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A  
PLAIN STATEMENT  
OF THE  
BULLION QUESTION,  
IN  
A LETTER  
TO  
A FRIEND.

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By DAVIES GIDDY, Esq. M. P.

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## ADVERTISEMENT.

THE following Letter having procured that approbation, which I was most anxious to obtain from a partial Friend, the entire acquiescence of his judgment; I am induced to lay it, unaltered, before the Public.

It pretends to be no more than a plain, simple Exposition of an intricate Subject, which has long occupied my mind, and to which public attention has been loudly called. If it should induce a wish, and afford a clue, for examining the Question through all its details of Documents, &c. I shall be amply satisfied.

The Reader is desired to observe, that Silver is frequently omitted after Gold, to prevent unnecessary repetitions of words—Gold always meaning the currency of intrinsic value, which constitutes a legal Tender; when it is not obviously used in a restricted sense.

A

## PLAIN STATEMENT, &amp;c.

DEAR SIR,

I AM not at all surprised, that even to a man possessed of your clear understanding, the subject recently brought under discussion by the Bullion Committee, should appear difficult and abstruse. Much however of the difficulties may be imputed to the contradictory opinions, and opposite reasonings pursued in the various pamphlets, which seem to have attracted no more than your cursory attention. Many of those opinions, as they stand directly opposed to each other, must be false; and reasonings which endeavour to establish inconsistent theories from the same facts, cannot all be correct. Moreover, the subjects have generally been treated as matters so

remote from the transactions of common life, as to throw a veil of mystery round what might otherwise appear sufficiently distinct. It will be my endeavour, in complying with your request for information, to state the various topics, after the most plain and familiar manner, even at the risk of sometimes exciting a smile; as I am much less anxious on the present occasion, to display any talents of my own, than to convince your judgment.

#### SECTION I.

It is quite obvious that in the earliest stages of civilization, mutual interchanges of commodities must have taken place; and that mere barter could not have subsisted long, without suggesting the absolute necessity for selecting some one article, as a general standard of value, to which all others might be constantly referred. The qualities requisite for such a standard have been enumerated and discussed: it is certain, that they cannot be found, separately perfect, and all united together in any substance; but the general consent of

nations has given a decided preference to metals; they are easily divisible, of great durability, capable of being re-united, readily assayed, and change their proportional value, much more slowly, and with less vacillation, than other substances. These qualities have established metals as standards of value; and among them, first, silver, and afterwards gold, as comprising all other advantages under a smaller bulk. Still, however, this is only a preference: other commodities, with less convenience indeed, are capable of performing the same office. Corn might evidently be a common standard, and all commodities would then be appreciated in given quantities of grain. It will greatly clear and facilitate our future inquiries to suppose this imaginary case: I shall, therefore, continue to place corn by the side of gold; and endeavour to establish the exact conformity in principle between the two.

#### SECTION II.

When a standard of value is once selected, the next care must naturally be, to ascertain the exact quantity and quality of

such portions as usually circulate; this has been denominated coining: a stamp is affixed, testifying a certain portion of the whole to be pure metal, and that each piece is of a certain weight. In the case of corn, the finest kind might be selected, and some certain measure sealed in a bag; (I have already anticipated a smile). Either of these will then become a circulating medium, measuring the relative value of all other articles really and nominally, but possessing no proper nominal value, or price of its own. Several most important errors have arisen from a misapprehension of this curious circumstance: I shall therefore endeavour to explain it in detail.

The pound of gold, twenty-two parts out of twenty-four fine, is coined into forty-four guineas and a half, at the English mint: a pound of standard gold is therefore always the same, is perfectly identical with, is exactly worth, forty-four guineas and a half; or, substituting for the guinea its other denomination, one pound and one shilling, the pound of gold is always worth forty-six pounds fourteen shillings and sixpence; the twelfth part of which sum is three

pounds seventeen shillings and ten-pence half-penny, the worth of an ounce. This cannot, in accurate language, be called the price of an ounce of gold. Its price in what? The answer must be, in gold; consequently it would remain the same, were gold to become so scarce, that a hundredth part of what now represents other commodities, were equivalent to them; or if its immense abundance were to reduce that metal to a level with tin or lead.

I will now suppose the quarter of fine wheat divided into sixty-four parts, and secured in bags of a gallon each, which may be denominated seals; the quarter of wheat will then always be worth sixty-four seals, let the scarcity or plenty be what it may. Such seals will vary in their power of procuring other commodities, accordingly as these are more or less abundant, or as corn happens to be plentiful or scarce; but corn, in corn, will ever be the same. The price of an ounce of gold cannot with propriety be stated at three pounds seventeen shillings and ten-pence halfpenny; nor the price of a quarter of wheat at sixty-four seals. The assertions simply declare

two facts; namely, that the pound of gold has been divided into forty-four guineas and a half; that the quarter of wheat has been divided into sixty-four seals; and the value is *idem per idem* in both instances.

