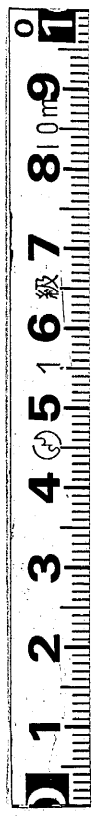


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Wrote before the passing of Lord Stanhope's Act

THE
DEPRECIATION
OF
BANK - NOTES

DEMONSTRATED;

AND

THE ASSERTION,

THAT

GOLD IS TOO DEAR TO MAKE GUINEAS WITH,

PROVED TO BE ABSURD.

— F. Kelly Esq. —

Son in Law to the Earl of Stanhope

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DEPRECIATION

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AS commerce began to be established in the world, the necessity of money became apparent. The man who wished to procure an axe and a spade in exchange for a sheep, had some difficulty in finding those articles in the possession of another disposed to make such an exchange ; but his difficulty was still further increased when he was in want of an article of less value, and had nothing but a cow with which he could be enabled to make the purchase : He must either do without that which he

was in want of, or submit to the inconvenience of receiving in exchange for his cow commodities which he did not at that time require, together with the article he wished to procure. As soon as money was invented this inconvenience was done away.

Money may be composed of metal, of leather, of paper, or of any other substance whatever. But that money which was composed of metal was soon found to be the best, as it was not only less liable to wear, but that alone of all money which would be taken in payment in every part of the world. Gold and silver were soon regarded as the most valuable metals, and money was consequently made of these, as a greater value could be contained in a less space and weight. Gold and silver certainly for these thousand years past have composed the principal part of the money of the world, and must be regarded as the standard by which the value of

every other commodity whatever has been measured.

Money composed of metal has been denominated coin, which is nothing more than a piece of metal stamped with a certain mark, by which the trader may at once recognize the quantity of metal it contains, and its fineness or degree of purity, and consequently its value. The merchant in the East Indies, who wishes to dispose of his muslins, &c. takes them to market, and is offered a thousand guineas for a certain quantity. He accepts the offer because he knows each guinea contains a certain quantity of gold of a certain fineness, equal in the whole to such a number of ounces of pure gold. The denomination or name of the coin is of no consequence to him, but as it enables him to judge of the weight and quality of the metal it contains. These are principles so clear that they cannot be disputed. The

coin is not rendered more valuable by altering the denomination. Its value can alone be affected by altering the quantity or quality of the metal. Pass an arbitrary law by which in future the guinea shall be received in all payments as two guineas, would the wealth of the country be increased? Should we have an ounce more of gold in our possession? Would the guinea produce a greater quantity of tallow in Russia, or of tea in China? No: the weight and fineness therefore of the metal contained in the coin determine, and alone determine, its *real* value.

The proportionate value between the different metals used for coin is determined by their scarcity and the demand for them: thus gold and silver have each acquired a certain relative value. They have become the measure by which the value of every other commodity is ascertained. But gold is the principal measure, as it is the most

valuable metal. It is allowed to perform this operation, it has been fixed upon as this standard, this measure of value, in consequence of its scarcity, which, in fact, constitutes its value.

Should this metal become as abundant as iron, it would cease to be useful for this purpose, it would lose its value and its present utility. Silver would most probably supply its place. Gold is at present unquestionably the measure of value. A guinea is only valuable as it contains a certain quantity of gold of a certain fineness. As you diminish either the quantity or purity of this gold, you diminish the value of the coin. You may call it still a guinea, though it contains but half the quantity of gold it contained before, but you will find it will only produce in the market as much merchandise as the half-guinea did before.

But a Right Honourable Gentleman tells us gold is now so dear that we cannot afford

to make guineas with it. What a monstrous absurdity! Is it the gold which is valuable, or is it the stamp which it receives when it is converted into coin which renders it so? If it is the quantity of gold, and the quantity of gold alone, which gives it its real value, of what consequence is the name given to it? The stamp upon the coin does nothing more than give the merchant a degree of security as to the weight and fineness of the gold contained in it. It tells him this coin contains a quarter of an ounce of gold. Does this Gentleman mean to say the Bank cannot afford to do this? If not, what does he mean to say? If it does not amount to this, I am at a loss to understand his meaning.

