THE

HIGH PRICE

OF

BULLION,

A PROOF OF THE

DEPRECIATION OF BANK NOTES.

By DAVID RICARDO.

THE FOURTH EDITION, CORRECTED.

TO WHICH IS ADDED,

AN APPENDIX,

CONTAINING

OBSERVATIONS ON SOME PASSAGES IN AN ARTICLE IN THE EDINBURGH REVIEW, ON THE DEPRECIATION OF PAPER CURRENCY; ALSO SUGGESTIONS FOR SECURING TO THE PUBLIC A CURRENCY AS INVARIABLE AS GOLD, WITH A VERY MODERATE SUPPLY OF THAT METAL.

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HIGH PRICE OF BULLION,

A PROOF OF

THE DEPRECIATION OF BANK NOTES.

THE precious metals employed for circulating the commodities of the world, previously to the establishment of banks, have been supposed by the most approved writers on political economy to have been divided into certain proportions among the different civilized nations of the earth, according to the state of their commerce and wealth, and therefore according to the number and frequency of the payments which they had to perform. While so divided they preserved every where the same value, and as each country had an equal necessity for the quantity actually in use, there could be no temptation offered to either for their importation or exportation.

Gold and silver, like other commodities, have an intrinsic value, which is not arbitrary, but is dependent on their scarcity, the quantity of labour bestowed in procuring them, and the value of the capital employed in the mines which produce them.

" The quality of utility, beauty, and scar-" city," says Dr. Smith, " are the original found-" ation of the high price of those metals, or of " the great quantity of other goods for which " they can every where be exchanged. This " value was antecedent to, and independent of " their being employed as coin, and was the " quality which fitted them for that employ-" ment."

If the quantity of gold and silver in the world employed as money were exceedingly small, or abundantly great, it would not in the least affect the proportions in which they would be divided among the different nations—the variation in their quantity would have produced no other effect than to make the commodities for which they were exchanged comparatively dear or cheap. The smaller quantity of money would perform the functions of a circulating medium, as well as the larger. Ten millions would be as effectual for that purpose as one hundred millions. Dr. Smith observes, " that the most " abundant mines of the precious metals would " add little to the wealth of the world. A pro-" duce of which the value is principally derived " from its scarcity is necessarily degraded by " its abundance."

If in the progress towards wealth, one nation advanced more rapidly than the others, that nation would require and obtain a greater proportion of the money of the world. Its commerce, its commodities, and its payments, would increase, and the general currency of the world would be divided according to the new proportions. All countries therefore would contribute their share to this effectual demand.

In the same manner if any nation wasted part of its wealth, or lost part of its trade, it could not retain the same quantity of circulating medium which it before possessed. A part would be exported, and divided among the other nations till the usual proportions were re-established.

While the relative situation of countries continued unaltered, they might have abundant commerce with each other, but their exports and imports would on the whole be equal. England might possibly import more goods from, than she would export to, France, but she would in consequence export more to some other country, and France would import more from that country; so that the exports and imports

ports of all countries would balance each other; bills of exchange would make the necessary payments, but no money would pass, because it would have the same value in all countries.

If a mine of gold were discovered in either of these countries, the currency of that country would be lowered in value in consequence of the increased quantity of the precious metals brought into circulation, and would therefore no longer be of the same value as that of other countries. Gold and silver, whether in coin or in bullion, obeying the law which regulates all other commodities, would immediately become articles of exportation; they would leave the country where they were cheap, for those countries where they were dear, and would continue to do so, as long as the mine should prove productive, and till the proportion existing between capital and money in each country before the discovery of the mine, were again established, and gold and silver restored every where to one value. In return for the gold exported, commodities would be imported; and though what is usually termed the balance of trade would be against the country exporting money or bullion, it would be evident that she was carrying on a most advantageous trade, exporting that which was no way useful to her, for commodities which

might

might be employed in the extension of her manufactures, and the increase of her wealth.

If instead of a mine being discovered in any country, a bank were established, such as the Bank of England, with the power of issuing its notes for a circulating medium; after a large amount had been issued either by way of loan to merchants, or by advances to government, thereby adding considerably to the sum of the currency, the same effect would follow as in the case of the mine. The circulating medium would be lowered in value, and goods would experience a proportionate rise. The equilibrium between that and other nations would only be restored by the exportation of part of the coin.

The establishment of the bank and the consequent issue of its notes therefore, as well as the discovery of the mine, operate as an inducement to the exportation either of bullion or of coin, and are beneficial only in as far as that object may be accomplished. The bank substitutes a currency of no value for one most costly, and enables us to turn the precious metals (which, though a very necessary part of our capital, yield no revenue,) into a capital which will yield one. Dr. A. Smith compares the advantages attending the establishment of a bank to those which would be obtained by con-

verting

verting our highways into pastures and corn-fields, and procuring a road through the air. The highways, like the coin, are highly useful, but neither yield any revenue. Some people might be alarmed at the specie leaving the country, and might consider that as a disadvantageous trade which required us to part with it; indeed the law so considers it by its enactments against the exportation of specie; but a very little reflection will convince us that it is our choice, and not our necessity, that sends it abroad; and that it is highly beneficial to us to exchange that commodity which is superfluous, for others which may be made productive.

The exportation of the specie may at all times be safely left to the discretion of individuals; it will not be exported more than any other commodity, unless its exportation should be advantageous to the country. If it be advantageous to export it, no laws can effectually prevent its exportation. Happily in this case, as well as in most others in commerce where there is free competition, the interests of the individual and that of the community are never at variance.

Were it possible to carry the law against melting or exporting of corn into strict execution, at the same time that the exportation of gold bullion was freely allowed, no advantage could

could accrue from it, but great injury must arise to those who might have to pay, possibly, two ounces or more of coined gold for one of uncoined gold. This would be a real depreciation of our currency, raising the prices of all other commodities in the same proportion as it increased that of gold bullion. The owner of money would in this case suffer an injury equal to what a proprietor of corn would suffer, were a law to be passed prohibiting him from selling his corn for more than half its market value. The law against the exportation of the coin has this tendency, but is so easily evaded, that gold in bullion has always been nearly of the same value as gold in coin.

Thus then it appears that the currency of one country can never for any length of time be much more valuable, as far as equal quantities of the precious metals are concerned, than that of another; that excess of currency is but a relative term; that if the circulation of England were ten millions, that of France five millions, that of Holland four millions, &c. &c. whilst they kept their proportions, though the currency of each country were doubled or trebled, neither country would be conscious of an excess of currency. The prices of commodities would every where rise, on account of the increase of currency,

rency, but there would be no exportation of money from either. But if these proportions be destroyed by England alone doubling her currency, while that of France, Holland, &c. &c. continued as before, we should then be conscious of an excess in our currency, and for the same reason the other countries would feel a deficiency in theirs, and part of our excess would be exported till the proportions of ten, five, four, &c. were again established.

18 If in France an ounce of gold were more valuable than in England, and would therefore in France purchase more of any commodity common to both countries, gold would immediately quit England for such purpose, and we should send gold in preference to any thing else, because it would be the cheapest exchangeable commodity in the English market; for if gold be dearer in France than in England, goods must be cheaper; we should not therefore send them from the dear to the cheap market, but, on the contrary, they would come from the cheap to the dear market, and would be exchanged for our gold.

The Bank might continue to issue their notes, and the specie be exported with advantage to the country, while their notes were payable in specie on demand, because they could never issue more notes

notes than the value of the coin which would have circulated had there been no bank*.

If they attempted to exceed this amount, the excess would be immediately returned to them for specie; because our currency, being thereby diminished in value, could be advantageously exported, and could not be retained in our circulation. These are the means, as I have already explained, by which our currency endeavours to equalize itself with the currencies of other countries. As soon as this equality was attained, all advantage arising from exportation would cease; but if the Bank assuming, that because a given quantity of circulating medium had been necessary last year, therefore the same quantity must be necessary this, or for any other reason, continued to re-issue the returned notes, the stimulus which a redundant currency first gave to the exportation of the coin would be again renewed with similar effects; gold would be again demanded, the exchange would become unfavourable, and gold bullion would rise, in a small degree, above its mint price, because it is legal to export bullion, but illegal to export the coin,

* They might, strictly speaking, rather exceed that quantity, because as the Bank would add to the currency of the world, England would retain its share of the increase.

and

and the difference would be about equal to the fair compensation for the risk.

In this manner if the Bank persisted in returning their notes into circulation, every guinea might be drawn out of their coffers.

If to supply the deficiency of their stock of gold they were to purchase gold bullion at the advanced price, and have it coined into guineas, this would not remedy the evil, guineas would be still demanded, but instead of being exported would be melted and sold to the Bank as bullion at the advanced price. "The operations of the
8 "Bank," observed Dr. Smith, alluding to an analogous case, "were upon this account some-"what like the web of Penelope, the work that "was done in the day was undone in the night." The same sentiment is expressed by Mr. Thornton:—"Finding the guineas in their coffers to "lessen every day, they must naturally be sup-"posed to be desirous of replacing them by all "effectual and not extravagantly expensive "means. They will be disposed, to a certain "degree, to buy gold, though at a losing price, "and to coin it into new guineas; but they will "have to do this at the very moment when many "are privately melting what is coined. The "one party will be melting and selling while the

"other

"other is buying and coining. And each of "these two contending businesses will now be "carried on, not on account of an actual export-"ation of each melted guinea to Hamburgh, "but the operation or at least a great part of it "will be confined to London; the coiners and the "melters living on the same spot, and giving "constant employment to each other.

"The Bank," continues Mr. Thornton, "if we "suppose it, as we now do, to carry on this sort "of contest with the melters, is obviously waging "a very unequal war; and even though it should "not be tired early, it will be likely to be tired "sooner than its adversaries."

The Bank would be obliged therefore ultimately to adopt the only remedy in their power to put a stop to the demand for guineas. They would withdraw part of their notes from circulation, till they should have increased the value of the remainder to that of gold bullion, and consequently to the value of the currencies of other countries. All advantage from the exportation of gold bullion would then cease, and there would be no temptation to exchange bank-notes for guineas.

In this view of the subject, then, it appears, that the temptation to export money in exchange for goods, or what is termed an unfavourable

balance

balance of trade, never arises but from a redundant currency. But Mr. Thornton, who has considered this subject very much at large, supposes that a very unfavourable balance of trade may be occasioned to this country by a bad harvest, and the consequent importation of corn; and that there may be at the same time an unwillingness in the country, to which we are indebted, to receive our goods in payment; the balance due to the foreign country must therefore be paid out of that part of our currency, consisting of coin, and that hence arises the demand for gold bullion and its increased price. He considers the Bank as affording considerable accommodation to the merchants, by supplying with their notes the void occasioned by the exportation of the specie.

As it is acknowledged by Mr. Thornton, in many parts of his work, that the price of gold bullion is rated in gold coin; and as it is also acknowledged by him, that the law against melting gold coin into bullion and exporting it is easily evaded, it follows, that no demand for gold bullion, arising from this or any other cause, can raise the money price of that commodity. The error of this reasoning proceeds from not distinguishing between an increase in the value of gold, and an increase in its money price.

If there were a great demand for corn its money

price would advance; because, in comparing corn with money, we in fact compare it with another commodity; and for the same reason, when there is a great demand for gold its corn price will increase; but in neither case will a bushel of corn be worth more than a bushel of corn, or an ounce of gold more than an ounce of gold. An ounce of gold bullion could not, whatever the demand might be, whilst its price was rated in gold coin, be of more value than an ounce of coined gold, or 3*l.* 17*s.* 10½*d.*

If this argument should not be considered as conclusive, I should urge, that a *void* in the currency, as here supposed, can only be occasioned by the annihilation or limitation of paper currency, and then it would speedily be filled by importations of bullion, which its increased value, in consequence of the diminution of circulating medium, would infallibly attract to the advantageous market. However great the scarcity of corn might be, the exportation of money would be limited by its increasing scarcity. Money is in such general demand, and in the present state of civilization is so essential to commercial transactions, that it can never be exported to excess; even in a war such as the present, when our enemy endeavours to interdict all commerce with us, the value which the currency would bear,

bear, from its increasing scarcity, would prevent the exportation of it from being carried so far as to occasion a void in the circulation.

Mr. Thornton has not explained to us, why any unwillingness should exist in the foreign country to receive our goods in exchange for their corn; and it would be necessary for him to show, that if such an unwillingness were to exist, we should agree to indulge it so far as to consent to part with our coin.

If we consent to give coin in exchange for goods, it must be from choice, not necessity. We should not import more goods than we export, unless we had a redundancy of currency, which it therefore suits us to make a part of our exports. The exportation of the coin is caused by its cheapness, and is not the effect, but the cause of an unfavourable balance: we should not export it, if we did not send it to a better market, or if we had any commodity which we could export more profitably. It is a salutary remedy for a redundant currency; and as I have already endeavoured to prove, that redundancy or excess is only a relative term, it follows, that the demand for it abroad arises only from the comparative deficiency of the currency of the importing country, which there causes its superior value.