It will not be difficult, however, to imagine cases where gold in coin, or wheat in seals, may be exchanged against other gold, or other corn, with some small variation of quantity. Coinage of the metal, measuring and sealing of the grain, must be attended with some trouble, at least with some delay; even though the State should defray all the expence. Persons therefore may be willing to exchange gold sufficient to make forty-five or forty-six guineas, for forty-four guineas and a half already coined; or sixty-five, sixty-six, or sixty-seven gallons of wheat, for sixty-four already measured and sealed: on the other hand, if positive institutions, with penal sanctions, or even strong general feeling, prohibit the conversion of these circulating media; rather than melt the coin, or rather than unseal the corn, individuals may part with the pound of guineas for less than their weight of uncoined gold,

or with sixty-four bags of corn for sixty-two, or sixty-three gallons of unsealed grain.

### SECTION III.

No proposition seems more firmly established, more universally acknowledged, than that which declares the value of all commodities to depend on the supply and the demand. The universality of its truth cannot be questioned; but, the nominal and the apparent effects are widely different, when this principle becomes applicable to all other commodities, or to the standard of value itself. Foreign produce arrives in unusual abundance, or, from whatever cause, its sale is diminished; in either case, a certain quantity will be exchanged for a less weight of gold, and its price will be said to fall. Under opposite circumstances, more gold would be required for the same quantity, and its price will be said to rise. But let gold be produced in tenfold quantities, an equal weight will then be purchased by other nations, from those possessing mines, in exchange for less of their own commodities. The pound being still, however, coined into forty-four guineas and a

half, or into forty-six pounds fourteen shillings and six-pence, its nominal value must be unaltered: but, coined or uncoined, the pound or ounce will now represent less than they were accustomed to do of other commodities, and all these articles will be said to rise, or to become dear. Reverse the supposition, and gold will not be bought from mining nations but for greater quantities of other articles: gold will still be coined as before, and remain at the same nominal price; but these commodities will be considered as cheap.

#### SECTION IV.

A custom has universally prevailed, in modern times, of dividing the commerce between different nations into two parts:—the first consisting of those substances which have been selected as the standards of value, and principally gold; the second including all other articles. Exporting more and importing less of the latter division, has been esteemed advantageous: precisely the contrary, respecting the former. Under this head is comprised, the doctrine of exchanges, more complicated and involved

than almost any other subject; but capable, it would seem, of being explained, in principle at least, as distinctly, as those accounted the most plain. I shall continue to suppose the circulation of corn.

All imports and exports would then be divided into other commodities, and into grain; with doubtless a similar theory of advantage and disadvantage, from a defect of one, and an excess of the other; at all events, the balance of every account must be paid in corn. The merchant in one country, rather than incur the risk, the expence, the delay requisite for transporting this standard of value to the other, where his debt is due, will naturally be led to inquire whether some one has not a demand for corn, on another individual there. If such a person can be found, he will purchase the right of demand, and transfer it to his creditor in liquidation of the debt: all others doing the same, it follows, that not the balance of each particular account, but the general balance on all the accounts with both nations, will be left for remittance. If the purchases and sales on either side have amounted to an equal value, estimated in

seals of corn, it is probable that the desire among individuals for procuring, and disposing of demands, will be the same; in that case, a given quantity of corn in either country, will purchase an order for delivering a like quantity in the other, and the exchange will be at par. If the sales have been unequal, individuals in that country which has most to pay, eager to avoid the expence and inconvenience of actual remittance, will be inclined to purchase demands for grain on the other country, at an advanced price; and the course of exchange will become unfavourable. Individuals in the country making the least purchases will readily find orders on the debtor country, will purchase them cheap, and thus establish a favourable exchange. This is the simple statement of exchange, to which all operations in that department may be reduced, when difficulties similar to the following are removed. The sealed bags of corn in different countries may vary in their contents; the corn may be of several sorts; or mixed with chaff. If the measures in one province of an empire should contain a twelfth part less than those circulated at

the capital, an allowance of  $8\frac{1}{3}$  per cent. will immediately take place in all transactions, to restore the equilibrium.

