
"It would be greater, were it *none at all*."

As far as the token is an *equivalent*, it is idle to talk of its *measuring* a debt; it has actually *discharged so much by barter*.

"It is true, no material we can employ to represent *values*, can fail to have some *cost or value* itself. But whatever advantages may accidentally result from this, it seems foreign to their principal character. We know that in practice, those *values* are very various, and difficult to be estimated, unless by the arbitrary assumption, that they must have found their *balance in equivalency*.

"For my own part, I cannot carry *my prejudices* so far, as to swell even the most costly into any thing like an *equivalent, for the values it procures to me*. And, if I could, I must feel, that its character, as a *medium*, would be totally lost by so doing*."

far as the token is an *equipoise*, it is idle to talk of its *measuring* goods; it has actually *balanced so much by being weighed against it*.

It is true, no material we can employ to represent *weights*, can fail to have some *ponderosity, or weight* itself. But whatever advantages may accidentally result from this, it seems foreign to their principal character. We know in practice, that *weights* are very various, and difficult to be estimated, unless by the arbitrary assumption, that they must have found their *balance in equipoise*.

For my own part, I cannot carry my prejudices so far as to swell even the most ponderous into any thing like an *equipoise for the weight of the goods it ascertains*. And, if I could, I must feel that its character, as a *criterion*, would be totally lost by so doing.

What a glorious improvement it would be, if, by a due application of the above reasoning, the inequalities of weights and measures, so much complained of, could be adjusted to one common abstract standard all over the world!

It is right, however, that no part of its merit should be ascribed to Lord Liverpool, or Sir James Steuart, as, from the quotations from them, might be supposed

* Defence of Abstract Currencies, p. 2.

their due; for it is undoubted, that no notion of measuring value, but by something valuable, ever entered the head of either.

Lord Liverpool's words, in the passage referred to by Mr. Wilson, are these: "The money, or coin, of a "country, is the standard measure by which the va"lue of all things bought and sold is regulated and "ascertained; *and it is itself, at the same time, the* "*value, or equivalent, for which goods are ex*"*changed, and in which contracts are generally* "*made payable*. * * * These two qualities can never "be brought perfectly to unite and agree; for, *if mo*"*ney were a measure alone*, and made, like all other "measures, of a material of little or no value, it would "not answer the purpose of an equivalent. And if it "is made, in order to answer the purpose of an equi"valent, of a material of value subject to frequent "variations, according to the price at which such "material sells at the market, it fails, on that ac"count, in the quality of a standard, or measure, and "will not continue to be perfectly uniform, and at all "times the same*." And, again, "Of the four "imperfections before stated, the first, which arises "from the variation in the price, or value, of any one "metal, in successive periods, with respect to itself, "*is so inherent in the very subject, that it does not* "*admit of a remedy*†."

Sir James Steuart, commenting on the proposition, that 'the coin and current money of a country is the '*representation* of all its labour and commodities,' says, "To this *representation* I cannot agree, and I "apprehend it to be the source of errour. * * * Coin "has an intrinsick value, and when it comes into a "country, it adds to the value of the country, as if a "portion of territory were added to it; but it has no "title to represent any thing vendible by preference, "or to be considered as the only equivalent for all "things alienable. It is made a common price, on "no other account than because of its rarity, its so"lidity, its being of a nature to circulate, and to suf-

* Letter to the King, p. 8.

† Ib. p. 12.

for a correct division without end, and to carry its value along with it, *which is a proper equivalent for every thing*, and, at the same time, it is, by its nature, little liable to vary. Were, indeed, a statesman to perform the operation of circulation and commerce, by calling in, from time to time, all the proprietors of specie in one body, and all those of alienable commodities, workmen, &c. in another; and were he, after informing himself of the respective quantities of each, *to establish a general tariff of prices*, this idea of representation might easily be admitted; because the parcels of manufactures would then seem to be adapted to the pieces of the specie, as the rations of forage for the horses of an army are made larger, or smaller, according as the magazines are well or ill provided at the time. But has this any resemblance to the operations of commerce? * * * * *Coin is constantly an equivalent, but never a representation**." And, in another part of his work, "Although in giving the definition of paper money, in the 26th chapter of the 2d book, I mentioned credit as being a term synonimous with it, yet this was only done for the sake of simplifying our ideas: one of the best expedients for casting light upon an intricate subject. *It is now requisite to point out the difference between them.*