Wheat, I am told, is much dearer now than it was twenty or thirty years ago; the meaning of this is perfectly clear to me. The load of wheat might then have been purchased in the market for ten or twelve

guineas, and it cannot now be purchased under twenty. But when I am told that gold is dearer than it was, this I cannot understand, as gold is itself the measure of value. Say the guinea weighs a quarter of an ounce; is it meant that a quarter of an ounce of gold is worth more than the guinea? the guinea, which is only valuable, as it contains this quantity? What is this but saying a quarter of an ounce of gold is worth more than itself? However, we are told gold is dearer than it was. The quantity of gold in the world must be increased, as so much has annually been procured from the mines, consequently its value relatively to other commodities is likely to be diminished, but not relatively to itself; as a measure of value it remains fixed and immutable. The ounce of gold is still of the same weight. If four guineas contain one ounce of gold, they are valuable exactly in this proportion. The guineas are

equal in value to the ounce of gold, and the ounce of gold to the guineas. Will the Right Honourable Gentleman above alluded to be so good as to inform me how their relative value would be affected even should gold become as plentiful as sand, or should nine-tenths of that which the world is now in possession of be thrown into the sea, and lost for ever?

The value of all commodities is regulated by the demand for them, and the quantity in the market. Great abundance might render that which had always been regarded as highly valuable of scarcely any value whatever; and scarcity would also have the effect of giving a price to that which had never been purchased before. Water, which is so abundant that no price is now put upon it, should it become suddenly very difficult to be procured, might be sold at a higher price than meat or bread, and indeed we might suppose a case

in which it would be worth more than its weight in gold. All commodities are rendered less valuable by extreme abundance, but, of all commodities, gold and silver are the only ones which are not depreciated, or reduced in price, though rendered of less value by plenty. Should meat become very abundant, the consequence would be, that, instead of producing ninepence per pound in the market, it would not sell for more than one penny. It would become less valuable, and the price would consequently be lowered, for gold or silver coin would be made use of as the measure of value. But if gold and silver were to become ever so abundant, though their value relatively to all other commodities would be reduced, how could their price be diminished? If the meaning of the word depreciation is a diminution of price, this word has almost always been improperly made use of when applied to gold. The disco-

very of America has generally been stated to have depreciated gold ; but I think this expression has been incorrectly used. The value of gold was reduced ; it was found to procure less bread, less meat, and less of every manufacture. If coin is only valuable in proportion to the weight and fineness of the metal which it contains, when gold becomes very abundant and sinks in value, the coin which derives its value only from the gold loses its value in the same proportion, but gold does not change its price. The measure, and the thing which is measured, sink together.

I have said that the value of gold coin is measured by its own weight and fineness, because, though a guinea in this country is said to be worth twenty-one shillings, and by law a person who has a small payment to make may choose whether he will pay in the one coin or the other, yet I must regard this as a mere internal regulation. The

proportionate value determined by law may be wisely arranged or not ; but no law in this country could have the effect of making the guinea pass in China for more than its real value in silver, any more than for its real value in tea, that is, the relative value ascertained in the market. But if one ounce of gold in Europe was worth five ounces of silver, and in Asia it would produce ten, this variation of price would not last long ; the bullion-merchant would soon transport the gold to Asia, and the silver to Europe, until the prices became nearly equal.

One guinea is said to contain so many shillings, or so many pence or farthings. Should copper become very scarce, the value of twelve copper halfpence of the present weight would exceed the value of the silver contained in the mint sixpence ; and, should this excess be very considerable, all our copper money would disappear.

for this obvious reason, that the dealer in copper would be able to procure the copper cheaper as coin than as copper, and the penalties of the law would be disregarded, should the temptation be sufficiently great.

With respect to silver this effect would more immediately take place, for very obvious reasons; not a shilling would very shortly remain in circulation, should the value of the silver contained in fifteen mint shillings be equal in the market to the guinea, that is, if the guinea could procure no more silver in the market than what was equal to that contained in fifteen mint shillings. The dealer in silver could procure silver cheaper as *coin* than as *silver*, indemnifying himself for the risk of incurring the penalties of the law.

As the law of this country stood before the Bank Restriction Bill passed, this effect could not take place with respect to gold

to the same extent; the gold coin could not have been forced out of circulation, because it was wisely enacted that no payment exceeding a certain amount should be paid in any other coin than gold, except with the consent of the person receiving the money; or, in other words, in all such payments silver coin should only be received according to its value as bullion.

Should, however, the silver contained in twenty-one shillings become so much reduced in value as to be considered only as equal in the market to three-fourths of a guinea, or that with one guinea I should be able to purchase as much silver bullion as is contained in twenty-five mint shillings, the demand for silver must increase, and consequently its value also, so long as there was a power of converting silver into shillings at the mint, and thus the evil might produce its own remedy. Should this variation in the price of silver be only

local, it would soon be found to return to its level by the effect of importation; but should it be found to be general from the increased quantity of this metal produced from the mines, a permanent alteration must take place in our system. Either the guinea must pass current for a greater number of shillings, or the quantity of silver in the shilling must be increased.