But at last some balance must remain due, after private accounts have been adjusted to their utmost limit: this certainly will be paid in part by corn; which, *pro tanto*, must go towards liquidating the debt: the operation produces, however silently and unobserved, effects much more important; the quantity of circulating medium being diminished in the exporting country, and rendered more abundant in that which receives. If seals are sent out, the circulating medium at once undergoes that change; if the export consists of unsealed corn, a temptation will be created, by the advance in relative value of what is left, to open bags; and thus convert the sealed grain, into an article of common use; and either mode will be productive of the same effect. The circulating medium having become of more value in comparison with other articles, where its quantity has been diminished, these articles will appear to fall; in the other country they will appear to rise; from



the standard of value really becoming more plentiful, and consequently more cheap. These variations encourage exportation from the debtor state, and check it from the creditor. Thus, a very small remittance of the article selected as a standard of value, may, and certainly does, indirectly operate the discharge of debts to many times its own amount; and frequently turns quite round the course of exchange: so that very little, in comparison with the amount of balance, is ever likely to be actually transferred.

I surely need not repeat this section over again, substituting gold for wheat, coin for seals, and alloy for chaff, to prove that every peculiar circumstance attached to the medium of circulation, applies equally to whatever substance may have been selected for that purpose. It clearly appears that gold and silver divested of this character, would identify themselves with other articles of common merchandise.

Exchanges are at par, when a given quantity of the article representing value can be transferred from either country to the other, without any loss, beyond the necessary expenses of brokerage, &c. The coin of one

country deficient in quantity, may bear an *agio*: the coin of another redundant, but guarded by laws, may to a small extent, be depressed; paper currency not convertible at will, may be depreciated to any extent. All these causes vary the nominal rate without affecting the reality. To be perfectly accurate, some small allowance should be made for nations possessed of mines, and for others contiguous to them: and when currencies are of different metals, their actual relative values must be taken into the account.

It must surely be established to your satisfaction, that the standard of value has properly no price—That gold in bars, and gold in coin, must always equal one the other, with the trifling variations already mentioned—That the greater or less abundance of this article, affects the nominal value of all others in directly the opposite way from their own excess or deficiency—and that its exportation, in payment of debts, liquidates indeed to the amount; but produces a much greater effect, by decreasing the nominal rates of all articles at home, and increasing those rates abroad; thus checking import, already too great,

and forcing an export, sufficient to correct the balance.

#### SECTION V.

The inconvenience of actually paying each balance by remitting the standard substance of value, having induced individuals to purchase credits on the places where they had debts to discharge; a method was very early contrived for facilitating such transactions; which has proved eminently useful, and occurs in almost every transaction of trade.

The creditor addresses an open letter to his debtor, requiring him to pay a certain amount of the circulating medium to a third person, or to some other claiming under him; usually at the expiration of a given time. This letter is denominated a Bill of Exchange, which, being easily transferable from place to place, from one country to another, extends the system of balances, by debts against credits without actual remittance, over an extent of surface, far greater than could otherwise be reached; and has given facilities, beyond what can readily be imagined, to all the parties concerned.

From bills of exchange seem to have arisen notes: These are engagements sometimes of an individual, more frequently of a company, to pay the bearer on demand, that particular quantity of the article representing value, which is mentioned in the note itself. These, equally with bills of exchange, possess the property of ready transmission; constitute to the issuer a capital advanced to him without interest; and, being applied to precisely the same purposes, as the commodity selected for measuring all others, they occupy its place, and cause a part of what had been gold in coin, to become an article of commerce: or, on the other supposition, they would convert corn in seals, to the common uses of grain.

The value of these notes being always measured by the quantity of gold, or of corn, for which they may at any time be exchanged; if the quantity of corn in seals be supposed very great, and the substitution by bills extremely rapid, it will follow that so much corn may suddenly be returned to common use, as for some time at least, to reduce the value of any given

portion in exchange for other commodities : But the annual production of grain being nearly equal to what can ever be in store ; such a reduction of value would correct itself, by diminished tillage, and be of short duration. In the case of gold, it might extend to a great number of years.

The extraordinary reduction in value of gold and silver, as compared with other commodities, in modern times, has been occasioned by the two causes, alone capable of producing such an effect—first, by a great increase of the supply ; and secondly by as great a diminution of the demand.