"Symbolical, or paper money, is but a species of credit. It is no more than the measure by which credit is reckoned. Credit is the basis of all contracts between men. Few can be so simultaneous, as not to leave some performance, or prestation, as the civilians call it, on one side or other, at least for a short time, in suspense. He, therefore, who fulfils his part, gives credit to the party who only promises to fulfil, and, according to the variety of contracts, the nature of the prestations, or performances, therein stipulated, and the security given for fulfilling what is not performed, credit assumes different forms, and communicates to us different ideas. *Paper credit, or symbolical money, on the other hand, is more simple. It is an obligation to pay*

* Political Œconomy, b. 2, c. 28.

the intrinsick value of certain denominations of money contained in the paper. Here then lies the difference between a payment made in intrinsick value, and another made in paper. He who pays in intrinsick value, puts the person to whom he pays, in the real possession of what he owed, and this done, there is no more place for credit. He who pays in paper, puts his creditor only in possession of another person's obligation, to make that value good to him. Here credit is necessary, even after payment is made.

"*Some intrinsick value or other, therefore, must be found out to form the basis of paper money: for, without that, it is impossible to fix any determinate standard-worth, for the denominations contained in the paper* *."

It is obvious, that the confusion of ideas above-mentioned, arises from conceiving the analogical expression, '*measure of value*,' to be a true description of the function of money, which is simply that of a generally received *equivalent*. We might as well say, that a bushel or a yard measure, is an *equivalent* for corn or cloth, as that a pound sterling is a *measure* of corn or cloth, or of the value of corn or cloth. Value may be ascertained, but not by measurement, any more than weight can be ascertained by measurement. Any one of these subjects, may be illustrated by an analogy drawn from one of the rest: but, even as analogical, the reasoning will be imperfect, if the analogy be not preserved throughout; and from what circumstance in their nature or office, it has been conceived that measures are not real things to be seen and felt, but abstract ideas to be typified, and represented by tokens, it is beyond my power to conjecture.

It will scarcely be believed, that this sort of reveries were not produced by the sublimating influence of elevated chambers, spare diet, and the moon; but were generated in the brains of practical merchants, commissioners of customs, bankers, and lawyers, and guided the statesmen of the day. Thus, Mr. Raithby, whom I mention, because referred to, as an oracle on this sub-

* Ib. B. 2, Introduction.

ject, by Mr. Rose*, who now regulates the affairs of the Board of Trade, which, at its origin, was composed of Mr. Locke, Mr. Pollexfen, and other theorists of those times, has indulged us, to use his own words, with the following *clear, precise, and satisfactory* definition of money. "Money is gold or silver, "or paper, or any other subject which, *taking to it-* "*self,* or *having assigned to it, a peculiar charac-* "*ter;* receives the stamp or authority of the state, "and *bears upon the face of it, or is received by* "*common obedience to that authority,* as *descriptive* "*of a certain* DENOMINATIVE *value, which is the* "*common measure and common* REPRESENTATIVE "*of the value of* COMMODITY!" From which he has inferred, by what train of reasoning I know not, the following very conclusive and logical syllogism.

"All commodity possesses intrinsick value.

"Nothing but commodity can possess intrinsick "value.

"But money is not commodity.

"Money, therefore, cannot possess intrinsick value†."

From which syllogism it may, with equal certainty, be shown, *that a yard measure has no extension,* as thus:—

All commodity possesses extension.

Nothing but commodity can possess extension.

But a yard measure is not commodity.

A yard measure, therefore, cannot possess extension.

This gentleman, who regrets, among the numerous inconveniences and mischiefs to which the doctrine, 'that it is of the essence of money to possess intrin- 'sick value,' has given rise, "the introduction of "SUBTILTY AND OBSCURITY *where all would other-* "*wise be simple and clear*‡," and who laments "how embarrassing to those who think closely upon "the subject, is the idea, *that in buying and selling,* "*we exchange the commodity we sell, for the gold* "*and silver we receive*§;" proceeds to observe, that as the *corpora* of commodities cannot always be di-

* Substance of a Speech, May 16, 1811, p. 111.

† The Law and Principle of Money considered, pp. 2, 3.

‡ Ib. p. 19.