It resolves itself entirely into a question of interest. If the sellers of the corn to England, to the amount I will suppose of a million, could import goods which cost a million in England, but would produce, when sold abroad, more than if the million had been sent in money, goods would be preferred; if otherwise, money would be demanded.

It is only after a comparison of the value in their markets and in our own, of gold and other commodities, and because gold is cheaper in the London market than in theirs, that foreigners prefer gold in exchange for their corn. If we diminish the quantity of currency, we give an additional value to it: this will induce them to alter their election, and prefer the commodities. If I owed a debt in Hamburgh of 100*l.* I should endeavour to find out the cheapest mode of paying it. If I send money, the expence attending its transportation being I will suppose 5*l.* to discharge my debt will cost me 105*l.* If I purchase cloth here, which, with the expences attending its exportation, will cost me 106*l.* and which will, in Hamburgh, sell for 100*l.* it is evidently more to my advantage to send the money. If the purchase and expences of sending hardware to pay my debt, will take 107*l.* I should prefer sending cloth to hardware, but I would send neither in preference to money, because money would be the cheapest exportable commodity in the London market. The same reasons would operate with the exporter of the corn, if the transaction were on his own account. But if the Bank, " fearful for the safety of their establishment," and knowing that the requisite number of guineas would be withdrawn from their coffers at the mint price, should think it necessary to diminish the amount of their notes in circulation, the proportion between the value of the money, of the cloth, and of the hardware, would no longer be as 105, 106, and 107; but the money would become the most valuable of the three, and therefore would be less advantageously employed in discharging the foreign debts.

If, which is a much stronger case, we agreed to pay a subsidy to a foreign power, money would not be exported whilst there were any goods which could more cheaply discharge the payment. The interest of individuals would render the exportation of the money unnecessary *.

Thus

* This is strongly corroborated, by the statement of Mr. Rose, in the House of Commons, that our exports exceeded our imports by (I believe) sixteen millions. In return for those exports no bullion could have been imported, because it is well known, that the price of bullion having been during the whole year higher abroad than in this country, a large quantity of our gold coin has been exported. To the value of the balance of exports, therefore, must be added the value of the bullion exported. A part of the amount may be due to us from foreign nations, but the remainder must be precisely equal to our foreign expenditure, consisting of subsidies to our allies, and the maintenance of our fleets and armies on foreign stations.

Thus then specie will be sent abroad to discharge a debt only when it is superabundant; only when it is the cheapest exportable commodity. If the Bank were at such a time paying their notes in specie, gold would be demanded for that purpose. It would be obtained there at its mint price, whereas its price as bullion would be something above its value as coin, because bullion could, and coin could not, be legally exported.

It is evident, then, that a depreciation of the circulating medium is the necessary consequence of its redundance; and that in the common state of the national currency this depreciation is counteracted by the exportation of the precious metals *.

Such,

* It has been observed, in a work of great and deserved repute, the Edinburgh Review †, that an increase in the paper currency

† Vol. I, p. 183.

Such, then, appear to me to be the laws that regulate the distribution of the precious metals thoughout the world, and which cause and limit

currency will only occasion a rise in the *paper* or *currency* price of commodities, but will not cause an increase in their bullion price.

This would be true at a time when the currency consisted wholly of paper not convertible into specie, but not while specie formed any part of the circulation. In the latter case the effect of an increased issue of paper would be to throw out of circulation an equal amount of specie; but this could not be done without adding to the quantity of bullion in the market, and thereby lowering its value, or in other words, *increasing the bullion price of commodities.* It is only in consequence of this fall in the value of the metallic currency, and of bullion, that the temptation to export them arises; and the penalties on melting the coin is the sole cause of a small difference between the value of the coin and of bullion, or a small excess of the market above the mint price. But exporting of bullion is synonymous with an unfavourable balance of trade. From whatever cause an exportation of bullion, in exchange for commodities, may proceed, it is called (I think very incorrectly) an unfavourable balance of trade.

When the circulation consists wholly of paper, any increase in its quantity will raise the *money* price of bullion without lowering its *value*, in the same manner, and in the same proportion, as it will raise the prices of other commodities, and for the same reason will lower the foreign exchanges; but this will only be a *nominal*, not a *real* fall, and will not occasion the exportation of bullion, because the real value of bullion will not be diminished, as there will be no increase to the quantity in the market.

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their circulation from one country to another, by regulating their value in each. But before I proceed to examine on these principles the main object of my enquiry, it is necessary that I should shew what is the standard measure of value in this country, and of which, therefore, our paper currency ought to be the representative, because it can only be by a comparison to this standard that its regularity, or its depreciation, may be estimated.

No permanent* measure of value can be said to exist in any nation while the circulating medium consists of two metals, because they are constantly subject to vary in value with respect to each other. However exact the conductors of the mint may be, in proportioning the relative value of gold to silver in the coins, at

* Strictly speaking, there can be no permanent measure of value. A measure of value should itself be invariable; but this is not the case with either gold or silver, they being subject to fluctuations as well as other commodities. Experience has indeed taught us, that though the variations in the *value* of gold or silver may be considerable, on a comparison of distant periods, yet for short spaces of time their value is tolerably fixed. It is this property, among their other excellencies, which fits them better than any other commodity for the uses of money. Either gold or silver may therefore, in the point of view in which we are considering them, be called a measure of value.

the

the time when they fix the ratio, they cannot prevent one of these metals from rising, while the other remains stationary, or falls in value. Whenever this happens, one of the coins will be melted to be sold for the other. Mr. Locke, Lord Liverpool, and many other writers, have ably considered this subject, and have all agreed, that the only remedy for the evils in the currency proceeding from this source, is the making one of the metals only the standard measure of value. Mr. Locke considered silver as the most proper metal for this purpose, and proposed that gold coins should be left to find their own value, and pass for a greater or lesser number of shillings, as the market price of gold might vary with respect to silver.

Lord Liverpool, on the contrary, maintained that gold was not only the most proper metal for a general measure of value in this country, but that, by the common consent of the people, it had become so, was so considered by foreigners, and that it was best suited to the increased commerce and wealth of England.

He, therefore, proposed, that gold coin only should be a legal tender for sums exceeding one guinea, and silver coins for sums not exceeding that amount. As the law now stands, gold coin is a legal tender for all sums; but it was enacted in

in the year 1774, "That no tender in payment "of money made in the silver coin of this realm, "of any sum exceeding the sum of twenty-five "pounds at any one time, shall be reputed in "law, or allowed to be legal tender within Great-"Britain or Ireland, for more than according to "its value by weight, after the rate of *5s. 2d.* for "each ounce of silver." The same regulation was revived in 1798, and is now in force.

For many reasons given by Lord Liverpool, it appears proved beyond dispute, that gold coin has been for near a century the principal measure of value, but this is, I think, to be attributed to the inaccurate determination of the mint proportions. Gold has been valued too high; no silver, therefore, can remain in circulation which is of its standard weight.

If a new regulation were to take place, and silver to be valued too high, or (which is the same thing) if the market proportions between the prices of gold and silver were to become greater than those of the mint, gold would then disappear, and silver become the standard currency.

This may require further explanation. The relative value of gold and silver in the coins is as $15\frac{9}{124}$ to 1. An ounce of gold which is coined into *3l. 17s.* $10\frac{1}{2}$*d.* of gold coin, is worth, according

ing to the mint regulation, $15\frac{9}{124}$ ounces of silver, because that weight of silver is also coined into *3l.* 17*s.* $10\frac{1}{2}$*d.* of silver coin. Whilst the relative value of gold to silver is in the market under 15 to 1, which it has been for a great number of years till lately, gold coin would necessarily be the standard measure of value, because neither the Bank, nor any individual, would send $15\frac{9}{124}$ ozs. of silver to the mint to be coined into *3l.* 17*s.* $10\frac{1}{2}$*d.* when they could sell that quantity of silver in the market for more than *3l.* 17*s.* $10\frac{1}{2}$*d.* in gold coin, and this they could do by the supposition, that less than 15 ounces of silver would purchase an ounce of gold.

But if the relative value of gold to silver be more than the mint proportion of $15\frac{9}{124}$ to 1, no gold would then be sent to the mint to be coined, because as either of the metals are a legal tender to any amount, the possessor of an ounce of gold would not send it to the mint to be coined into *3l.* 17*s.* $10\frac{1}{2}$*d.* of gold coin, whilst he could sell it, which he could do in such case, for more than *3l.* 17*s.* $10\frac{1}{2}$*d.* of silver coin. Not only would not gold be carried to the mint to be coined, but the illicit trader would melt the gold coin, and sell it as bullion for more than its nominal value in the silver coin. Thus then gold would

would disappear from circulation, and silver coin become the standard measure of value. As gold has lately experienced a considerable rise compared with silver, (an ounce of standard gold, which, on an average of many years, was of equal value to $14\frac{3}{4}$ ozs. of standard silver, being now in the market of the same value as $15\frac{1}{2}$ oz.) this would be the case now were the Bank Restriction-bill repealed, and the coinage of silver freely allowed at the mint, in the same manner as that of gold; but in an act of parliament of 39 Geo. III. is the following clause:—

"Whereas inconvenience may arise from any coinage of "silver until such regulations may be formed as shall appear "necessary; and whereas from the present low price of silver "bullion, owing to temporary circumstances, a small quantity "of silver bullion has been brought to the mint to be coined, "and there is reason to suppose that a still further quantity "may be brought; and it is therefore necessary to suspend the "coining of silver for the present; be it therefore enacted, "That from and after the passing of this act, no silver bullion "shall be coined at the mint, nor shall any silver coin that "may have been coined there be delivered, any law to the "contrary notwithstanding."

This law is now in force.

It would appear, therefore, to have been the intention of the legislature to establish gold as the standard of currency in this country. Whilst this law is in force, silver coin must be confined to to small payments only, the quantity in circulation being barely sufficient for that purpose. It might be for the interest of a debtor to pay his large debts in silver coin if he could get silver bullion coined into money; but being prevented by the above law from doing so, he is necessarily obliged to discharge his debt with gold coin, which he could obtain at the mint with gold bullion to any amount. Whilst this law is in force, gold must always continue to be the standard of currency.

Were the market value of an ounce of gold to become equal to thirty ounces of silver, gold would nevertheless be the measure of value, whilst this prohibition continued in force. It would be of no avail, that the possessor of 30 ounces of silver should know that he once could have discharged a debt of *3l. 17s. 10½d.* by procuring $15\frac{9}{124}$ ounces of silver to be coined at the mint, as he would in this case have no other means of discharging his debt but by selling his 30 oz. of silver at the market value, that is to say, for one ounce of gold, or *3l. 17s. 10½d.* of gold coin.

The public has sustained, at different times, very serious loss from the depreciation of the circulating medium, arising from the unlawful practice of clipping the coins.

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In proportion as they become debased, so the prices of every commodity for which they are exchangeable rise in nominal value, not excepting gold and silver bullion: accordingly we find, that before the re-coinage in the reign of King William the Third, the silver currency had become so degraded, that an ounce of silver, which ought to be contained in sixty-two pence, sold for seventy-seven pence; and a guinea, which was valued at the mint at twenty shillings, passed in all contracts for thirty shillings. This evil was then remedied by the recoinage. Similar effects followed from the debasement of the gold currency, which were again corrected in 1774 by the same means.

Our gold coins have, since 1774, continued nearly at their standard purity; but our silver currency has again become debased. By an assay at the mint in 1798, it appears that our shillings were found to be twenty-four per cent., and our sixpences thirty-eight per cent. under their mint value; and I am informed, that by a late experiment they were found considerably more deficient. They do not, therefore, contain as much pure silver as they did in the reign of King William. This debasement, however, did not operate previously to 1798, as on the former occasion. At that time both gold and silver

bullion

bullion rose in proportion to the debasement of the silver coin. All foreign exchanges were against us full twenty per cent., and many of them still more. But although the debasement of the silver coin had continued for many years, it had neither, previously to 1798, raised the price of gold nor silver, nor had it produced any effect on the exchanges. This is a convincing proof, that gold coin was, during that period, considered as the standard measure of value. Any debasement of the gold coin would then have produced the same effects on the prices of gold and silver bullion, and on the foreign exchanges, which were formerly caused by the debasement of the silver coins*.

While the currency of different countries consists of the precious metals, or of a paper money which is at all times exchangeable for them; and while the metallic currency is not debased by wearing, or clipping, a comparison of the weight, and degree of fineness of their coins, will enable us to ascertain their par of exchange. Thus the par of exchange between Holland and

* When the gold coin was debased, previously to the recoinage in 1774, gold and silver bullion rose above their mint prices, and fell immediately on the gold coin attaining its present perfection. The exchanges were, owing to the same causes, from being unfavourable rendered favourable.