It is obvious that the quantity of gold, of silver, or of other metals produced from mines, cannot, for any considerable time be much less, than what will exchange for the materials used, and for the food, raiment, and general support of all persons employed in working them. Gold and silver had adjusted themselves to this standard in the Old World ; when the discovery of America opened mines far more productive, with an equal expenditure of materials and with equal labour ; they were consequently, at

first, most advantageous. The mass of gold and silver actually existing in the world, being probably more than the produce of any century from mines, the reduction of value proceeded with a gentle pace : but after the lapse of a certain number of years, these metals exchanged for no greater quantities of other articles, than were sufficient to support the mines of America, as they had previously done those, less productive, on the other continent. This point once attained, the relative value of gold or silver to other commodities, appeared likely to remain as little variable as in former times ; and for some time, very little alteration seems to have taken place ; till the second cause came into operation, acting with much more rapidity, and capable of proceeding to an unknown extent. No sooner had governments acquired stability, and private credit established itself on a firm basis, than bills of exchange almost excluded metallic payments from large transactions ; and the subsequent introduction of notes produced nearly the same effect on transactions of smaller magnitude.—Inventions, more or less analagous to notes, have been

contrived in most countries; so that, notwithstanding the great increase of population and of commerce, a far less quantity of coin is now required for circulation than at former periods. The superfluous coin returning to the common stock of mercantile commodities, has of necessity reduced the value of these particular articles in comparison with others. More than the mines could yield in many years, has been rapidly poured on the civilized world, and, combining with the effects already produced by the discovery of a New Continent, they have rendered almost ridiculous the nominal values affixed by our ancestors.

Thus far, however, all mankind acquiesced:—the changes were considered as an inevitable consequence of the natural order of things; no one could complain. The mines of America might not have been discovered; they may be worked out: trade, industry, population, may hereafter increase at a greater rate, than contrivances for diminishing metallic payments; and the value of gold and silver, in exchange for other articles, may again increase. Quittents, now become nominal, would then ac-

quire value; and the creditor, receiving back the stipulated weight of gold, would find himself enabled to command a larger portion of labour, or of the products of labour.

#### SECTION VI.

We are now arrived at the last step in the progress of circulating media.—Notes, verbally promising to pay the bearer a certain quantity of gold or silver on demand, have been issued in different countries, under various forms, without really entitling the holder to receive, at his pleasure, the equivalent promised. A great variety of circumstances have accompanied these issues. Some governments, refusing to accept their own notes in payment for taxes, have stamped them with a considerable discount, from their first appearance: other governments, accepting them indeed, but forcing notes much faster from their treasuries than they could possibly return, and increasing the stream to compensate its diminished value, have ultimately created such a deluge, as in several instances has swept away every establishment of

social life, and engulfed the whole in universal bankruptcy.

Notes issued in this country by the Bank of England, are so far identified with the foreign, that they promise to pay, what the holder has no right to demand: they differ, in being circulated by a company of merchants, not directly under the controul of Government, and of acknowledged solvency. They are said also to differ by not being legal tenders; but this distinction, except in words, may fairly be denied. Public creditors have no other alternative against receiving notes, than not being paid at all; on them at least they are forced into circulation; and not a single individual has been found in fourteen years, amidst the infinite variety of opinions and circumstances existing in that time, who has ventured to decline these notes, and to demand cash.

From this state of things arises a most important question:—Is the paper currency of England, not convertible at the will of the holder into a substance of intrinsic worth, the produce of labour, hitherto considered as an article the most proper for

measuring others—is this paper currency proceeding in the same career of depreciation, which other non-convertible currencies have uniformly run? or, is there such an essential difference between them, as will preserve this, though others have perished?

I shall arrange my answers under two heads of inquiry.

Can such a currency be depreciated?

Is it not actually depreciated?

Preparatory to the first, let us consider what forms the value of gold above lead, what renders saffron more precious than hay.—Clearly, the labour, the operation, the manure, the extent of ground requisite for producing these mineral or vegetable substances. \* If some cheap process could be discovered, for converting materials easily procured into gold, there can be no possible doubt of gold then exchanging for no larger quantities of other articles, than what were produced by an equal expence of labour and cost; but if gold should still continue the standard of value, a pound would remain exactly equal to forty-four guineas and a half, or to 46*l.* 14*s.* 6*d.*; consequently the ounce to 3*l.* 17*s.* 10½*d.* Let a still more

\* *clearly it is not so*

easy and less expensive process be found out of creating this metal; it would evidently become of proportionably less value, perhaps on a level with the cheapest form of iron: but this value in exchange, however small, must soon be common to the whole world; and all other articles measured by it, would be said to have advanced several hundred-fold.

It seems impossible then to deny, that paper notes, manufactured at a much less price, than the most successful alchemy could hope to produce gold, may, like it, suffer a reduction of value from excess of quantity; and cause an apparent rise in the value of gold itself, and of all other commodities measured by this ideal standard, but, with one essential difference; the reduction of value in the general intrinsic standard, and the apparent increase of other articles, must be common to all the world; whilst this is necessarily confined to the particular country issuing the ideal medium.