I may perhaps be told that the guinea is now worth twenty-four or twenty-five shillings, and that is a sufficient reason to account for its disappearing from circulation. I deny the fact. It is not only the gold which has been withdrawn from circulation, but the silver also. The little silver coin which we do find in circulation scarcely contains one half the quantity of silver which it ought legally to do. Should ten millions of shillings be issued from the mint to-morrow, it does not require much penetration to discover that they would

all be withdrawn from circulation in a month, and that not even one of them could be met with. Those who wanted silver could purchase it cheaper as coin than as bullion. The penalties of the law, experience has lately shown, are ineffectual.

These penalties are the offspring of a mistaken policy, and, in fact, the principal cause of the trifling variation which occasionally took place in the relative value of gold in bullion, and gold in coin. Every restriction should at once be removed; gold in coin as well as gold in bullion should be allowed to be exported as freely as any other commodity.

Gold was absurdly enough regarded as constituting the wealth of a nation, and under this impression, I must presume, the penal laws in question were enacted. How poor and wretched were Mexico and Peru in the abundance of their gold! Civili-

zation, good government, industry, and knowledge arising from the experience of ages, constitute the real wealth of nations.

Have we however retained our gold with all our penal statutes? No, we have lost our gold, but we must have received an equivalent for it, and we are not therefore poorer on that account. But we are likely to become poorer from the establishment of an unwise and mischievous system, by which we have at once shown a total disregard to experience, and abandoned a course, which we knew to be practicable and safe, for one which is dark and untried, and which must lead to the utmost confusion.

A power has been given to the Bank of England of issuing notes to any amount, and these notes are not convertible at pleasure into specie. The greater the extent of the issue, the greater will be the profit derived by the Bank. But, the greater the issue, the greater also will be the depreciation.

The depreciation, however, will not be found to keep pace with the issue; it will leave it far behind; and its consequences must be attended with the greatest disorder. I am compelled to receive in payment a piece of paper purporting to represent and to be equal to so many guineas and so many shillings, or in other words, as I have before attempted to prove, so much gold and so much silver. But I find I cannot procure in exchange for this paper, or purchase more than about three-fourths of the gold which the paper was stated to represent. I am however told, by way of consolation, that the paper is not depreciated, but that gold has risen in price. What I have before said seems to me to have placed this question about the high price of gold in so clear a light that it must be useless to add any thing more.

The principal advantage arising from a currency composed of gold and silver or

of paper convertible at pleasure into the coin which it represents, appears to me to be the security which it affords to all commercial transactions. Experience has shown us that the diminution in the value of gold and silver, relatively to every other commodity generally, has been very gradual. We have nothing to apprehend from sudden change.

I could with confidence contract to perform an annual service for a certain number of years, in consideration of the annual receipt of so many guineas. I could have leased my land without imprudence for twenty-one years. The fall in the value of gold, in which I should have received my rent, would in all probability be so trifling during this time, that I might easily have guarded against its effects. But how can I guard against the depreciation of a paper currency which has no fixed standard of value, and which, during the few years

which the system has already continued, has suffered a depreciation of nearly twenty-five per cent.

Previously to the Bank Restriction Bill the landlord imagined he might have granted a long lease with advantage both to himself and to his tenant. The amount of his annual receipt was fixed. He expected to be paid so many guineas, or in other words, so many ounces of gold. But he has been deceived. The Legislature has interfered, and he has lost nearly one-fourth of his income during the continuance of his lease.

Far different is the condition of the public creditor, of the annuitant, and of the mortgagee; they have lost about one-fourth of their capital as well as income for ever, that is to say, should this paper system continue. So much as to the loss actually incurred; but of the loss rationally to be expected to take place in future no accurate estimate can be made. But this conse-

quence is inevitable; it must increase every year.

I have before shown that the guinea was valuable only in proportion to the gold it contained: if it had been made of copper instead of gold it would not have been worth so much as a halfpenny; its intrinsic value would not have been so much, because the weight of copper in the halfpenny would have exceeded the weight of copper in the guinea.

One of the advantages of metallic currency is its intrinsic value. Gold coin passes current all over Europe, and is regarded as valuable in proportion to its weight and quality; it does not merely represent that which is valuable. A paper currency has no intrinsic value; it is a mere representation of specie, and is received with confidence or not in proportion to the estimated responsibility of the person of the government which has issued it.