England

England is stated to be about eleven florins, because the pure silver contained in eleven florins is equal to the pure silver contained in twenty standard shillings.

This par is not, nor can it be, absolutely fixed; because, gold coin being the standard of commerce in England, and silver coin in Holland, a pound sterling, or $\frac{20}{21}$ of a guinea, may at different times be more or less valuable than twenty standard shillings, and therefore more or less valuable than its equivalent of eleven florins. Estimating the par either by silver or by gold will be sufficiently exact for our purpose.

If I owe a debt in Holland; by knowing the par of exchange, I also know the quantity of our money which will be necessary to discharge it.

If my debt amount to 1100 florins, and gold have not varied in value, 100*l.* in our pure gold coin will purchase as much Dutch currency as is necessary to pay my debt. By exporting the 100*l.* therefore in coin, or (which is the same thing) paying a bullion merchant the 100*l.* in coin, and allowing him the expences attending its transportation, such as freight, insurance, and his profit, he will sell me a bill which will discharge my debt; at the same time he will export the bullion, to enable his correspondent to pay the bill when it shall become due.

These

These expences then are the utmost limits of an unfavourable exchange. However great my debt may be, though it equalled the largest subsidy ever given by this country to an ally; while I could pay the bullion-merchant in coin of standard value, he would be glad to export it, and to sell me bills. But if I pay him for his bill in a debased coin, or in a depreciated paper-money, he will not be willing to sell me his bill at this rate; because if the coin be debased, it does not contain the quantity of pure gold or silver which ought to be contained in 100*l.*, and he must therefore export an additional number of such debased pieces of money, to enable him to pay my debt of 100*l.*, or its equivalent, 1100 florins. If I pay him in paper-money; as he cannot send it abroad, he will consider whether it will purchase as much gold or silver bullion as is contained in the coin for which it is a substitute; if it will do this, paper will be as acceptable to him as coin; but if it will not, he will expect a further premium for his bill, equal to the depreciation of the paper.

While the circulating medium consists, therefore, of coin undebased, or of paper-money immediately exchangeable for undebased coin, the exchange can never be more above, or more below, par, than the expences attending the transportation

portation of the precious metals. But when it consists of a depreciated paper-money, it necessarily will fall according to the degree of the depreciation.

The exchange will, therefore, be a tolerably accurate criterion by which we may judge of the debasement of the currency, proceeding either from a clipped coinage, or a depreciated paper-money.

It is observed by Sir James Stuart, " That if " the foot measure was altered at once over all " England, by adding to it, or taking from it, " any proportional part of its standard length, " the alteration would be best discovered, by " comparing the new foot with that of Paris, or " of any other country, which had suffered no " alteration.

" Just so, if the pound sterling, which is the " English unit, shall be found any how changed; " and if the variation it has met with be difficult " to ascertain, because of a complication of cir- " cumstances; the best way to discover it will " be to compare the former and the present value " of it, with the money of other nations which " has suffered no variation. This the exchange " will perform with the greatest exactness."

The Edinburgh reviewers, in speaking of Lord King's pamphlet, observe, that " it does not " follow

"follow because our imports always consist "partly of bullion, that the balance of trade is "therefore permanently in our favour. Bul-"lion," they say, "is a commodity, for which, "as for every other, there is a varying demand; "and which, exactly like any other, may enter "the catalogue either of imports or exports; "and this exportation or importation of bul-"lion will not affect the course of exchange "in a different way from the exportation or im-"portation of any other commodities."

No person ever exports or imports bullion without first considering the rate of exchange. It is by the rate of exchange that he discovers the relative value of bullion in the two countries between which it is estimated. It is therefore consulted by the bullion-merchant in the same manner as the price-current is by other merchants, before they determine on the exportation or importation of other commodities. If eleven florins in Holland contain an equal quantity of pure silver as twenty standard shillings, silver bullion, equal in weight to twenty standard shillings, can never be exported from London to Amsterdam whilst the exchange is at par, or unfavourable to Holland. Some expence and risk must attend its exportation, and the very term *par* expresses that a quantity of silver bullion,

equal to that weight and purity, is to be obtained in Holland by the purchase of a bill of exchange, free of all expence. Who would send bullion to Holland at an expence of three or four per cent. when, by the purchase of a bill at par, he in fact obtains an order for the delivery to his correspondent in Holland of the same weight of bullion which he was about to export?

It would be as reasonable to contend, that when the price of corn is higher in England than on the Continent, corn would be sent, notwithstanding all the charges on its exportation, to be sold in the cheaper market.

Having already noticed the disorders to which a metallic currency is exposed, I will proceed to consider those which, though not caused by the debased state of either the gold or silver coins, are nevertheless more serious in their ultimate consequences.

Our circulating medium is almost wholly composed of paper, and it behoves us to guard against the depreciation of the paper currency with at least as much vigilance as against that of the coins.

This we have neglected to do.

Parliament, by restricting the Bank from paying in specie, have enabled the conductors of of that concern to increase or decrease at pleasure the quantity and amount of their notes; and the previously existing checks against an over-issue having been thereby removed, those conductors have acquired the power of increasing or decreasing the value of the paper currency.

In tracing the present evils to their source, and proving their existence by an appeal to the two unerring tests I have before mentioned, namely, the rate of exchange and the price of bullion, I shall avail myself of the account given by Mr. Thornton of the conduct of the Bank before the restriction, to shew how clearly they acted on the principle which he has expressly acknowledged, viz. that the value of their notes is dependent on their amount, and that they ascertained the variation in their value by the tests I have just referred to.

Mr. Thornton tells us, "That if at any time "the exchanges of the country become so un-"favourable as to produce a material excess of "the market above the mint price of gold, the "directors of the Bank, as appears by the evi-"dence of some of their body, given to parlia-"ment, were disposed to resort to a reduction "of their paper, as a means of diminishing or "removing the excess, and of *thus providing for* "*the*

"*the security of their establishment*. They more-"over have at all times," he says, "been accus-"tomed to observe some limit as to the quanti-"ty of their notes for the same prudential rea-"sons." And in another place: "When the "price which our coin will fetch in foreign "countries is such as to tempt it out of the "kingdom, the directors of the Bank naturally "diminish, in some degree, the quantity of their "paper *through an anxiety for the safety of their* "*establishment*. By diminishing their paper, "they raise its value; and in raising its value, "they raise also the value in England of the "current coin which is exchanged for it. Thus "the value of our gold coin conforms itself to "the value of the current paper, and the cur-"rent paper is rendered by the Bank-directors, "of that value which it is necessary that it "should bear in order to prevent large exporta-"tions;—a value sometimes rising a little above, "and sometimes falling a little below, the price "which our coin bears abroad."

The necessity which the Bank felt itself under to guard the safety of its establishment, therefore, always prevented, before the restriction from paying in specie, a too lavish issue of paper money.

Thus we find that, for a period of twenty-three

three years previously to the suspension of cash payments in 1797, the average price of gold bullion was 3*l.* 17*s.* 7¾*d.* per oz. about 2¼*d* under the mint price; and for sixteen years previously to 1774, it never was much above 4*l.* per oz. It should be remembered that during these sixteen years our gold coin was debased by wearing, and it is therefore probable that 4*l.* of such debased money did not weigh as much as the ounce of gold for which it was exchanged.

Dr. A. Smith considers every permanent excess of the market above the mint price of gold, as referrible to the state of the coins. While the coin was of its standard weight and purity, the market price of gold bullion, he thought, could not greatly exceed the mint price.

Mr. Thornton contends that this cannot be the only cause. " We have," he says, " lately " experienced fluctuations in our exchanges, " and correspondent variations in the market, " compared with the mint price of gold, amount- " ing to no less than eight or ten per cent.; the " state of our coinage continuing in all respects " the same." Mr. Thornton should have reflected that at the time he wrote, specie could not be demanded at the Bank in exchange for notes; that this was a cause for the depreciation of the currency which Dr. Smith could never have

have anticipated. If Mr. Thornton had proved that there had been a fluctuation of ten per cent. in the price of gold, while the Bank paid their notes in specie, and the coin was undebased, he would then have convicted Dr. Smith of " having treated this important subject in a " defective and unsatisfactory manner."*

* An excess in the market above the mint price of gold or silver bullion, may, whilst the coins of both metals are legal tender, and there is no prohibition against the coinage of either metal, be caused by a variation in the relative value of those metals; but an excess of the market above the mint price proceeding from this cause will be at once perceived by its affecting only the price of one of the metals. Thus gold would be at or below, while silver was above, its mint price, or silver at or below its mint price, whilst gold was above.

In the latter end of 1795, when the Bank had considerably more notes in circulation than either the preceding or the subsequent year, when their embarrassments had already commenced, when they appear to have resigned all prudence in the management of their concerns, and to have constituted Mr. Pitt sole director, the price of gold bullion did for a short time rise to 4*l.* 3*s.* or 4*l.* 4*s.* per oz.; but the directors were not without their fears for the consequences. In a remonstrance sent by them to Mr. Pitt, dated October 1795, after stating, " that the demand for gold not appearing likely soon " to cease," and " that it had excited great apprehension in " the court of directors," they observe, " The present price of " gold being 4*l.* 3*s.* to 4*l.* 4*s.** per ounce, and our guineas being " to

* It is difficult to determine on what authority the directors made this assertion, as by a return lately made to parliament it appears that during the year 1795 they did not purchase gold bullion at a price higher than 3*l.* 17*s.* 6*d.*

But as all checks against the over-issues of the Bank are now removed by the act of parliament, which restricts them from paying their notes in specie, they are no longer bound by "*fears for the safety of their establishment*," to limit the quantity of their notes to that sum which shall keep them of the same value as the coin which they represent. Accordingly we find that gold bullion has risen from 3*l.* 17*s.* 7$\frac{3}{4}$*d.* the average price previously to 1797, to 4*l.* 10*s.* and has been lately as high as 4*l.* 13*s.* per oz.

We may therefore fairly conclude that this difference in the relative value, or, in other words, that this depreciation in the actual value of bank-notes has been caused by the too abundant quantity which the Bank has sent into circulation. The same cause which has produced a difference of from fifteen to twenty per cent. in bank-notes when compared with gold bullion, may increase it to fifty per cent. There can be no limit to the depreciation which may arise from a constantly increasing quantity of paper.

" to be purchased at 3*l.* 17*s.* 10$\frac{1}{2}$*d.*, clearly demonstrates the " grounds of our fears; *it being only necessary to state those* "*facts to the Chancellor of the Exchequer.*" It is remarkable that no price of gold above the mint price is quoted during the whole year in Wetenhall's list. In December it is there marked 3*l.* 17*s.* 6*d.*

The

The stimulus which a redundant currency gives to the exportation of the coin has acquired new force, but cannot, as formerly, relieve itself. We have paper money only in circulation, which is necessarily confined to ourselves. Every increase in its quantity degrades it below the value of gold and silver bullion, below the value of the currencies of other countries.

The effect is the same as that which would have been produced from clipping our coins.

If one-fifth were taken off from every guinea, the market price of gold bullion would rise one-fifth above the mint price. Forty-four guineas and a half (the number of guineas weighing a pound, and therefore called the mint price), would no longer weigh a pound, therefore a fifth more than that quantity, or about 56*l.* would be the price of a pound of gold, and the difference between the market and the mint price, between 56*l.* and 46*l.* 14*s.* 6*d.* would measure the depreciation.

If such debased coin were to continue to be called by the name of guineas, and if the value of gold bullion and all other commodities were rated in the debased coin, a guinea fresh from the mint would be said to be worth 1*l.* 5*s.* and that sum would be given for it by the illicit trader; but it would not be the value of the new guinea which had increased, but that of the debased

based guineas which had fallen. This would immediately be evident, if a proclamation were issued, prohibiting the debased guineas from being current but by weight at the mint price of 3*l.* 17*s.* 10½*d.*; this would be constituting the new and heavy guineas, the standard measure of value, in lieu of the clipped and debased guineas. The latter would then pass at their true value, and be called 17 or 18 shillings-pieces. So if a proclamation to the same effect were now enforced, bank-notes would not be less current, but would pass only for the value of the gold bullion which they would purchase. A guinea would then no longer be said to be worth 1*l.* 5*s.* but a pound note would be current only for 16 or 17 shillings. At present gold coin is only a commodity, and bank-notes are the standard measure of value, but in that case gold coin would be that measure, and bank-notes would be the marketable commodity.

"It is," says Mr. Thornton, "the mainten-
"ance of our general exchanges, or, in other
"words, it is the agreement of the mint price
"with the bullion price of gold, which seems to
"be the true proof that the circulating paper is
"not depreciated."