Nor can it be imagined that a substance of no intrinsic worth, unable to travel beyond certain bounds, is capable of possessing so important, so eminent an advantage over

metallic currencies, as to remain always of the same value, incapable of change, entirely unaffected by the supply or by the demand; whilst every other article is in perpetual fluctuation. Those who maintain an opinion so very strange and improbable, endeavour to support it in the following manner.

These non-convertible notes, they say, are always issued in consequence of property retained, equal at least in value to their nominal amount; no addition is therefore made to the general stock of wealth, and consequently no reduction of value can ensue.

If other media of circulation, if gold coin were withdrawn and held in deposit to an equal amount, the assertion would undoubtedly be true: but when the reserve is made from other merchandize, the aggregate of wealth does indeed remain unchanged, as to the whole; admitting however fluctuations to any extent, among the different parts.

Such would be the effect, if some portion of one commodity could be transformed into another: and this appears virtually done, when circulating media become increased by the deposit of other articles. If large quantities of coffee were converted

into sugar, undoubtedly the rates of these two commodities must experience a corresponding change.

If a part of the West-India produce, were lodged in warehouses for some long indefinite time, and notes were issued on the credit of this stock; surely the diminished quantity of produce left for sale would advance in price; and on similar principles the increased quantity of circulating medium must cause its value to decline.

The excess of any commodity seems necessarily to create a competition among sellers, and a corresponding reserve among those who mean to buy; all are aware that articles retained cease to yield profit, and both parties act accordingly.

Gold, silver, copper, wine, corn, &c. are observed to fluctuate precisely in this manner; nor can I discover any magic sufficiently powerful in an ideal medium, for compelling men to retain this one commodity against their interest.

If all the circulating media in the possession of an individual were suddenly increased to any extent, he would readily

find means for disposing of it with advantage: but if this increase become universal, there appears to be no reason whatever for supposing, that the same competition and reserve would not affect this article, which is found to advance or to depreciate every other.

If this is admitted, I arrive at the second head:—Are bank notes depreciated?

It is allowed, on all hands, that notes purporting to pay 4*l.* 14*s.* 6*d.* or forty-four guineas and a half, can no longer purchase in exchange a pound of gold: but gold is said to be advanced; large quantities are hoarded; much is sent to the armies; perhaps much has been lost; the desire of possessing gold plate is increased; the mines are less productive.

If these statements were admitted, a creditor might urge:—I lent a certain quantity of gold under an express engagement of having it returned; if that metal had fallen in value, I must have been satisfied with receiving back precisely the same weight; surely I may be allowed to profit by the accidental turn of events in my own favour.

But there exist two facts capable, as I conceive, of clearly deciding this important question—namely, foreign exchange, and the average price of home commodities, estimated in the artificial medium. I have endeavoured to prove, by the familiar instance of corn, that foreign exchanges must be really varied by the balance of trade or of payments, and nominally by any reduction of value in the standard article of circulation itself. In the first case, or that of a really unfavourable exchange, any medium of circulation possessing intrinsic worth, will flow partially out of the country, till the remainder advances in value as compared with other commodities; and thus makes it the interest of merchants rather to export them.

In the second case, as between England and Ireland, an exchange of  $8\frac{1}{3}$  per cent. is no more than nominal, and only compensates the inferior value of Irish coin. To illustrate this further: let us suppose, that when French paper money had fallen so low as to ten for one, commercial transactions were equal between that nation and Holland: real commercial exchange must then be

at par, between the two countries; yet ten pieces of gold at Amsterdam, would, under this supposition, purchase a bill on Paris for a hundred pieces; which being received in French paper currency, would exactly replace, in Paris, the ten pieces of gold.—Thus an apparent exchange nominally ten times cent. per cent. against France, would have arisen, though really at par, from its depreciated currency; which at the same time had increased the prices of all home commodities in the same proportion.

The nominal exchanges have been for a long time adverse to England with foreign countries, in a much greater degree than experience justifies our imputing, as a reality, to any balance of trade, or of payments, which cannot much exceed the expence of transferring bullion from one country to the other; and referring to the other criterion, the prices of home commodities, as measured by the artificial medium, we find them manifestly, confessedly, notoriously advanced: foreign articles in our market, after due allowances are made in particular cases, for the action of other manifest causes, will be found



advanced in nearly the same proportion. The appearances are then exactly the same, though differing widely in degree, as those exhibited in France.