A merchant in America has a certain

quantity of tobacco, or flour, or of any other commodity, to dispose of. A French merchant offers him a bill on Paris, and an English merchant one on London to the same amount, both of which bills he considers as equally certain of being paid when due. Would the American merchant hesitate a moment which offer to accept? In Paris he would receive the exact number of ounces of gold or silver which the bill purported to represent, and in London he would receive little more than three-fourths of the amount. Power and violence, and an unnatural state of commerce, might, however, operate so as to make him prefer three ounces of gold in England, to four in France.

I will ask those Gentlemen, who contend that an unfavourable balance of trade, a large foreign expenditure, and other causes, have alone produced this state of our exchange, whether they believe that the

merchant who paid for the commodity he purchased in the foreign market by a bill on London, which would be payable in bank-notes, would procure the same terms as he who, in payment for what he purchased, gave an order on London for a certain number of ounces of gold, equal to the quantity contained in the guineas represented by the bill paid by the first merchant?

The one pound note is now worth, measured by the standard of gold, about fifteen shillings and tenpence. In ten years time, should the present system continue, it may and probably will be reduced to no more than ten shillings. The Minister may thus be enabled every year to meet Parliament with a most flourishing statement of our finances. The public creditor will only receive ten shillings for every twenty which is due to him, and the receipts at the Exchequer may be doubled. The landed proprietor, whose interest as an indi-

vidual cannot by this system suffer, as his rents will be increased in proportion to the depreciation of paper money, and as he will grant no lease, will pay an income tax to double the nominal amount of what he before paid. He will pay more for his wine, for his clothes, and for all the articles of his household consumption. The receipts from the Customs and Excise duties will appear wonderfully augmented. But that which may at first be taken for evidence of increasing prosperity, will be found to be nothing more than the effect of depreciation.

The profits of the Bank of England are already enormous, and must, with the continuance of the system, yet advance. But if we are to have a national mint for the fabrication of paper money, why should so important a privilege as the control and direction of such an establishment be vested in the hands of a set of merchants (who are

daily enriching themselves at the expense of the public), who have not purchased this right by any adequate compensation paid to the State? The country bankers, against whom so unjust a cry has been raised, derive a considerable yet fair profit from the legitimate exercise of their trade. They are compelled, in order to uphold and prove their responsibility, to keep by them, dead and unproductive in their drawers, a sufficient number of Bank of England notes to answer those demands which may be made upon them, upon all which notes the Bank of England are receiving an interest of five per cent. The country banker would only lose the same interest, and no more, upon the guineas which he kept by him, as upon the bank-notes. He would derive the same profit as he does at present, if he paid in guineas. But this is not the case with the Bank of England. They gain, but the public suffer in a still greater proportion.

If we are to have a paper system and a paper mint, let us at least have more than equivocal security. Let there be a public office for registering the landed property of those individuals who are to have shares in the establishment, and let their shares be in proportion to the value of this landed property. If notes are issued to the amount of twenty millions, let us have landed security equal at least to eighty millions. Let us have something in a tangible shape to which we may have recourse in case of necessity, and thus those who choose to embark their property in the speculation will at least do it with security to the public.

I have endeavoured to show that gold and silver coin have hitherto all over the world been regarded as the standard of value. That these coins were only valuable in proportion to the weight and fineness of the gold or silver they contained. That when we spoke of the

value of any article whatever, we brought gold or silver coin as the measure by which it was to be ascertained, in the same manner as we apply the foot or the yard measure to determine dimension. In whatever part of the civilized world I happen to be thrown, if I ask the value of any commodity, gold or silver coin will be produced as the measure by which the value will be computed. I have attempted to prove that should these metals become much scarcer than they are, by the complete annihilation of nine-tenths of the quantity which exists at present, though the coin which was composed of them would procure a greater quantity of every other commodity, yet they would not procure either more or less gold or silver than they would have done before the scarcity took place.

If this position therefore which I have endeavoured to establish is correct, it necessarily follows that the price of gold bul-

lion measured by the standard of guineas still remains the same. I know I may be told that *previously* to the Bank Restriction Bill the price of bullion in the market varied. This variation was generally very trifling: but it seems to me that this circumstance principally arose in consequence of the penalties which the law attached to the melting of the coin and to the exportation of it. I think I can show that had not these penal laws existed the price of bullion could not have risen above the level of the coin, that is, an ounce of gold bullion could not have been worth more than an ounce of guineas, and that the price of bullion could not have sunk below the level of the coin unless individuals were prevented from sending it to the mint for coinage, in which case the convenience of the stamp might give the coin a trifling advantage. Let us suppose, for the sake of argument, that a very great issue of paper money converti-