When the motive for exporting gold occurs, while the Bank do not pay in specie, and gold cannot therefore be obtained at its mint price, the

the small quantity that can be procured will be collected for exportation, and bank-notes will be sold at a discount for gold in proportion to their excess. In saying however that gold is at a high price, we are mistaken; it is not gold, it is paper which has changed its value. Compare an ounce of gold, or 3*l.* 17*s.* 10½*d.* to commodities, it bears the same proportion to them which it has before done; and if it do not, it is referrible to increased taxation, or to some of those causes which are so constantly operating on its value. But if we compare the substitute of an ounce of gold, 3*l.* 17*s.* 10½*d.* in bank-notes, with commodities, we shall then discover the depreciation of the bank-notes. In every market of the world I am obliged to part with 4*l.* 10*s.* in bank-notes to purchase the same quantity of commodities which I can obtain for the gold that is in 3*l.* 17*s.* 10½*d.* of coin.

It is often asserted, that a guinea is worth at Hamburgh 26 or 28 shillings; but we should be very much deceived if we should therefore conclude that a guinea could be sold at Hamburgh for as much silver as is contained in 26 or 28 shillings. Before the alteration in the relative value of gold and silver, a guinea would not sell at Hamburgh for as much silver coin as is contained in 21 standard shillings; it will at the present

sent market price sell for a sum of silver currency, which, if imported and carried to our mint to be coined, will produce in our standard silver coin 21*s.* 5*d.**

It is nevertheless true, that the same quantity of silver will, at Hamburgh, purchase a bill payable in London, in bank-notes, for 26 or 28 shillings. Can there be a more satisfactory proof of the depreciation of our circulating medium?

It is said, that, if the Restriction-bill were not in force, every guinea would leave the country.†

This is, no doubt, true; but if the Bank were to diminish the quantity of their notes until they had increased their value fifteen per cent., the restriction might be safely removed, as there would then be no temptation to export specie. However long it may be deferred, however great may be the discount on their notes, the Bank can never resume their payments in specie, until they first reduce the amount of their notes in circulation to these limits.

The law is allowed by all writers on political economy to be a useless barrier against the ex-

* The relative value of gold and silver is on the Continent nearly the same as in London.

† It must be meant that every guinea in the Bank would leave the country; the temptation of fifteen per cent. is amply sufficient to send those out which can be collected from the circulation.

portation

portation of guineas: it is so easily evaded, that it is doubted whether it has had the effect of keeping a single guinea more in England than there would have been without such law. Mr. Locke, Sir J. Stuart, Dr. A. Smith, Lord Liverpool, and Mr. Thornton, all agree on this subject. The latter gentleman observes, "That "the state of the British law unquestionably "serves to discourage and limit, though not "effectually to hinder, that exportation of gui-"neas which is encouraged by an unfavourable "balance of trade, and perhaps scarcely lessens "it when the profit on exportation becomes "very great." Yet after every guinea that can in the present state of things be procured by the illicit trader has been melted and exported, he will hesitate before he openly buys guineas with bank-notes at a premium, because, though considerable profit may attend such speculation, he will thereby render himself an object of suspicion. He may be watched, and prevented from effecting his object. As the penalties of the law are severe, and the temptation to informers great, secrecy is essential to his operations. When guineas can be procured by merely sending a bank-note for them to the Bank, the law will be easily evaded; but when it is necessary to collect them openly and from

a widely

a widely diffused circulation, consisting almost wholly of paper, the advantage attending it must be very considerable before any one will encounter the risk of being detected.

When we reflect that above sixty millions sterling have been coined into guineas during his present Majesty's reign, we may form some idea of the extent to which the exportation of gold must have been carried.—But repeal the law against the exportation of guineas, permit them to be openly sent out of the country, and what can prevent an ounce of standard gold in guineas from selling at as good a price for bank-notes, as an ounce of Portugueze gold coin, or standard gold in bars, when it is known to be equal to them in fineness? And if an ounce of standard gold in guineas would sell in the market, as standard bars do now, at 4*l.* 10*s.* per oz., or as they have lately done at 4*l.* 13*s.* per oz., what shopkeeper would sell his goods at the same price either for gold or bank-notes indifferently? If the price of a coat were 3*l.* 17*s.* 10½*d.* or an ounce of gold, and if at the same time an ounce of gold would sell for 4*l.* 13*s.*, is it conceivable that it would be a matter of indifference to the tailor whether he were paid in gold or in bank-notes?

It is only because a guinea will not purchase more

more than a pound-note and a shilling, that many hesitate to allow that bank-notes are at a discount. The Edinburgh Review supports the same opinion; but if my reasoning be correct, I have shewn such objections to be groundless.

Mr. Thornton has told us that an unfavourable trade will account for an unfavourable exchange; but we have already seen that an unfavourable trade, if such be an accurate term, is limited in its effects on the exchange. That limit is probably four or five per cent. This will not account for a depreciation of fifteen or twenty per cent. Moreover Mr. Thornton has told us, and I entirely agree with him, "That it may be laid "down as a general truth, that the commercial "exports and imports of a state naturally pro- "portion themselves in some degree to each "other, and that the balance of trade therefore "cannot continue for a very long time to be "either highly favourable or highly unfavour- "able to a country." Now the low exchange, so far from being temporary, existed before Mr. Thornton wrote in 1802, and has since been progressively increasing, and is now from fifteen to twenty per cent. against us. Mr. Thornton must therefore, according to his own principles, attribute it to some more permanent cause than an unfavourable balance of trade, and will, I doubt

doubt not, whatever his opinion may formerly have been, now agree that it is to be accounted for only by the depreciation of the circulating medium.

It can, I think, no longer be disputed that bank-notes are at a discount. While the price of gold bullion is 4*l.* 10*s.* per oz., or in other words, while any man will consent to give that which professes to be an obligation to pay nearly an ounce, and a sixth of an ounce of gold, for an ounce, it cannot be contended that 4*l.* 10*s.* in notes and 4*l.* 10*s.* in gold coin are of the same value.

An ounce of gold is coined into 3*l.* 17*s.* 10½*d.*; by possessing that sum therefore I have an ounce of gold, and would not give 4*l.* 10*s.* in gold coin, or notes which I could immediately exchange for 4*l.* 10*s.*, for an ounce of gold.

It is contrary to common sense to suppose that such could be the market value, unless the price were estimated in a depreciated medium.

If the price of gold were estimated in *silver* indeed, the price might rise to 4*l.*, 5*l.*, or 10*l.* an ounce, and it would, of itself, be no proof of the depreciation of paper currency, but of an alteration in the relative value of gold and silver. I have, however, I think proved, that silver is not the standard measure of value, and therefore not

not the medium in which the value of gold is estimated. But if it were; as an ounce of gold is only worth in the market 15½ oz. of silver, and as 15½ ounces of silver is precisely equal in weight, and is therefore coined into 80 shillings, an ounce of gold ought not to sell for more than 4*l.*

Those then who maintain that silver is the measure of value cannot prove that any demand for gold which may have taken place, from whatever cause it may have proceeded, can have raised its price above 4*l.* per oz. All above that price must, on their own principles, be called a depreciation in the value of bank-notes. It therefore follows, that if bank-notes be the representative of silver coin, then an ounce of gold, selling as it now does for 4*l.* 10*s.* sells for an amount of notes which represent 17½ ounces of silver, whereas in the bullion market it can only be exchanged for 15½ ounces. Fifteen ounces and a half of silver bullion are therefore of equal value with an engagement of the Bank to pay to *bearer* seventeen ounces and a half.

The market price of silver is at the present time 5*s.* 9½*d.* per oz. estimated in bank-notes, the mint price being only 5*s.* 2*d.*, consequently the standard silver in 100*l.* is worth more than 112*l.* in bank-notes.

But bank-notes, it may be said, are the representatives

sentatives of our debased silver coin, and not of our standard silver. This is not true, because the law which I have already quoted declares silver to be a legal tender for sums only not exceeding 25*l.* except by weight. If the Bank insisted on paying the holder of a bank-note of 1000*l.* in silver coin, they would be bound either to give him standard silver of full weight, or debased silver of an equal value, with the exception of 25*l.* which they might pay him in debased coin. But the 1000*l.* so consisting of 975*l.* pure money, and 25*l.* debased, is worth more than 1112*l.* at the present market value of silver bullion.

It is said that the amount of bank-notes has not increased in a greater proportion than the augmentation of our trade required, and therefore cannot be excessive. This assertion would be difficult to prove, and if true, no argument but what is delusive could be founded on it. In the first place, the daily improvements which we are making in the art of economizing the use of circulating medium, by improved methods of banking, would render the same amount of notes excessive now, which were necessary for the same state of commerce at a former period. Secondly, there is a constant competition between the Bank of England and the country-banks to

establish

establish their notes, to the exclusion of those of their rivals, in every district where the country banks are established.

As the latter have more than doubled in number within very few years, is it not probable that their activity may have been crowned with success, in displacing with their own notes many of those of the Bank of England?

If this have happened, the same amount of Bank of England notes would now be excessive; which, with a less extended commerce, was before barely sufficient to keep our currency on a level with that of other countries. No just conclusion can therefore be drawn from the actual amount of bank-notes in circulation, though the fact, if examined, would, I have no doubt, be found to be, that the increase in the amount of bank-notes, and the high price of gold, have usually accompanied each other.

It is doubted, whether two or three millions of Bank-notes (the sum which the Bank is supposed to have added to the circulation, over and above the amount which it will easily bear,) could have had such effects as are ascribed to them; but it should be recollected, that the Bank regulate the amount of the circulation of all the country banks, and it is probable, that if the Bank increase their issues three millions, they

enable

enable the country banks to add more than three millions to the general circulation of England.

The money of a particular country is divided amongst its different provinces by the same rules as the money of the world is divided amongst the different nations of which it is composed. Each district will retain in its circulation such a proportionate share of the currency of the country, as its trade, and consequently its payments, may require, compared to the trade of the whole; and no increase can take place in the circulating medium of one district, without being generally diffused, or calling forth a proportionable quantity in every other district. It is this which keeps a country bank note always of the same value as a Bank of England note. If in London, where Bank of England notes only are current, one million be added to the amount in circulation, the currency will become cheaper there than elsewhere, or goods will become dearer. Goods will, therefore, be sent from the country to the London market, to be sold at the high prices, or which is much more probable, the country banks will take advantage of the relative deficiency in the country currency, and increase the amount of their notes in the same proportion as the Bank of England had

had done; prices would then be generally, and not partially affected.

In the same manner, if Bank of England notes be diminished one million, the comparative value of the currency of London will be increased, and the prices of goods diminished. A Bank of England note will then be more valuable than a country-bank note, because it will be wanted to purchase goods in the cheap market; and as the country banks are obliged to give Bank of England notes for their own when demanded, they would be called upon for them till the quantity of country paper should be reduced to the same proportion which it before bore to the London paper, producing a corresponding fall in the prices of all goods for which it was exchangeable.

The country banks could never increase the amount of their notes, unless to fill up a relative deficiency in the country currency, caused by the increased issues of the Bank of England*. If they attempted it, the same check which compelled the Bank of England to withdraw part of their notes from circulation when they used to pay them on demand in specie, would oblige the country banks to adopt the same course. Their

* They might, on some occasions, displace Bank of England notes, but that consideration does not affect the question which we are now discussing.

notes

notes would, on account of the increased quantity, be rendered of less value than the Bank of England notes, in the same manner as Bank of England notes were rendered of less value than the guineas which they represented. They would therefore be exchanged for Bank of England notes until they were of the same value.

The Bank of England is the great regulator of the country paper. When they increase or decrease the amount of their notes, the country banks do the same; and in no case can country banks add to the general circulation, unless the Bank of England shall have previously increased the amount of their notes.

It is contended, that the rate of interest, and not the price of gold or silver bullion, is the criterion by which we may always judge of the abundance of paper-money; that if it were too abundant, interest would fall, and if not sufficiently so, interest would rise. It can, I think, be made manifest, that the rate of interest is not regulated by the abundance or scarcity of money, but by the abundance or scarcity of that part of capital, not consisting of money.

"Money," observes Dr. A. Smith, "the great "wheel of circulation, the great instrument of "commerce, like all other instruments of trade, "though it makes a part, and a very valuable

"part of the capital, makes no part of the re"venue of the society to which it belongs; and "though the metal pieces of which it is com"posed, in the course of their annual circula"tion, distribute to every man the revenue "which properly belongs to him, they make "themselves no part of that revenue.

"When we compute the quantity of industry "which the circulating capital of any society "can employ, we must always have regard to "those parts of it only which consist in provi"sions, materials, and finished work: the other, "which consists in money, and which serves "only to circulate those three, must always be "deducted. In order to put industry into "motion, three things are requisite:—materials "to work upon, tools to work with, and the "wages or recompense for the sake of which "the work is done. Money is neither a mate"rial to work upon, nor a tool to work with; "and though the wages of the workman are "commonly paid to him in money, his real re"venue, like that of all other men, consists not "in money, but in money's worth; not in the "metal pieces, but what can be got for them."