Unfavourable exchanges, and an advancing price of general articles, cannot exist together in any other way. This is the *experimentum crucis*, the test clearly decisive of the whole question in dispute.

It would far exceed the limits I wish to preserve, were I to enter on an examination of all those plans or regulations, which the Bank of England has laid down;—such as never discounting under five per cent. nor on any other than real transactions, and limiting the date of bills to two months: but none of these appear to have been founded on any principle, directly tending to preserve the paper currency at the same value in exchange for other articles, as gold formerly possessed. To effect this, it is presumed that the nominal value of all the circulating media taken together, should exactly equal the amount of what would have appeared, had a metallic currency, with notes really payable on demand, occupied their place. If the artificial circu-

lating medium could be kept below this standard, and gold excluded, the value of bank-notes would advance in respect to all other articles, or these would be considered as growing cheap; and a contrary effect must as necessarily follow from their exceeding that amount.

If the quantity of metallic circulation is kept below its natural level, in any country, by imposing a duty or seignorage on coining, an agio to that amount will certainly arise: provided the government refrains from issuing on its own account, and can restrain counterfeits; as no individual will convert bullion into coin, at a loss of weight, until the agio compensates it. This natural effect of seignorage, and not the nominal rate at which coin is issued, gives it a value above so much bullion.

It does not appear that discounting at any particular per-centage, or for any specified time, can produce the coincidence of nominal values, mentioned above, probably beyond the reach of human power to adjust: and, what is of most importance to observe, no step in the progress of depreciation has any tendency whatsoever to make

itself the last; and the Bank must always feel a strong inducement to accommodate with capital, persons inclined to speculation and adventure; as it shares five per cent. on their mercantile transactions, free of expence, and with little risk.

Gold must equally disappear from a concurrent circulation with non-convertible notes, whether that is advanced in value, or these are declined; on either supposition it will take the shape of common merchandize, and acquire a greater power over other articles of produce and labour: It is therefore desirable on both suppositions to restore the equilibrium.

Here it may be right to notice a popular argument, destitute of force, but frequently urged: "Do not twenty-one Bank pound-notes still procure the necessaries of life equally with twenty guineas?" I answer, certainly they do, and for these reasons: first and principally, because the tax-gatherer continues to accept both at the same rate; the whole circulating medium of all kinds is rapidly absorbed by imposts, and again diffused; whilst no distinction is made by him, it will be difficult for any to appear in ordinary transactions: in large payments

gold is never seen: penal laws, or the apprehension of penal laws, and even public opinion, will be of sufficient power to deter persons from making such distinction, when the inducement of profit is limited to a small sum.

#### SECTION VII.

I shall now assume the leading facts as proved: but several other topics for discussion remain. The most prominent of these relate to Country Banks.

Their situation appears, at first sight, not to have been materially altered by the restriction; they are still obliged to pay on demand, in that which cannot be procured without an equivalent; but experience has sufficiently shown, that circumstances connected with them are entirely changed. The preference usually given, by persons out of trade, to currency of intrinsic value, does not extend to Bank of England notes; a contrary preference is, in truth, universally felt; on account of the greater security against frauds, which persons in ordinary life are not skilled to detect. Thus all banks are enabled to keep a much greater quantity of notes in circulation than could have

been effected in former times ; and with a less relative deposit. All issuers of notes must, however, to a certain extent provide themselves with resources against rapid demands, or what are termed *runs*. The amount of currency thus kept in reserve, must always diminish, *pro tanto*, the profits of their trade : banks have therefore at all times endeavoured to keep down this deposit in their own coffers to the least possible amount. Before the restriction it was known to have borne no inconsiderable proportion to the whole issues ; but since that enactment, the disinclination of individuals to demand payment, unless in cases of distrust ; the ease of acquiring credit ; the mutual disposition to accommodate, founded on principles of a common interest ; the facility of investing capital in certain government securities, steady in their price, and of daily sale ; the rapidity of transmission ; and various other causes, have enabled persons, with otherwise inadequate means, to support issues of notes to a great amount, to guard sufficiently against ordinary runs, and to make nearly five per cent. of the whole sum, thus virtually lent to them without interest. Such persons can have no motive for keeping the

circulation within bounds ; their only wish must be to extend so lucrative a trade ; regardless, perhaps wholly ignorant, of consequences.

Thus the paper system, established at the Bank of England without check, but administered there in a manner much more moderate than could have been expected or foreseen, has ramified into every town and village ; adding to the stock of currency, assisting therefore in depreciating its value, and encouraging the wildest speculations, with the most unbounded extravagance.