§ Ib. p. 21.

rectly exchanged, some medium must be adopted, which he calls "the fixing upon some universal token, "or denomination of value, which may be applied to "the commodities that are the subject of the bargain; "and this," he continues, "must be done by a "selection of some particular commodity, out of "the general mass of commodity, which is to be "invariably marked and preserved, with its marks of "denominative value, and received by the inhabitants "throughout the country, as a token, that he who "produces it, has parted with some commodity of an "intrinsick value, equal in amount to the denomina- "tive value of that token; and consequently, that he "has a clear, unquestionable right, by the law of the "community, to call upon any other person, offering "commodity to sale, to take from him, as he has "before taken from others, that token of denominative "value, in return for commodity to be delivered to "him of an intrinsick value, equal in amount to the "denominative value of that token: and the commo- "dity so selected, and appropriated to this office of "description, or representation, of value, and by which "selection it is incapacitated for any other use, is "what is commonly called money; and I put it un- "equivocally as a proposition, that it is of the essence "of money to be incapable of any other use or cha- "racter, than being a describer, or representative of "value*."

Now, 1. The right here mentioned, is a right, if it be one, which no law can enforce, or attempts to enforce. 2. How is this *denominative value* ascertained? What is it? 3. Wherein does *intrinsick value* consist? And, since the exchange is to be made by comparing the two *intrinsick values,* by means of comparing each with this *denominative value,* how is this comparison effected? What is there in common between *denominative* and *intrinsick value,* by which the one may be estimated in the other? Is not this something like the distance between "the 1st of August "and the foot of Westminster-bridge†?"

* Ib. p. 86.

† Ib. p. 4. "A great part, if not the whole, of the errour and "obscurity in which mankind have been so long wandering on this

But the true creed is announced (as is said) by the highest financial authority, in the following passages from a periodical publication; which, whatever may be the r effect in conveying a clear idea to the reader, leave no doubt as to the degree of precision in those of the author. The British Reviewers remark, that "bank notes bear their usual proportion to the " *average value* of gold; but that gold has now expe- " rienced a temporary rise of price *in the home* " *market*, above that average.—If the rate of ex- " change be," they proceed to observe, "very much " against this country, in consequence of the great " excess of payments which it has to make abroad, " beyond those which it has to receive from thence; " and if, from the state of commercial regulations on " the continent, where the demand against us exists, " bullion must of necessity be exported to pay the ba- " lance, to a larger amount than usual, in proportion " to the whole debt; *then the demand for bullion at* " *home* will of course very much raise its price as a " commodity." [Its price in what? Its price *in bullion?*] "But it will leave, as we think," they proceed, "all other commodities, and the paper, or " currency *representing* THEM, of the same relative " value with each other, and with the original and " average price of gold *, which they bore before this " temporary and extraordinary rise in the latter took " place: *just as a demand for neutral ships in time of* " *war, will raise the price of their tonnage, although* " *they are* NOT INTRINSICALLY *more valuable than* " *the ships of the belligerents* †."—[That is, exportable gold will be more valuable than unexportable, by the amount of the risk *.]

" subject, appears to arise from confounding money with commodity; " subjects, of which it must be observed, that they are of different " essences, and therefore no more to be compared together, than time " and distance; of the absurdity of which, a more happy instance " cannot, perhaps, be given, than in the well known vulgar question, " How far is it from the first of August to the foot of Westminster- " bridge?"

* "The average price of gold is of course intended to be expressed " in England by the mint price."—*Note by the Reviewer.* What is called the *mint-price*, it must be observed, is nothing else than a declaration of the quantity of metal put in the coins.—*A.*

† British Review, No. I, for March 1811, Art. 2, Bullion Report, &c. pp. 24, 25.

"Let us see," they continue, "What Mr. Bosan- " quet says on this subject."

'If a pound note be the DENOMINATION, it will of ' course be asked what is the STANDARD? *The ques-* ' *tion is not easy of solution.* But, considering the ' high proportion which the dealings between govern- ' ment and the publick bear to the general circulation, ' it is *probable the standard may be found in those* ' *transactions*, and it seems not more difficult to ima- ' gine, that *the standard value of a one pound note,* ' *may be the interest of 33l. 6s. 8d. 3 per cent. stock,* ' than that such standard has reference to a metal of ' which none remains in circulation, and of which ' the annual supply, even as a commodity, does not ' amount to one-twentieth part of the foreign expences ' of government in one year:' [*i. e.* the interest of this stock being nothing else than a one pound note, the standard value of a one pound note, is a one pound note!!!]