And in other parts of his work, it is maintained, that the discovery of the mines in America, which so greatly increased the quantity of money, did not lessen the interest for the use of it: the rate of interest being regulated by the profits on the employment of capital, and not by the number or quality of the pieces of metal, which are used to circulate its produce.

Mr. Hume has supported the same opinion. The value of the circulating medium of every country bears some proportion to the value of the commodities which it circulates. In some countries this proportion is much greater than in others, and varies, on some occasions, in the same country. It depends upon the rapidity of circulation, upon the degree of confidence and credit existing between traders, and above all, on the judicious operations of banking. In England so many means of economizing the use of circulating medium have been adopted, that its value, compared with the value of the commodities which it circulates, is probably (during a period of confidence*) reduced to as small a proportion as is practicable. What that proportion may be has been variously estimated.

No increase or decrease of its quantity, whether consisting of gold, silver, or paper-

* In the following observations, I wish it to be understood, as supposing always the same degree of confidence and credit to exist.

money,

money, can increase or decrease its value above or below this proportion. If the mines cease to supply the annual consumption of the precious metals, money will become more valuable, and a smaller quantity will be employed as a circulating medium. The diminution in the quantity will be proportioned to the increase of its value. In like manner, if new mines be discovered, the value of the precious metals will be reduced, and an increased quantity used in the circulation; so that in either case the relative value of money, to the commodities which it circulates, will continue as before.

If, whilst the Bank paid their notes on demand in specie, they were to increase their quantity, they would produce little permanent effect on the value of the currency, because nearly an equal quantity of the coin would be withdrawn from circulation and exported.

If the Bank were restricted from paying their notes in specie, and all the coin had been exported, any excess of their notes would depreciate the value of the circulating medium in proportion to the excess. If twenty millions had been the circulation of England before the restriction, and four millions were added to it, the twenty-four millions would be of no more value than the twenty were before, provided

commodities

commodities had remained the same, and there had been no corresponding exportation of coins; and if the Bank were successively to increase it to fifty, or a hundred millions, the increased quantity would be all absorbed in the circulation of England, but would be, in all cases, depreciated to the value of the twenty millions.

I do not dispute, that if the Bank were to bring a large additional sum of notes into the market, and offer them on loan, but that they would for a time affect the rate of interest. The same effects would follow from the discovery of a hidden treasure of gold or silver coin. If the amount were large, the Bank, or the owner of the treasure, might not be able to lend the notes or the money at four, nor perhaps, above three per cent.; but having done so, neither the notes, nor the money, would be retained unemployed by the borrowers; they would be sent into every market, and would every where raise the prices of commodities, till they were absorbed in the general circulation. It is only during the interval of the issues of the Bank, and their effect on prices, that we should be sensible of an abundance of money; interest would, during that interval, be under its natural level; but as soon as the additional sum

sum of notes or of money became absorbed in the general circulation, the rate of interest would be as high, and new loans would be demanded with as much eagerness as before the additional issues.

The circulation can never be over-full. If it be one of gold and silver, any increase in its quantity will be spread over the world. If it be one of paper, it will diffuse itself only in the country where it is issued. Its effects on prices will then be only local and nominal, as a compensation by means of the exchange will be made to foreign purchasers.

To suppose that any increased issues of the Bank can have the effect of permanently lowering the rate of interest, and satisfying the demands of all borrowers, so that there will be none to apply for new loans, or that a productive gold or silver mine can have such an effect, is to attribute a power to the circulating medium which it can never possess. Banks would, if this were possible, become powerful engines indeed. By creating paper money, and lending it at three or two per cent. under the present market rate of interest, the Bank would reduce the profits on trade in the same proportion; and if they were sufficiently patriotic to lend their notes at an interest no higher than necessary to pay

pay the expences of their establishment, profits would be still further reduced; no nation, but by similar means, could enter into competition with us, we should engross the trade of the world. To what absurdities would not such a theory lead us! Profits can only be lowered by a competition of capitals not consisting of circulating medium. As the increase of Bank-notes does not add to this species of capital, as it neither increases our exportable commodities, our machinery, or our raw materials, it cannot add to our profits nor lower interest*.

When any one borrows money for the purpose of entering into trade, he borrows it as a medium by which he can possess himself of "materials, provisions, &c." to carry on that trade; and it can be of little consequence to him, provided he obtain the quantity of materials, &c. necessary, whether he be obliged to borrow a thousand, or ten thousand pieces of money. If he borrow ten thousand, the produce of his ma-

* I have already allowed that the Bank, as far as they enable us to turn our coin into "materials, provisions, &c." have produced a national benefit, as they have thereby increased the quantity of productive capital; but I am here speaking of an excess of their notes, of that quantity which adds to our circulation without effecting any corresponding exportation of coin, and which, therefore, degrades the notes below the value of the bullion contained in the coin which they represent.

nufacture will be ten times the nominal value of what it would have been, had one thousand been sufficient for the same purpose. The capital actually employed in the country is necessarily limited to the amount of the "materials, provisions, &c." and might be made equally productive, though not with equal facility, if trade were carried on wholly by barter. The successive possessors of the circulating medium have the command over this capital: but however abundant may be the quantity of money or of bank-notes; though it may increase the nominal prices of commodities; though it may distribute the productive capital in different proportions; though the Bank, by increasing the quantity of their notes, may enable A to carry on part of the business formerly engrossed by B and C, nothing will be added to the real revenue and wealth of the country. B and C may be injured, and A and the Bank may be gainers, but they will gain exactly what B and C lose. There will be a violent and an unjust transfer of property, but no benefit whatever will be gained by the community.

For these reasons I am of opinion that the funds are not indebted for their high price to the depreciation of our currency. Their price must be regulated by the general rate of interest given for money. If before the depreciation I gave thirty years' purchase for land, and twenty-five for an annuity in the stocks, I can after the depreciation give a larger sum for the purchase of land, without giving more years' purchase, because the produce of the land will sell for a greater nominal value in consequence of the depreciation; but as the annuity in the funds is paid in the depreciated medium, there can be no reason why I should give a greater nominal value for it after than before the depreciation.

If guineas were degraded by clipping to half their present value, every commodity as well as land would rise to double its present nominal value; but as the interest of the stocks would be paid in the degraded guineas, they would, on that account, experience no rise.

The remedy which I propose for all the evils in our currency, is that the Bank should gradually decrease the amount of their notes in circulation until they shall have rendered the remainder of equal value with the coins which they represent, or, in other words, till the prices of gold and silver bullion shall be brought down to their mint price. I am well aware that the total failure of paper credit would be attended with the most disastrous consequences to the trade and commerce of the country, and even its sudden limitation would occasion so much ruin and distress, that it would be highly inexpedient to have recourse to it as the means of restoring our currency to its just and equitable value.

If the Bank were possessed of more guineas than they had notes in circulation, they could not, without great injury to the country, pay their notes in specie, while the price of gold bullion continued greatly above the mint price, and the foreign exchanges unfavourable to us. The excess of our currency would be exchanged for guineas at the Bank and exported, and would be suddenly withdrawn from circulation. Before therefore they can safely pay in specie, the excess of notes must be gradually withdrawn from circulation. If gradually done, little inconvenience would be felt; so that the principle were fairly admitted, it would be for future consideration whether the object should be accomplished in one year or in five. I am fully persuaded that we shall never restore our currency to its equitable state, but by this preliminary step, or by the total overthrow of our paper credit.

If the Bank directors had kept the amount of their notes within reasonable bounds; *if they had acted up to the principle which they have avowed*

avowed to have been that which regulated their issues when they were obliged to pay their notes in specie, namely, to limit their notes to that amount which should prevent the excess of the market above the mint price of gold, we should not have been now exposed to all the evils of a depreciated, and perpetually varying currency.

Though the Bank derive considerable advantage from the present system, though the price of their capital stock has nearly doubled since 1797, and their dividends have proportionally increased, I am ready to admit with Mr. Thornton, that the directors, as monied men, sustain losses in common with others by a depreciation of the currency, much more serious to them than any advantages which they may reap from it as proprietors of Bank stock. I do therefore acquit them of being influenced by interested motives, but their mistakes, if they are such, are in their effects quite as pernicious to the community.

The extraordinary powers with which they are entrusted enable them to regulate at their pleasure the price at which those who are possessed of a particular kind of property, called money, shall dispose of it. The Bank directors have imposed upon these holders of money all the evils of a maximum. To-day it is their pleasure that 4*l.* 10*s.* shall pass for 3*l.* 17*s.* 10½*d.*, to-morrow they may degrade 4*l.* 15*s.* to the same value, and in another year 10*l.* may not be worth more. By what an insecure tenure is property consisting of money or annuities paid in money held! What security has the public creditor that the interest on the public debt, which is now paid in a medium depreciated fifteen per cent., may not hereafter be paid in one degraded fifty per cent.? The injury to private creditors is not less serious. A debt contracted in 1797 may now be paid with eighty-five per cent. of its amount, and who shall say that the depreciation will go no further?

The following observations of Dr. Smith on this subject are so important, that I cannot but recommend them to the serious attention of all thinking men.

"The raising the denomination of the coin "has been the most usual expedient by which "a real public bankruptcy has been disguised "under the appearance of a pretended pay-"ment. If a sixpence, for example, should "either by act of parliament or royal proclama-"tion be raised to the denomination of a shil-"ling, and twenty sixpences to that of a pound "sterling, the person who under the old de-"nomination had borrowed twenty shillings, "or near four ounces of silver, would, under "the

"the new, pay with twenty sixpences, or with "something less than two ounces. A national "debt of about a hundred and twenty millions, "nearly the capital of the funded debt of Great "Britain, might in this manner be paid with "about sixty-four millions of our present mo- "ney. It would indeed be a pretended pay- "ment only, and the creditors of the public "would be defrauded of ten shillings in the "pound of what was due to them. The cala- "mity too would extend much further than to "the creditors of the public, and those of every "private person would suffer a proportionable "loss; and this without any advantage, but "in most cases with a great additional loss, to "the creditors of the public. If the creditors "of the public indeed were generally much in "debt to other people, they might in some "measure compensate their loss by paying "their creditors in the same coin in which the "public had paid them. But in most coun- "tries the creditors of the public are the "greater part of them wealthy people, who "stand more in the relation of creditors than "in that of debtors towards the rest of their "fellow-citizens. A pretended payment of this "kind, therefore, instead of alleviating, aggra- "vates in most cases the loss of the creditors of

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"the public; and without any advantage to "the public, extends the calamity to a great "number of other innocent people. It occa- "sions a general and most pernicious subver- "sion of the fortunes of private people; enrich- "ing in most cases the idle and profuse debtor "at the expence of the industrious and frugal "creditor, and transporting a great part of the "national capital from the hands which are "likely to increase and improve it, to those "which are likely to dissipate and destroy it. "When it becomes necessary for a state to de- "clare itself bankrupt, in the same manner as "when it becomes necessary for an individual "to do so, a fair, open, and avowed bankruptcy "is always the measure which is both least dis- "honourable to the debtor, and least hurtful to "the creditor. The honour of a state is surely "very poorly provided for, when in order to "cover the disgrace of a real bankruptcy, it has "recourse to a juggling trick of this kind, so "easily seen through, and at the same time so "extremely pernicious."

These observations of Dr. Smith on a debased money are equally applicable to a depreciated paper currency. He has enumerated but a few of the disastrous consequences which attend the debasement of the circulating medium, but he

has

has sufficiently warned us against trying such dangerous experiments. It will be a circumstance ever to be lamented, if this great country, having before its eyes the consequences of a forced paper circulation in America and France, should persevere in a system pregnant with so much disaster. Let us hope that she will be more wise. It is said indeed that the cases are dissimilar: that the Bank of England is independent of government. If this were true, the evils of a superabundant circulation would not be less felt; but it may be questioned whether a Bank lending many millions more to government than its capital and savings can be called independent of that government.

When the order of council for suspending the cash payments became necessary in 1797, the run upon the Bank was, in my opinion, caused by political alarm alone, and not by a superabundant, or a deficient quantity (as some have supposed) of their notes in circulation*.

This is a danger to which the Bank, from the nature of its institution, is at all times liable. No prudence on the part of the directors could perhaps have averted it: but if their loans to

* At that period the price of gold kept steadily under its mint price.

government

government had been more limited; if the same amount of notes had been issued to the public through the medium of discounts; they would have been able, in all probability, to have continued their payments till the alarm had subsided. At any rate, as the debtors to the Bank would have been obliged to discharge their debts in the space of sixty days, that being the longest period for which any bill discounted by the Bank has to run, the directors would in that time, if necessary, have been enabled to redeem every note in circulation. It was then owing to the too intimate connection between the Bank and government that the restriction became necessary; it is to that cause too that we owe its continuance.

To prevent the evil consequences which may attend the perseverance in this system, we must keep our eyes steadily fixed on the repeal of the Restriction-bill.