ble into gold at pleasure had taken place, in proportion to the extent of this issue would the value of gold relatively to every other commodity become reduced. For, if the paper was convertible instantly into gold, it would produce the same effect as an issue of gold itself; and as gold becomes abundant it becomes less valuable. If those, who had before ten guineas, have now twenty, a greater competition in the market must take place, consequently the price of articles must rise in proportion, or, in other words, money must sink in value. But in this case gold would be the only commodity, the price of which would not be affected; it must remain the same, bullion relatively to coin. Who would purchase gold at *4l. 5s. 0d.* per ounce when they could procure it for *4l. 4s. 0d.* as coin; reckoning that four guineas contain an ounce of gold, to make the calculation more simple. I say this, presuming there

was no penalty attached to the melting or exportation of the coin. If, however, the proprietor of bullion had the power of sending it to the mint for coinage, the price of the ounce of gold could not sink below the four guineas, after deducting the expenses; for by this means his ounce of gold would be immediately converted into four guineas.

Gold and silver coin have been made use of for ages, in every part of the world, as the measure of value, and they are only valuable in proportion to the quantity of these metals which they contain. The denomination of, and stamp upon the coin, give it no real value; their only use is to enable the merchant to judge of the quantity and fineness of the gold or silver which it contains. Money composed of other materials has comparatively scarcely any intrinsic value, but it may have a representative value. That is, paper money may repre-

sent one guinea or ten guineas, and may be received as such if we have confidence in those who have issued it. But, with the utmost confidence in those who have issued it, paper money can only have a value equal to the thing which it represents. It must represent something; if not coin, at least a bushel of wheat or a load of hay. But we are told the Bank of England notes represent the pound sterling, an imaginary sort of money. If however the pound sterling does not represent twenty one-and-twentieth parts of a guinea, it can represent nothing. It may be used as a measure of value; but it will be found to be one of the very worst description, because it would be impossible to fix on one more liable to variation. As its value is ideal, it may to-day be regarded as equal to a bushel of wheat; and to-morrow it may not produce the tenth part of it. This pound sterling would have been a good measure of value

if it had represented something, the value of which was not very liable to change, such as a fixed portion of labour and industry. But the ingenuity of man has not yet discovered this fixed portion of labour and industry. Gold and silver have been found by long experience to be the best substitutes for it.

If, therefore, the quantity of the precious metals which I am in possession of, or can command, alone enables me to command and to become possessed of a proportionate quantity of the commodities I may happen to want, I must measure the value of whatever I receive by the gold or silver it is capable of producing. Even coin itself, which measures the value of every thing else, is itself measured by this standard, the weight and fineness of the gold or silver it contains. If then the value of all other commodities is ascertained by this measure, why should not the value of bills of exchange or bank-notes be determined in

the same manner? Will the bank-note procure as much gold now in the market as it did twenty years ago? If the one pound sterling in bank-notes will only produce gold or silver equal to 15s. 10d. can the holder of this pound procure as much merchandise or produce as the person who holds in his hand gold or silver equal to twenty one-and-twentieth parts of the quantity contained in the guinea?

It has been asserted that gold cannot be procured; and that consequently it is impossible that it should be made use of as coin. It may, however, be procured as easily as any other commodity in the foreign market. Has gold any value but what it receives from its capability of purchasing other commodities? The market shows the relative value between gold and any other article. In South America 100 yards of British calico will procure what is equal to 150 many ounces of gold. In

the market, therefore, the calico is considered as equal in value to the gold, and the gold to the calico. If I have the calico, I can obtain the gold. It is the same with all merchandise; I may either procure its value in gold, or in any other article.

I have no objection to paper money which represents gold, and is convertible into it; but I wish to protest, in the strongest manner, against that system which would give us a paper currency, not convertible into gold, nor representing it, but representing that which has only an ideal existence, and which never can be met with in a tangible form;—a system which has nothing to recommend it but its power of deluding the public mind, but which will be found to throw us into the utmost confusion and danger when this delusion shall have passed away.

THE END.

The first part of the book is devoted to a general
 description of the country and its inhabitants. The
 author then proceeds to a detailed account of the
 various tribes and their customs. He describes the
 manner of their life, their habits, and their
 mode of government. He also mentions the
 different religions which they profess, and the
 various arts and sciences which they possess.
 The second part of the book is a history of the
 country from the earliest times to the present
 day. He relates the different wars which have
 been fought, and the various revolutions which
 have taken place. He also mentions the
 different dynasties which have reigned, and the
 various laws and customs which have been
 established. The third part of the book is a
 description of the different parts of the country,
 and the various productions which they afford.
 He mentions the different minerals which are
 found, and the various arts and manufactures
 which are carried on. He also describes the
 different manners and customs of the
 inhabitants, and the various laws and
 customs which have been established.