"We pretend not," say the Reviewers, "to be the " advocates for the *convenience or eligibility* of any " of these, as the standard of value. Indeed, we con- " fess, that Mr. Bosanquet's speculation on the subject " appears to us *rather fanciful. It is a nice and* " *difficult question*, and although we think our own " explanation *not unsatisfactory*, our wish to throw " *all possible light* upon it, induces us to subjoin an " opinion, which we have received from *a friend,* " *to whom the utmost deference is due on subjects of* " *this nature.* 'If,' (as I think) says this friend, 'the " standard of value, previously to the bank restriction " bill, was the pound sterling in legal gold or silver " coin, it will be *difficult to say at what time it ceased* " *to be so. Not* when the price of commodities rose;— " *not* when the exchange turned against us;—*not* when " bullion rose above the mint price: because all these " circumstances might occur, and have occurred, while " the bank was paying in specie. *In short, I believe* " *it to be equally the standard still, and that the diffi-*

* I take it, that a ship which sails in safety, is *intrinsically more valuable* than one that sails at a hazard.

" *culty lies in applying other objects to that standard, " and in ascertaining that the representative cur- " rency still conforms to it.*'

" Now we think," add the reviewers, " that if our " readers will take the trouble to compare this opi- " nion with that which we have ourselves given, " *they will perceive a sufficient agreement between " them, to come to* SOMETHING LIKE A SATISFAC- " TORY CONCLUSION !!!*."

The following are the opinions expressed on this subject by three members of the government.

Mr. Rose, in his published speech, quotes the following passage from the Report of the Bullion Committee.

" In this manner, a general rise of all prices, a rise " in the market price of gold, and a fall of the foreign " exchanges, will be the effect of an excessive quan- " tity of circulating medium in a country which has " adopted a currency, not exportable to other coun- " tries, or not convertible at will into a coin which is " exportable."

On this he remarks, " This observation, in the ab- " solute shape in which it now stands, may be said to " apply to our currency in every time of its history. " It may be said to apply, not only to notes, but to " guineas, since we never have had a currency ex- " portable to other countries. According to this prin- " ciple, an excess of gold and silver would be pro- " ductive of as much mischief as paper: a conclusion " on which I shall merely remark, that it ought to cau- " tion us against the indefinite language of the Com- " mittee, and the length to which they permit them- " selves to be carried by the influence of theory†."

Now this conclusion, the bare mention of which is a sufficient caution against the indefinite language of the Committee, and the length to which they are carried by theory, is the most obvious and indisputable of all truths. If it were true, as Mr. Rose states, that gold and silver were literally unexportable, an excess of them would be productive, not merely of *as much*, but of *the same mischief*, as an excess of paper.

* Brit. Rev. pp. 26, 27.

† Substance of a Speech, 6th May, 1811, pp. 24, 25.

Their value would be lowered, and with it the value of all fixed incomes, and subsisting contracts for the payment of money. All creditors, whether publick or private, would be defrauded. If the excess arrived at a certain pitch, a total revolution of property, and consequently of power, would take place in the country: and, if it continued increasing, all stipulations in lieu of payments in money would be at an end, and all commerce and bargaining be brought to a stand, or conducted, where instant, by barter, where regarding a tract of future time, by reference to some other commodity, not, like these metals, prevented from finding its just value in the market of the world. Thus, we learn from Mr. Lowndes, that, in the reign of William III., the progressive debasement of the coin, and the consequent uncertainty and decreasing value of money, not its scarcity, which, as appears from the same author, was compensated by the extraordinary quantity of paper in circulation, actually caused " the setting up of offices, both in city and " country, for bartering of goods, or permutations*.

It would argue puerility even in an advocate, to reason from the existence of laws confessedly impossible to be enforced, as if carried completely into execution. Our metallick currency is so far from not being " exportable to other countries," that the greater part has been exported long ago, and the little that remains, is daily following, with all possible expedition.

Mr. Vansittart affirms, that " a fixed and invari- " able weight of the precious metals, as a measure of " value, never existed in this country. In order to " afford some ground for the argument, the learned " gentleman is obliged," says he, " in his very first " proposition, to affirm, in direct contradiction to " the fact, that the *weight at which any such money " is authorised to pass current, is fixed.* Now I " would ask, at what fixed weight silver money is " authorised to pass current? For any sum not ex- " ceeding *25l.*, it is a legal tender, at whatever " weight; and certainly of payments made in actual

* Report containing an Essay for the Amendment of the Silver Coins, p. 84, printed 1695.