The only legitimate security which the public can possess against the indiscretion of the Bank is to oblige them to pay their notes on demand in specie; and this can only be effected by diminishing the amount of bank-notes in circulation till the nominal price of gold be lowered to the mint price.

Here I will conclude; happy if my feeble efforts

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forts should awaken the public attention to a due consideration of the state of our circulating medium. I am well aware that I have not added to the stock of information with which the public has been enlightened by many able writers on the same important subject. I have had no such ambition. My aim has been to introduce a calm and dispassionate enquiry into a question of great importance to the state, and the neglect of which may be attended with consequences which every friend of his country would deplore.

APPENDIX.

THE public having called for a new edition of this pamphlet, I avail myself of the occasion to consider the observations which the Edinburgh Reviewers, in the last number of their publication, have done me the honour to make on some of the passages contained in it. I am induced to do this from the conviction that discussion on every point connected with this important subject will hasten the remedy against the existing abuse, and will tend to secure us against the risk of its recurrence in future.

In the article on the depreciation of money, the Reviewers observe, "The great fault of Mr. Ricardo's performance is the partial view which he takes of the causes "which operate upon the course of exchange. He attributes," they say, "a favourable or an unfavourable "exchange *exclusively* to a redundant or deficient currency, and overlooks the varying desires and wants of "different societies, as an original cause of a temporary "excess of imports above exports, or exports above imports." They then comment on the passage in which I have maintained, that a bad harvest will not occasion the export of money, unless money is relatively cheap in the

the exporting country, and conclude their observations by giving it as their decided opinion, that the exportation of money in the supposed case of a bad harvest, "is not "occasioned by its cheapness. It is not, as Mr. Ricardo "endeavours to persuade us, the cause of the unfavourable "balance, instead of the effect. It is not merely a salu-"tary remedy for a redundant currency: but it is owing "precisely to the cause mentioned by Mr. Thornton—"the unwillingness of the creditor nation to receive a "great additional quantity of goods not wanted for im-"mediate consumption, without being bribed to it by "excessive cheapness; and its willingness to receive "bullion—the currency of the commercial world—with-"out any such bribe. *It is unquestionably true, as stated "by Mr. Ricardo, that no nation will pay a debt in the "precious metals, if it can do it cheaper by commodities;* "but the prices of commodities are liable to great depres-"sions from a glut in the market; whereas the precious "metals, on account of their having been constituted by "the universal consent of society, the general medium of "exchange, and instrument of commerce, will pay a "debt of the largest amount at its nominal estimation, "according to the quantity of bullion contained in the "respective currencies of the countries in question, and, "whatever variations between the quantity of currency "and commodities may be stated to take place subse-"quent to the commencement of these transactions, it "cannot be for a moment doubted that the cause of them "is to be found in the wants and desires of one of the two "nations, and not in any original redundancy or defi-"ciency of currency in either of them."

They agree with me, "that no nation will pay a debt "in

"in the precious metals, if it can do it cheaper by com-"modities, *but the prices of commodities*," they say, "*are "liable to great depressions from a glut in the market;*" of course they must mean in the foreign market, and then the words express the opinion which they are en-deavouring to controvert, viz. that when goods cannot be sent out so advantageously as money, money will be ex-ported,—which is another way of saying that money will never be exported, unless it is relatively redundant with commodities, as compared with other countries. Yet im-mediately after they contend, that the exportation of the "precious metals is the *effect of a balance of trade* *, ori-"ginating in causes which may exist without any relation "whatever to redundancy or deficiency of currency." These opinions appear to me directly contradictory. If however the precious metals can be exported from a country in exchange for commodities, although they should be as dear in the exporting as in the importing country, what are the effects which will follow from such improvident exportation?

"A comparative deficiency in one country, and re-"dundancy in the other," say the Reviewers, p. 343. "and this state of things could not fail to have a speedy "effect in changing the direction of the balance of pay-"ments, and in restoring that equilibrium of the precious "metals, which had been for a time disturbed by the "naturally unequal wants and necessities of the countries "which trade with each other." Now it would have been

* We are here speaking of a *balance of trade* abstracted from a *balance of payments*. A balance of trade may be favourable whilst a balance of payments is unfavourable. It is the balance of payments only which operates on the exchange.

been well if the Reviewers had told us at what point this re-action would commence,—as at the first view it appears that the same law which will permit money to be exported from a country, when it is no cheaper than in the importing country, may also allow it to be exported when it is actually dearer. It is self-interest which regulates all the speculations of trade, and where that can be clearly and satisfactorily ascertained, we should not know where to stop if we admitted any other rule of action. They should have explained to us therefore, why, if the demand for the commodity imported should continue, the country importing might not be entirely exhausted of its coin and bullion. What is under such circumstances to check the exportation of the currency? The Reviewers say, because "a country with a diminished quantity of bullion "would evidently soon be limited in its powers of pay-"ing with the precious metals." Why soon? Is it not admitted "that excess and deficiency of currency are "only relative terms; that the circulation of a country "can never be superabundant," (and therefore can never be deficient,) "except in relation to other countries." Does it not follow from these admissions, that if the balance of trade may become unfavourable to a country, though its currency be not relatively superabundant, that there is no check against the exportation of its coin, whilst any amount of money remains in circulation; as the diminished sum, (by acquiring a new value,) will as readily and as effectually make the required payments as the larger sum did before? A succession of bad harvests might, on this principle, drain a country of its money, whatever might be its amount, although it consisted exclusively of the precious metals.

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The observation that its diminished value in the importing country, and its increasing value in the exporting country, would make it revert again to the old channel, does not answer the objection. When will this happen? and in exchange for what will it be returned? The answer is obvious—for commodities. The ultimate result then of all this exportation and importation of money, is that one country will have imported one commodity in exchange for another, and the coin and bullion will in both countries have regained their natural level. Is it to be contended that these results would not be foreseen, and the expence and trouble attending these needless operations effectually prevented, in a country where capital is abundant, where every possible economy in trade is practised, and where competition is pushed to its utmost limits? Is it conceivable that money should be sent abroad for the purpose merely of rendering it dear in this country and cheap in another, and by such means to ensure its return to us?

It is particularly worthy of observation that so deep-rooted is the prejudice which considers coin and bullion as things essentially differing in all their operations from other commodities, that writers greatly enlightened upon the general truth of political economy seldom fail, after having requested their readers to consider money and bullion merely as commodities subject to "the same general principle of "supply and demand which are unquestionably the found-"ation on which the whole superstructure of political "economy is built;" to forget this recommendation themselves, and to argue upon the subject of money, and the laws which regulate its export and import, as quite distinct and different from those which regulate the export and import of other commodities. Thus the Reviewers, if

they

they had been speaking of coffee or of sugar, would have denied the possibility of those articles being exported from England to the continent, unless they were dearer there than here. It would have been in vain to have urged to them, that our harvest had been bad, and that we were in want of corn; they would confidently and undeniably have proved that to whatever degree the scarcity of corn might have existed, it would not have been possible for England to send, or for France (for example) to be willing to receive, coffee or sugar in return for corn, whilst coffee or sugar cost more money in England than n France. What! they would have said, do you believe it possible for us to send a parcel of coffee to France to sell there for 100*l.* when that coffee cost here 105*l.*—when by sending 100*l.* of the 105*l.* we should equally discharge the debt contracted for the imported corn? And, I say, do you believe it possible that we shall agree to send, or France agree to receive (if the transaction is on her account) 100*l.* in money, when 95*l.* invested in coffee and exported will be equally valuable as the 100*l.* when it arrives in France? But coffee is not wanted in France, there is a glut of it;—allowed, but money is wanted still less, and the proof is, that a hundred pounds worth of coffee will sell for more than a hundred pounds worth of money. The only proof which we can possess of the relative cheapness of money in two places, is by comparing it with commodities. Commodities measure the value of money in the same manner as money measures the value of commodities. If then commodities will purchase more money in England than in France, we may justly say that money is cheaper in England, and that it is exported to *find* its level, not to *destroy* it. After comparing the relative value

value of coffee, sugar, ivory, indigo, and all other exportable commodities in the two markets, if I persist in sending money, what further proof can be required of money being actually the cheapest of all these commodities in the English market, in relation to the foreign markets, and therefore the most profitable to be exported? What further evidence is necessary of the relative redundance and cheapness of money between France and England, than that in France it will purchase more corn, more indigo, more coffee, more sugar, more of every exportable commodity than in England?

I may, indeed, be told that the Reviewer's supposition is not that coffee, sugar, indigo, ivory, &c. &c. are cheaper than money, but that these commodities and money are equally cheap in both countries, that is to say, that one hundred pounds sent in money, or invested in coffee, sugar, indigo, ivory, &c. &c. will be of equal value in France. If the value of all these commodities were so nicely poised, what would determine an exporter to send the one in preference to the other, in exchange for corn; in relation to which they are all cheaper in England? If he sends money, and thereby destroys the natural level, we are told by the Reviewers that money would on account of its increasing quantity in France, and its decreasing quantity in England, become cheaper in France than in England, and would be re-imported in exchange for goods till the level were restored. But would not the same effects take place if coffee or any of the other commodities were exported, whilst they were equally valuable in relation to money in both countries? Would not the equilibrium between supply and demand be destroyed, and would not the diminished value of coffee, &c. in consequence of their increased

creased quantity in France, and their increased value in England, from their diminished quantity, produce their re-importation into England? Any of *these* commodities might be exported without producing much inconvenience from their enhanced price; whereas money, which circulates all other commodities, and the increase or diminution of which, even in a moderate proportion, raises or falls prices in an extravagant degree, could not be exported without the most serious consequences. Here then we see the defective principle of the Reviewers. On my system, however, there would be no difficulty in determining the mode in which, in a case so extremely improbable, as that of an equal value in both countries, for *all* commodities, money included, and corn alone excepted, the returns would be made so as to preserve the relative amount and the relative value of their respective currencies.

If the circulating medium of England consisted wholly of the precious metals, and were a fiftieth part of the value of the commodities which it circulated, the whole amount of money which would under the circumstances supposed be exported in exchange for corn, would be a fiftieth part of the value of such corn: for the rest we should export commodities, and thus would the proportion between money and commodities be equally preserved in both countries. England, in consequence of a bad harvest, would come under the case mentioned at page 3 of this work, of a country having been deprived of a part of its commodities, and therefore requiring a diminished amount of circulating medium. The currency which was before equal to her payments would now become superabundant and relatively cheap, in the proportion of

of one fiftieth part of her diminished production; the exportation of this sum, therefore, would restore the value of her currency to the value of the currencies of other countries. Thus it appears to be satisfactorily proved that a bad harvest operates on the exchange in no other way than by causing the currency which was before at its just level to become redundant, and thus is the principle that an unfavourable exchange may always be traced to a relatively redundant currency most fully exemplified.

If we can suppose that after an unfavourable harvest, when England has occasion for an unusual importation of corn, another nation is possessed of a superabundance of that article, "*but has no wants for any commodity whatever*," it would unquestionably follow that such nation would not export its corn in exchange for commodities: but neither would it export corn for money, as that is a commodity which no nation ever wants absolutely, but relatively, as is expressly admitted by the Reviewers. The case is, however, impossible, because a nation possessed of every commodity necessary for the consumption and enjoyment of all its inhabitants who have wherewithal to purchase them, will not let the corn which it has over and above what it can consume rot in its granaries. Whilst the desire of accumulation is not extinguished in the breast of man, he will be desirous to realise the excess of his productions, above his own consumption, into the form of capital. This he can only do by employing himself, or by loans to others, enabling them to employ, an additional number of labourers, as it is by labour only that revenue is realized into capital. If his revenue be corn, he will be disposed to exchange it for fuel, meat, butter,

butter, cheese, and other commodities in which the wages of labour are usually expended, or, which is the same thing, he will sell his corn for money, pay the wages of his labourers in money, and thereby create a demand for those commodities which may be obtained from other countries in exchange for the superfluous corn. Thus will be reproduced to him articles more valuable, which he may again employ in the same manner, adding to his own riches, and augmenting the wealth and resources of his country.

No mistake can be greater than to suppose *that a nation can ever be without wants for commodities of some sort.* It may possess too much of one or more commodities for which it may not find a market at home. It may have more sugar, coffee, tallow, than it can either consume or dispose of, but no country ever possessed a general glut of all commodities. It is evidently impossible. If a country possesses every thing necessary for the maintenance and comfort of man, and these articles be divided in the proportions in which they are usually consumed, they are sure, however abundant, to find a market to take them off. It follows therefore, that whilst a country is in possession of a commodity for which there is no demand at home, it will be desirous of exchanging it for other commodities in the proportion in which they are consumed.

No nation grows corn, or any other commodity, with a view to realise its value in money, (the case supposed, or involved in the case supposed, by the Reviewers), as this would be the most unprofitable object to which the labour of man could be devoted. Money is precisely that article which till it is re-exchanged never adds to the wealth

wealth of a country: accordingly we find, that to increase its amount is never the voluntary act of any country any more than it is that of any individual. Money is forced upon them only in consequence of the relatively less value which it possesses in those countries with which they have intercourse.