These sources cannot, however, discharge an indefinite stream : Notes may be generated much beyond the local wants of those who hold them ; payment will then be demanded for the purpose of remittance ; suspicions may arise, and the whole mass issued by certain individuals suspected, will be returned : but no correction is applicable at the fountain head ; no generation of notes beyond the wants of those who hold them, can there be restrained : the whole nation lies completely at discretion, as to all the relations of property depen-

dent on compact, before the feet of a mercantile company—governed, no doubt, by men of honour and integrity, but whose interests, as members of that body, goad them to pursue the measures which have created, and must continue to augment the evil universally felt, though it is partially denied.

#### SECTION VIII.

I may now reasonably be asked, what are the remedies? To this, I answer—In principle there exists but one—reducing the paper currency to such an amount, that, circulating with gold, both shall no more than equal the quantity that would have been required, had gold circulated alone, or with convertible notes. And there appears to be one only method of carrying this principle into execution.—

To regulate artificially the issue of a non-convertible currency, population, industry, seasons, crops, enterprize, new inventions, domestic intercourse, foreign trade, must be accurately and incessantly measured; not merely at home, but in foreign countries: and admitting these to be ascertained, I know not who would undertake to deduce the prac-

tical inference. Restore the system, never departed from by our ancestors, which constantly flourished, till unwary speculatists established the novel and pernicious theory of 1797; and all the parts will regulate themselves. The standard of value will vibrate on either side of a common level, as it ought to do: when exportation or importation has tended to excess, metallic currency will exert rather a potential, than an actual energy to restore the balance; and being liable only to those variations which adhere to the nature of things, it will afford all the stability to be hoped for or expected; where nothing is exempted from continual change. Nor will convertible notes in the least degree influence the effect; since they naturally decrease or increase in nominal amount, as gold becomes of greater or of less value: non-convertible notes follow a course precisely opposite.

If the discussions in these pages approximate towards the truth, it must of necessity follow, that no quantity of gold, however large, could enable the Bank to resume payments in specie; and at the same time to maintain a circulation, altogether equal in

nominal amount to what at present exists : The depreciation would in that case continue, attaching to the whole in its artificial state, but leaving the intrinsic part when it became merchandize ; and this conversion would go on ad-infinitum. But if the whole mass were first reduced to the limits above defined ; in a gradual manner, detrimental to the public and to the Bank itself in the least possible degree ; by temperately withholding some advances from the Government, and some discounts from individuals ; and as country bankers, on account of the greater difficulty of procuring that, in which their notes must be paid on demand, would find themselves obliged to adopt caution in their future issues ; there seems no reason for apprehending that the object, of such vital importance, could not be obtained. Gold might then be purchased without loss ; no profit could be made by exporting it ; no inducement would then be found for converting coin into an article of traffic ; the only drain likely to ensue, would limit itself to satisfying the curiosity or the caprice of some few individuals, eager to possess that from which

they had long been debarred ; or preferring an intrinsic currency, when all grounds for preference were removed.

It must, however, be confessed, that in retracing our steps, the path is uniformly an ascent. The career of depreciation has been easy and pleasant : debtors, speculators, persons improvident or profuse, have found many obstacles removed from out of their way ; whilst those suffered almost without complaint, who had accumulated the produce of industry and care. But the same causes continuing to act, the velocity of descent will increase ; no human power can arrest it at the actual point, except by an expedient disgraceful in itself, and inefficient, unless coupled with the means all-powerful without it. We have therefore to choose the alternative, of temporary difficulty or destruction. I need scarcely observe, that the expedient alluded to is a reduction of the coin. In this way any depreciation of ideal currency may undoubtedly be out-run ; but then from time to time the chace must be renewed : paper will go on starting anew from precisely the same causes as at first ; whilst at each bound in the pursuit, temporary

injustice is rendered perpetual; creditors are *pro tanto* defrauded, insult is added to injustice; and every principle is violated that can bind man to man, or individuals to society.

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Having thus tired your patience with a letter much longer than I at all contemplated when it was begun, I shall add little more than a few deductions necessarily flowing, as it seems to me, from principles universally admitted; which yet differ materially from opinions generally entertained. If the value of all commodities depend on the supply and the demand—it follows of course, that in the actual state of society, the circulating media of any nation, or of the world, must be equal to a given quantity. Double the gold coin of some one country, and prevent its egress or conversion; double the mass of gold in the whole world, supposed the only medium of circulation; each piece will then become of half the value in exchange for other articles, and the value of the whole must remain un-

changed. Nominally increasing or diminishing the amount of circulating media, cannot then vary the wealth, or affect the industry of a country.