"cash, at least nine hundred and ninety-nine in a "thousand, are for sums under that value, and were "so before the Bank Restriction; and can *that* be "denied to be a true standard of value, which is the "actual measure of payment in a vast majority of "transactions*?"

Now, it is difficult to conceive how it should escape any person, who had thought seriously on this subject for two minutes together, that gold and silver, being equally legal tender, not exceeding 25*l.*, gold at a certain weight, silver by tale merely, and at a rate under its marketable value, no payments could ever be made in silver at the mint weight, that the silver coins must therefore be exported, except such small quantity as would barely suffice to exchange as fractional parts of the gold coin, and these would be worn and debased; that of these worn and debased pieces, enough could never be found, generally, to make any considerable payments; and that, under these circumstances, it is utterly impossible, as in point of fact, it is notorious it never was true, that the silver coins were "the actual measure of "payment" in any transaction whatever.

But Mr. Vansittart, having remarked the great difference in the average of different pieces of the silver coin, demands triumphantly, "Which of these dif-"ferent weights of silver, all of which would be equally "a legal tender, is the true standard†?" As if it had ever been doubted, that all currency passes at the value of the average weight of the pieces actually in circulation at the time, taken one with another‡."

"No limitation of the current weight of gold coin "existed," says Mr. Vansittart, "down to the year "1774; and, therefore, all my reasoning, with respect "to the silver coin, applies with equal force to the

* Substance of two Speeches, 7th and 13th May, 1811, p. 11.

† Ib. p. 12.

‡ "If the coin be unequally worn, the money unit will be variously "realized, or presented; that is to say, it will be of different values, ac-"cording to the weight of the pieces. The consequence of this is the "same as in the disorder of the proportion of the metals: debtors will "chuse to pay in the light pieces, and the heavy will be melted down. "In proportion, therefore, to this disorder, will the value of the unit "descend."—Steuart's Pol. Œcon. b. 3, ch. 5.

"gold coin, down to that time; and this *ancient*, "*established*, *invariable* standard, so much talked of, "had no existence, till within the period of his pre-"sent majesty's reign*."

Certainly, while coin is legal tender by tale only, the standard declines with the wear and debasement of the coin, and to remedy this, was the object of the law 1774. But it does not seem to follow, that, because the quantity of metal in the coin may become less, and the coin, therefore, of less value, it passes, not at the value of the quantity of metal, but according to some undefined idea in the imaginations of men†.

This latter opinion, however, is adopted by Mr. Vansittart, who states, "that bank-notes never had "any other than *a current value, founded on the* "*publick confidence in the bank*, and this value, he "firmly believes, that they possess as much as ever‡." Now, as Mr. Vansittart *firmly believes* this proposition, it is undoubted, that he must understand it. But to induce the belief of others, it must be rendered intelligible to them also—in order to which, it would be necessary to explain what is meant by *current value*, and how it is estimated? Since not in weight of gold, or silver, does it mean in cheese, or wool, or small-beer? For assuredly no person, but a practical merchant, or a minister of state, will be able to comprehend, till it is defined, what sort of thing *current value* is, that is not referable to some certain quantity of a known object of desire.

But, without taking the trouble to define what *current value* means, or how it is regulated, Mr. Vansittart proceeds,—"Even in current *coins*, as I have "shown, in the instance of the silver coins, the cur-"rent value is by no means regulated by the intrin-"sick, or metallick value; and this applies as much "to the purchase of bullion, as to any other transac-

* Substance of two Speeches, p. 13.

† "The value of the money unit of accompt, is not to be sought for "in the statutes and regulations of the mint, but in the actual intrin-"sick value of that currency, in which all obligations are acquitted, and "all accompts are kept."—Steuart's Pol. Œcon.

‡ Substance of two Speeches, p. 14.

"tions. And I contend, that, for all legal and authorised transactions, within the kingdom, even such purchases of bullion, bank-notes are considered, and accepted, as equivalent to legal coin. My learned friend, indeed, denies them to be equivalent to coin, in publick estimation. Now, I should like to know, in how many cases he has himself found them not equally available, for all the purposes to which coin would have been applied*?"