Whilst a country employs the precious metals for money, and has no mines of its own, it is a conceivable case that it may greatly augment the amount of the productions of its land and labour without adding to its wealth, because at the same time those countries which are in possession of the mines may possibly have obtained so enormous a supply of the precious metals as to have forced an increase of currency on the industrious country, equal in value to the whole of its increased productions. But by so doing the augmented currency, added to that which was before employed, will be of no more real value than the original amount of currency. Thus then will this industrious nation become tributary to those nations which are in possession of the mines, and will carry on a trade in which it gains nothing and loses every thing.

That the exchange is in a constant state of fluctuation with all countries I am not disposed to deny, but it does not generally vary to those limits at which remittances can be more advantageously made by means of bullion than by the purchase of bills. Whilst this is the case, it cannot be disputed that imports are balanced by exports. The varying demands of all countries may be supplied, and the exchanges of all deviate in some degree from par, if the currency of any one of them is either redundant or deficient, as compared with the rest. Suppose England to send goods to Holland, and not to find there any

any commodities which suit the English market; or, which is the same thing, suppose that we can purchase those commodities cheaper in France. In this case we confine our operation to the sale of goods in Holland, and the purchase of other goods in France. The currency of England is not disturbed by either transaction, as we shall pay France by a bill on Holland, and there will neither be an excess of imports nor of exports. The exchange may, however, be favourable to us with Holland, and unfavourable with France; and will be so, if the account be not balanced by the importation into France of goods from Holland, or from some country indebted to Holland. If there be no such importation, it can arise only from a relative redundancy of the circulation of Holland, as compared with that of France, and in payment of the bill it will suit both those countries that bullion should be transmitted. If the balance be settled by the transmission of goods, the exchange between all the three countries will be at par. If by bullion, the exchange between Holland and England will be as much above par, as that between France and England will be below the par, and the difference will be equal to the expenses attending the passage of bullion from Holland to France. It will make no difference in the result, if every nation of the world were concerned in the transaction. England having bought goods from France and sold goods to Holland, France might have purchased to the same amount from Italy; Italy may have done the same from Russia, Russia from Germany, and Germany within 100,000*l.* of the same amount from Holland; Germany might require this amount of bullion either to supply a deficient currency, or for the fabrication of plate. All these various transactions would be settled by bills

bills of exchange, with the exception of the 100,000*l.* which would be either transmitted from an existing redundancy of coin or bullion in Holland, or it would be collected by Holland from the different currencies of Europe. It is not contended, as the Reviewers infer, "that a bad harvest, or the necessity of paying a subsidy "in one country, should be immediately and invariably "accompanied by an unusual demand for muslins, hard-"ware, and colonial produce," as the same effects would be produced if the country paying the subsidy, or suffering from a bad harvest, were to import less of other commodities than it had before been accustomed to do.

The Reviewers observe, page 345, "The same kind of "error which we have here noticed pervades other parts "of Mr. Ricardo's pamphlet, particularly the opening of "his subject. He seems to think that when once the pre-"cious metals have been divided among the different coun-"tries of the earth, according to their relative wealth and "commerce, that each having an equal necessity for the quan-"tity actually in use, no temptation would be offered for "their importation or exportation, till either a new mine "or a new bank was opened; or till some marked change "had taken place in their relative prosperity." And after-"wards at page 361, "We have already adverted to the "error (confined, however, principally to Mr. Ricardo, "and from which the Report is entirely free) of denying "the existence of a balance of trade or of payments not "connected with some original redundancy or deficiency "of currency." "But there is *another point* in which al-"most all the writers on this side of the question concur, "where, notwithstanding, we cannot agree with them, "and feel more inclined to the mercantile view of the sub-"ject.

" ject. Though they acknowledge that bullion occasion-
" ally passes from one country to another, from causes
" connected with the exchange, yet they represent these
" transactions as quite inconsiderable in degree. Mr. Hus-
" kisson observes 'that the operations in the trade of bul-
" lion originate almost entirely in the fresh supplies which
" are yearly poured in from the mines of the New World,
" and are chiefly confined to the distribution of those
" supplies through the different parts of Europe. If this
" supply were to cease altogether, the dealings in gold
" and silver, as objects of foreign trade, would be very
" few, and those of short duration."'

" Mr. Ricardo, in his reply to Mr. Bosanquet, refers " to this passage with particular approbation." Now I am at a loss to discover in what this opinion of Mr. Huskisson differs from that which I had before given, and on which the Reviewers had been commenting.

The passages are in substance precisely the same, and must stand or fall together. If " we acknowledge that " bullion occasionally passes from one country to another " from causes connected with the exchange," we do not acknowledge that it would so pass till the exchange had fallen to such limits as would make the exportation of bullion profitable, and I am of opinion that if it should so fall, it is in consequence of the cheapness and redundance of currency, which " would originate almost entirely in " the fresh supplies which are yearly poured in from the " mines of the New World." This, then, is not *another point* in which the Reviewers differ with me, but the same.

If " it is well known that most states, in their usual re- " lations of commercial intercourse, have an almost con- " stantly favourable exchange with some countries, and an " almost

" almost constantly unfavourable one with the others," to what cause can it be ascribed but to that mentioned by Mr. Huskisson? " The fresh supplies of bullion which " are yearly poured in, (and in nearly the same direction) " from the mines of the New World." Dr. A. Smith does not seem to have been sufficiently aware of the powerful and uniform effects which this stream of bullion had on the foreign exchanges, and he was inclined much to overrate the uses of bullion in carrying on the various round-about foreign trades which a country finds it necessary to engage in. In the early and rude transactions of commerce between nations, as in the early and rude transactions between individuals, there is little economy in the use of money and bullion; it is only in consequence of civilization and refinement that paper is made to perform the same office between the commonwealth of nations, as it so advantageously performs between individuals of the same country. The Reviewers do not appear to me to be sufficiently aware of the extent to which the principle of economy in the use of the precious metals is extended between nations, indeed they do not seem to acknowledge its force even when confined to a single nation, as from a passage in page 346, their readers would be induced to suppose their opinion to be, that there are frequent transfers of currency between the distant provinces of the same country, for they tell us that " there have " been and ever will be a quantity of the precious metals " in use destined to perform the same part with regard to " the different nations connected with each other by com- " merce, which the currency of a particular country per- " forms with regard to its distant provinces." Now what part

part does the currency of a country perform with regard to the distant provinces?

I am well persuaded that in all the multiplicity of commercial transactions which take place between the distant provinces of this kingdom, the currency performs a very inferior part, imports being almost always balanced by exports*, and the proof is, that the local currency of the provinces (and they have no other) is seldom circulated at any considerable distance from the place where it is issued.

It appears to me that the Reviewers were induced to admit the erroneous doctrine of the merchants, *that money might be exported in exchange for commodities, although money were no cheaper in the exporting country*, because they could in no other way account for the rise of the exchange having, on some occasions, accompanied the increased amount of Bank notes, as stated by Mr. Pearse, the late deputy-governor and now governor of the Bank, in a paper delivered by him to the Bullion Committee. They say, "according to this view of the "subject, it certainly is not easy to explain an improving "exchange under an obviously increasing issue of notes: "an event that not unfrequently happens, and was much "insisted upon by the deputy-governor of the Bank, as "a proof that our foreign exchanges had no connexion "with the state of our currency."

These are circumstances, however, which are not absolutely irreconcileable. Mr. Pearse, as well as the Edinburgh Reviewer, appears to have wholly mistaken the

* Part of the produce of the provinces is exported without any return, as it constitutes the revenue of absentees, but this consideration can have no effect on the question of currency.

principle

principle advanced by those who are desirous of the repeal of the restriction bill. They do not contend, as they are understood to do, that the increase of *bank notes* will permanently lower the exchange, but that such an effect will proceed from a redundant currency. It remains, therefore, to be considered whether an increase of bank notes is necessarily, at all times, accompanied with a permanently increased currency, as if I can make it appear that it is not, there will be no difficulty in accounting for a rise in the exchange, with an increased amount of bank-notes.

It will be readily admitted, that whilst there is any great portion of coin in circulation, every increase of bank-notes, though it will for a short time lower the value of the whole currency, paper as well as gold, yet that such depression will not be permanent, because the redundant and cheap currency will lower the exchange and will occasion the exportation of a portion of the coin, which will cease as soon as the remainder of the currency shall have regained its value, and restored the exchange to par. The increase of small notes, then, will ultimately be a substitution of one currency for another, of a paper for a metallic currency, and will not operate in the same way as an actual and permanent increase of circulation*. We are not, however, without a criterion by which we may determine the relative amount of currency at different periods, as distin-

* That an increase of bank-notes under 5*l.* should be considered as a substitute for the coins exported, rather than an actual increase of circulation, is often and justly maintained by those who oppose the reasoning of the Bullion Report; but when these same gentlemen want to establish their favourite theory, that there is no connection between the amount of the circulation and the rate of exchange, they do not forget to bring to their aid these small notes which they had before discarded.

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guished from bank-notes, on which though we cannot infallibly rely, it will probably be a sufficiently accurate test to determine the question which we are now discussing. This criterion is the amount of notes of *5l.* and upwards in circulation, which we may reasonably calculate always bear some tolerably regular proportion to the whole circulation. Thus, if since 1797 the bank-notes of this description have increased from twelve to sixteen millions, we may infer that the whole circulation has increased one-third, if the districts in which bank-notes circulate have neither been enlarged nor contracted. The notes under *5l.* will be issued in proportion as the metallic currency is withdrawn from circulation, and will be further augmented, if there be also an augmentation of notes of a higher denomination.

If I am correct in this view of the subject, that the increase in the amount of our currency is to be inferred from the increased amount of bank-notes of *5l.* and upwards, and can by no means be proved by an increase of *1l.* and *2l.* notes which have been substituted in the place of the exported or hoarded guineas, I must wholly reject the calculations of Mr. Pearse, because they are made on the supposition that every increase of this description of notes is an increase of currency to that amount. When it is considered that in 1797 there were no notes of *1l.* and *2l.* in circulation, but that their place was wholly filled with guineas; and that since that period there have been no less than seven millions issued, partly to supply the place of our exported and hoarded guineas, and partly to keep up the proportion between the circulation for the larger and for the smaller payments, we shall observe to what errors such reasoning may lead. I can consider the paper

in

in question of no authority whatever as opposed to the opinion which I have ventured to give, namely, that an unfavourable balance of trade, and a consequently low exchange, may in all cases be traced to a relatively redundant and cheap currency*. But if the reasoning of Mr. Pearse were not incorrect as his *facts* are, he is no way warranted in the conclusions which he has drawn from them.

Mr. Pearse states the increase of bank-notes from January, 1808, to Christmas, 1809, to have been from 17½ to 18 millions, or 500,000*l.*, the exchange with Hamburgh during the same period having fallen from 34s. 9g. to 28s. 6g. an increase in the amount of notes of less than three per cent, and a fall in the exchange of more than eighteen per cent.

But from whence did Mr. Pearse obtain this information, of 18 millions of bank-notes *only* being in circulation at Christmas in 1809? After looking at every return, with which I have been able to meet, of the amount of bank-notes in circulation at the end of 1809, I cannot but conclude that Mr. Pearse's statement is incorrect. Mr. Mushet in his tables gives four returns of bank-notes in the year. In the last, for the year 1809, he has stated the amount of bank-notes in circulation at . 19,742,998

In the Appendix to the Bullion Report, and in returns lately made to the House of Commons, the amount of bank-notes in circulation appears to have been on December 12, 1809, ... 19,727,520

On the 1st January, 1810 . . . 20,669,320

* It is not meant to be denied, that the sudden invasion of an enemy, or a convulsion in a country of any kind which renders the possession of property insecure, may form an exception to this rule, but the exchange will in general be unfavourable to a country thus circumstanced.

On

On the 7th January, 1810, . . . 19,528,030

For many months previously to December it was not lower. When I first discovered this inaccuracy I thought Mr. Pearse might have omitted the bank post bills in both estimates, although they did not in December, 1809, exceed 880,880*l.*; but on looking at the return of bank-notes in circulation, including bank post bills, in January, 1808, I find Mr. Pearse has stated it larger than I can any where find it: indeed his estimate exceeds the return made by the Bank for the 1st of January, 1808, by nearly 900,000*l.*, so that from the 1st of January, 1808, to the 12th of December, 1809, the increase was from 16,619,240 to 19,727,520, a difference of more than three millions, instead of 500,000, as stated by Mr. Pearse, and of two millions if Mr. Pearse's statement for any time in January, 1808, be correct.