By a strange inadvertence, most recent writers have confounded in this instance, the real with the nominal value of circulating media: the real value is always constant under given circumstances; the nominal value augments indefinitely with depreciation.

The nation first adopting a convertible paper currency, gains capital to the amount of coin thus rendered superfluous, and exchanged as merchandize. But had all nations, at the same time, adopted the same system, relatively to an equal extent, no gain could have accrued to any; and the only effects would have been—an immense reduction in the value of gold and silver, coined or uncoined, and of the paper representing them, in exchange for other commodities; nominally stated as a commensurate rise in the price of every thing else—and a complete stoppage of the mines—till, after the lapse, possibly of some hundred years, the stock of gold would have so much

diminished, and its value consequently so much increased, as to again advance the produce of those mines to a level with the materials, labour, &c. expended in working them.

The great reduction in value of gold and silver, from their diminished use, appears to have more than counteracted all improvements of machinery, and skill, in working the American mines.

An increase of commerce, industry, population, &c. throughout the world, would not require any numerical augmentation of gold, or other circulating media: The demand carrying on the value in an equal degree, a subdivision of pieces would entirely satisfy every purpose of convenience. But in any particular district thus progressive, as the general value will be but little extended by so partial a cause, the numerical quantity must be increased; either by the purchase of a metallic currency, or by what is much better, and a saving of capital to the whole amount, the issue of convertible notes.

Nations using metallic currency possess

a resource available at any time, by substituting other media.

A circulation, even wholly metallic, constitutes a very small portion of the real wealth in any country, and has almost nothing to do with the rate at which capital is borrowed and lent, improperly called the interest of money. But altering the denomination of such a medium, or creating a depreciation of artificial currency, is precisely similar to varying the linear, or any other measure.

Taxation not applied either to the necessaries of life, or to a particular article, cannot have any tendency to augment its price: as rent is well known not to add any thing to what is either demanded or paid for the produce of land, dependent, in common with every thing else, on the supply and the demand.

A metallic circulation, at least for the ordinary transactions of common life, can alone maintain itself in times of hostile invasion, or of domestic tumult.

Finally, the paper currency seems to have remained thus long, without a greater reduction of value; in consequence of habit,

prejudice, established opinions, ordinary rates, &c. acting as moral inertia; these may occasion a less rapid descent, but have no power to arrest the course.

I shall hope for the communication of any observation or objections that may occur.

I am, &c.

D. G.

#### POSTSCRIPT.

**J**UST as the preceding sheets were sent to the press, a proposal has been made for advancing Six Millions, in the form of Exchequer Bills, to such Merchants and Manufacturers as may require the aid, under certain regulations; especially on their giving sufficient security for repayment, after particular intervals.

The measure is grounded on the notoriety of immense accumulations of manufactured goods, and of foreign produce being retained at home, for want of sale: and on the slow or uncertain returns, for articles already exported to distant countries.

The sum is an actual Loan from the Nation at large, to these Individuals, whose capitals will receive a temporary augmentation to the whole amount; consequently they will be enabled to continue their usual concerns; and by so doing to provide employment for large bodies of people, likely otherwise to suffer from want of work.

But the articles thus manufactured or imported, must be considered as forced additions to a stock already in excess; and the eventual benefit or disadvantage can only depend on the state of Europe and of the World, at a future period. If foreign markets become open to our trade, before this capital, artificially supplied, is exhausted, and certainly before the time arrives for its being replaced, the whole operation will be productive of good: but under different circumstances the evil day will merely be post-



poned, to arrive at last with a deepened gloom. Merchants and Manufacturers might indeed, gradually let down their concerns to the level of actual circumstances, and by so doing avoid all sudden shocks; experience however seems scarcely to warrant our anticipating such conduct: an advance of capital appears much more likely to encourage further speculations, with the hope of repairing losses already incurred; and perhaps the example of Parliamentary aid in this particular case, may tend to excite very unreasonable expectations regarding the future.

In a former instance it is apprehended, that a part of the circulating medium withheld from common use, was drawn forth, by the incontestable securities placed in the hands of those to whom Exchequer Bills were advanced; and by the premium, beyond legal interest, which they were thus enabled to give.—No one conceives the present medium of circulation as deficient in amount; and should these loans from Government induce an increased issue of Notes by the Bank of England, or in any way support an enlarged quantity of Country Notes, the depreciation of paper currency must continue to augment.

A measure thus circumstanced, clearly beneficial in the first instance, to thousands suffering from actual want of employ, and of which the ultimate effects may also, by possibility, be good, could not receive any serious opposition in Parliament. The policy, however, of originating the measure, seems at least to admit of doubt.