I had thought, that no person was ignorant, that different portions of currency, bearing certain established rates relative to each other, always have passed, and always must pass, on an equal footing, at those rates, so long as they continue to circulate together.

Lastly, my Lord Castlereagh expresses himself thus: "No person can deface or melt down the current coin of the realm, being of standard weight. It cannot be converted, therefore, into the shape of standard bullion, to be sold, without a violation of that law, with reference to which, the obligation of payment in gold by the bank, must be interpreted to have been contracted. Gold, obtained from coin not of standard weight, may be melted down, but it cannot be sent abroad without fraud or perjury, or both combined. The person receiving the guinea, ought, in strictness of law and good faith, to apply it to purposes of internal circulation only; and, so used, there is no reason to presume that it passes at a value, in Great Britain, superiour to a bank note. If the note commands the same value in commodities, and performs all the same functions, so far as relates to internal circulation, as the coin, there is no just ground to consider the note as depreciated: both the note and the coin were intended for internal circulation, and for internal circulation alone. The contingent, but illegal profit, derived from diverting the coin from its legitimate purpose, is a species of value, which the bank paper never was, in equity, or in fact, intended to represent. It is only through the operation of causes destructive of the established system of our standard coinage, that this advantage can attach to coin over bank paper†." May not

* Substance of two Speeches, p. 15.

† Substance of a Speech, 8th May, 1811, p. p. 12, 13.

this with equal truth, and with equally important results, be applied to base coin? as thus: "The person receiving *a* guinea, ought, in strictness of law and good faith, to apply it to purposes of internal circulation only; and, so used, there is no reason to presume that *a standard guinea* passes at a value, in Great Britain, superior to a *debased one*. If the *debased guinea* commands the same value in commodities, and performs all the same functions, so far as relates to internal circulation, as the *standard guinea*, there is no just ground to consider the *debased guinea* as depreciated: both the *standard* and *debased guineas* were intended for internal circulation, and for internal circulation alone. The contingent, but illegal profit, derived from diverting the *standard guinea* from its legitimate purpose, is a species of value which the *coin* never was, in equity, or in fact, intended to represent. It is only through the operation of causes destructive of the established system of our standard coinage, that this advantage can attach to *standard coin* over *debased*."

I presume, that, during the alarm consequent on some late atrocious murders, when many of the inhabitants of the metropolis provided themselves with arms for their defence, his lordship would have found it difficult to tranquillise their fears, by assuring them that there could be no danger, *since it was expressly against law*, to enter people's houses, and cut their throats, in the night time.

The erroneous statements, *in points of fact*, of Mr. Rose and Mr. Vansittart, proceeding very much on erroneous conceptions of the subject, it were too tedious, though not difficult, to refute. It were desirable, however, to do so in detail, because though manifestly impossible to be true, as represented, there are many who have not the opportunity of ascertaining and explaining them,—and not a few, who, being thereby puzzled and confounded, are led to believe the subject in itself not merely abstruse, but uncertain*.

* For a refutation of the principal errours relative to the course of exchange, and price of bullion, see Mr. Ricardo's Reply to Mr. Bosanquet's Observations; Mr. Horner's Amendments to Mr. Vansittart's Re-

For the unintelligible theories above-mentioned, if confined to the closet, they would be harmless and entertaining: but when the government declares, that the affairs of the state are to be ruled by these notions, and the contracts of individuals interpreted according to them, they become objects no longer of derision, but of terrour.

solutions, published by the latter, in the Appendix to his Speeches above quoted, and the tables appended to the Report of the Bullion Committee.

Concerning the rate of exchange, it never was doubted, that if it exceeded five or six per cent. with any part of the continent of Europe, it could be no long time in returning to that rate in the natural state of the currency of the two countries. Thus Sir Josiah Child, who rightly considers the rate of exchange, from a variety of circumstances, incapable of affording correct views of the general state of trade, observes, "certain it is, that when once the exchange comes to be five or six per "cent. above the true value of foreign monies, our treasure would be carried out, whatever laws should be made to prevent it; and, on the "contrary, when the exchange is generally below the true value of "our foreign coins, it is an evidence, that our exports do in value exceed what we require from abroad; and so, if the exchange comes to "be five or six per cent. below the true value of foreign coins, returns "will be made for England in the coins of foreign countries."—Child, of Trade, p. 162, printed 1698.

THE END.

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