Mr. Pearse's statement too, that from January 1803, to the end of 1807, the amount of bank-notes had increased from 16 and a half to eighteen millions, an increase of a million and a half appears to me to exceed the fact by half a million. The increase of notes of 5*l.* and upwards, including bank post bills, did not, during that period, exceed 150,000*l.* It is material that these errors should be pointed out, that those who may, in spite of what I have urged, agree in principle with Mr. Pearse, may see that the facts of the case do not warrant the conclusions which that gentleman has drawn from them, and, indeed, that all calculations founded on the particular amount of bank-notes for a day, or for a week, when the general average has been for some time before, or some time after, greater or less, will be of little avail in overturning a theory which has every other proof of its truth. Such I consider the theory which asserts that the unlimited multiplication of

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a currency which is referrible to no fixed standard may and must produce a permanent depression of the exchange, estimated with a country whose currency is founded on such standard.

Having considered the weight which ought to be attached to Mr. Pearse's paper, I beg the reader's attention to the table which I have drawn out from the statements in the Bullion Report, and from the papers which have since been presented to the House of Commons. I request him to compare the amount of the circulation of the larger notes with the variations in the exchange, and I trust he will find no difficulty in reconciling the principle maintained by me with the actual facts of the case, particularly if he considers that the operations of an increased currency are not instantaneous, but require some interval of time to produce their full effect,—that a rise or fall in the price of silver, as compared with gold, alters the relative value of the currencies of England and Hamburgh, and therefore makes the currency of one or other relatively redundant and cheap;—that the same effect is produced, as I have already stated, by an abundant or deficient harvest, either in this country or in those countries with which we trade, or by any other addition or diminution to their real wealth, which by altering the relative proportion between commodities and money alters the value of the circulating medium. With these corrections, I have no fear but that it will be found that Mr. Pearse's objections may be refuted without having recourse to the abandonment of a principle, which, if yielded, will establish the mercantile theory of exchange, and may be made to account for a drain of circulating medium, so great, that it can only be counteracted by locking up our money in the bank, and absolving the directors from the obligation of paying their notes in specie.

Mr.

* Mr. Pearse's statement, as presented to the Bullion Committee;

	Total of Bank notes. Millions.		Rate of Hambro' Exchange. s. g.
27th February, 1797	$8\frac{1}{2}$		35 6
Rose gradually in 1797 and 1798 to	13		38 0
March, 1799	$13\frac{1}{2}$		37 7
After this period, great commercial distress, large importation of corn, heavy subsidies, and the Hambro' Exchange continued falling, and on the 2d January, 1801, was as low as			29 8
Between the end of the year 1799 to the end of 1802, an increased quantity of 1l. and 2l. notes were issued, swelling the sum total of *all* notes to	$13\frac{1}{2}$ to $16\frac{1}{2}$	Fluctuation	from 33 3 to 29 8
From January, 1803, to the end of 1807	$16\frac{1}{2}$ to 18	Fluctuation	from 32 10 to 35 10
From January, 1808, to Christmas 1809	$17\frac{1}{2}$ to 18	Fall	from 34 9 to 28 6

The rate of the Hambro' Exchange is taken from Lloyd's list.

* I have omitted as much of Mr. Pearse's paper as regarded the amount of bank notes in circulation before the restriction on bank payments, because whilst the public possessed the power of obtaining specie for their notes, the exchange could not but be momentarily lowered by the amount of the bank issues.

The average amount of bank notes from the year 1797 to 1809 inclusive, in the following table, is copied from the Report of the Bullion Committee. The rates of exchange are extracted from a list presented by the mint to parliament. There have been three returns made to parliament by the Bank, of the amount of their notes in circulation in the year 1810; the first for the 7th and 12th of each month; the second a weekly return from the 19th January, 1810, to 28th December; and the third also a weekly account from the 3d March to 29th December, 1810. The average amount of notes above 5l. including bank post bills, according to the first account is

	£15,706,226	of notes under 5l.	£6,560,674
Second - -	16,192,110		6,758,895
Third - -	16,358,230		6,614,721
	3)48,256,566		19,934,290
General average	16,085,522		6,644,763

In the years marked thus * the value of silver as compared with gold exceeded the mint valuation,—this was the case particularly in the year 1801, when less than 14oz. of silver could purchase an ounce of gold,—the mint valuation is as 1 to 15,07; the present market value is as 1 to 16 nearly.

Average

Average amount of Bank of England Notes in circulation in each of the following years:

	Notes of 5l. and upwards, including Bank Post Bills.	Notes under 5l.	Total.	Highest rate of Exchange with Hamburgh.		Lowest rate of Exchange with Hamburgh.	
1798	£11,527,250	£1,807,502	£13,334,752	38.2	Jan.	37.4	Dec.
*1799	12,408,522	1,653,805	14,062,327	37.7	Jan.	31.6	Oct.
*1800	13,598,666	2,243,266	15,841,932	32.5	May.	31.—	Feb.
*1801	13,454,367	2,715,182	16,169,594	31.8	Oct.	29.8	Jan.
*1802	13,917,977	3,136,477	17,054,454	34.—	Dec.	32.—	Feb.
1803	12,983,477	3,864,045	16,847,522	35.—	Dec.	34.—	Jan.
1804	12,621,348	4,723,672	17,345,020	36.—	June.	34.8	Feb.
*1805	12,697,352	4,544,580	17,241,932	35.8	March.	32.9	Nov.
*1806	12,844,170	4,291,230	17,135,400	34.8	Dec.	33.3	Jan.
*1807	13,221,988	4,183,013	17,405,001	34.10	March.	34.2	Sept.
*1808	13,402,160	4,132,420	17,534,580	35.3	July.	32.4	Dec.
1809	14,133,615	4,868,275	19,001,890	31.3	Jan.	28.6	Nov.
1810	16,085,522	6,644,763	22,730,285	31.2	June.	28.6	Dec.
1811				26 6	Jan.	24.—	March.

The Bank have made a return of the amount of their notes for eighteen days in this present year 1811. The average amount of notes of 5l. and upwards in circulation for those eighteen days, including bank post bills, is - - - - - - £16,286,950
And of those under 5l. - - - - - - 7,260,575

Total - 23,547,525

"If," say the Reviewers, "considerable portions of the "currency were taken from the idle, *and those who live* "*upon fixed incomes*, and transferred to farmers, manu-"facturers, and merchants,—the proportion between "capital and revenue would be greatly altered to the ad-"vantage of capital; and in a short time the produce of "the country would be greatly augmented." It is no doubt true "that it is not the *quantity*" of circulating medium which adds to the national wealth, "but the *different distribution* of it." If, therefore, we could be fully assured that the effects of the abundance, and the consequent depreciation of the currency, would diminish the powers of consumption in the idle and unproductive class, whilst it increased the number of the industrious and productive class, the effect would undoubtedly be to augment the national wealth, as it would realize into capital that which was before expended as revenue. But the question is, will it so operate? Will not a thousand pounds saved by the stockholder from his income and lent to the farmer, be equally productive as if it had been saved by the farmer himself? The Reviewers observe, "On every "fresh issue of notes, not only is the quantity of the "circulating medium increased, but the distribution of the "whole mass is altered. A large proportion falls into the "hands of those who consume and produce, and a smaller "proportion into the hands of those who only consume." But is this necessarily so? They appear to take it for granted, that those who live on fixed incomes *must* consume the whole of their income, and that no part of it can be saved and annually added to capital. But this is very far from being the true state of the case, and I would ask, Do not the stockholders give as great a stimulus

stimulus to the growth of the national wealth by saving half their incomes and investing it in the stocks, thereby liberating a capital which will ultimately be employed by those who consume and produce, as would be done if their incomes were depreciated 50 per cent. by the issues of bank-notes, and the power of saving were in consequence entirely taken from them, although the Bank should lend to an industrious man an amount of notes equal in value to the diminished income of the stockholder? The difference, and the only difference appears to me to be this, that in the one case the interest on the money lent would be paid to the real owner of the property, in the other it would ultimately be paid in the shape of increased dividends or bonuses to the bank proprietors, who had been enabled unjustly to possess themselves of it. If the creditor of the Bank employed his loan in less profitable speculations than the employer of the savings of the stockholders would have done, there would result a real loss to the country; so that a depreciation of currency may, as far as it is considered as a stimulus to production, be beneficial or otherwise.

I see no reason why it should diminish the idle, and add to the productive class of society. At any rate the evil is certain. It must be accompanied with a degree of injustice to individuals which requires only to be understood to excite the censure and indignation of all those who are not wholly insensible to every honourable feeling.

With the sentiments of the remainder of the article I most cordially agree, and trust the efforts of the Reviewers will powerfully contribute to overturn the mass of error and prejudice which pervades the public mind on this most important subject.

It

It is often objected to the recommendation of the Bullion Committee, namely that the Bank should be required to pay their notes in specie in two years, that, if adopted, the Bank would be exposed to considerable difficulty in providing themselves with the requisite amount of bullion for such purpose; and it cannot be denied, that before the Restriction Bill can be repealed, the Bank would be in prudence bound to make ample provision for every demand which might by possibility be made on them. It is observed by the Bullion Committee, that the average amount of Bank notes in circulation, including Bank Post Bills, in the year 1809, was 19 millions. During the same period the average price of gold was 4*l.* 10*s.*—exceeding its mint price by nearly 17 per cent, and proving a depreciation of the currency of nearly 15 per cent. A diminution therefore of 15 per cent. in the amount of the Bank circulation in 1809, should, on the principles of the Committee, raise it to par, and reduce the market price of gold to 3*l.* 17*s.* 10½*d.*; and till such reduction take place, there would be imminent danger to the Bank as well as to the public, that the Restriction Bill should cease to operate. Now, admitting (which we are far from doing) the truth of your principles, say the advocates for the Bank, admitting that after such a reduction in the amount of Bank notes, the value of the remainder would be so raised, that it would not be the interest of any person to demand specie at the Bank in exchange for notes, because no profit could be made by the exportation of bullion; what security would the Bank have that caprice or ill-will might not render the practice general of discontinuing the use of small notes altogether, and demanding guineas of the Bank in lieu of them? Not only then

must

must the Bank reduce their circulation 15 per cent. on their issues of 19 millions,—not only must they provide bullion for 4 millions of 1*l.* and 2*l.* notes which would remain in circulation, but they must also furnish themselves with the means of meeting the demands which may be made on them to pay the small notes of all the country banks in the kingdom,—and all this within the short period of two years. It must be confessed, that whether these apprehensions are likely or not likely to be realized, the Bank could not but make some provision for the worst that might happen; and though it is a situation in which their own indiscretion has involved them, it would be desirable, if possible, to protect them against the consequences of it.

If the same benefits to the public,—the same security against the depreciation of the currency, can be obtained by more gentle means, it is to be hoped that all parties, who agree in principle, will concur in the expediency of adopting them. Let the Bank of England be required by Parliament to pay (if demanded) all notes above 20*l.*—and no other, at their option, either in specie, in gold standard bars, or in foreign coin (allowance being made for the difference in its purity) at the English mint value of gold bullion, viz. 3*l.* 17*s.* 10½*d.* per oz., such payments to commence at the period recommended by the Committee.

This privilege of paying their notes as above described might be extended to the Bank for three or four years after such payments commenced, and if found advantageous, might be continued as a permanent measure. Under such a system the currency could never be depreciated below its standard price, as an ounce of gold and 3*l.* 17*s.* 10½*d.*

10½*d.* would be uniformly of the same value. By such regulations we should effectually prevent the amount of small notes necessary for the smaller payments from being withdrawn from circulation, as no one who did not possess to the amount of 20*l.* at least of such small notes could exchange them at the Bank, and even then bullion, and not specie, could be obtained for them. Guineas might indeed be procured at the Mint for such bullion, but not till after the delay of some weeks or months, the loss of interest for which time would be considered as an actual expence; an expence which no one would incur, whilst the small notes could purchase as much of every commodity as the guineas which they represented. Another advantage attending the establishment of this plan would be to prevent the useless labour, which, under our system previously to 1797, was so unprofitably expended on the coinage of guineas, which on every occasion of an unfavourable exchange (we will not enquire by what caused) were consigned to the melting pot, and in spite of all prohibitions exported as bullion. It is agreed by all parties that such prohibitions were ineffectual, and that whatever obstacles were opposed to the exportation of the coin they were with facility evaded.

An unfavourable exchange can ultimately be corrected only by an exportation of goods,—by the transmission of bullion,—or *by a reduction in the amount of the paper circulation.* The facility therefore with which bullion would be obtained at the Bank cannot be urged as an objection to this plan, because an equal degree of facility actually existed before 1797, and must exist under any system of Bank payments. Neither ought it to be urged, because it is now no longer questioned by all those who have given the subject

subject of currency much of their consideration, that not only is the law against the exportation of bullion, whether in coin or in any other form, ineffectual, but that it is also impolitic and unjust; injurious to ourselves only, and advantageous to the rest of the world.

The plan here proposed appears to me to unite all the advantages of every system of banking which has been hitherto adopted in Europe. It is in some of its features similar to the banks of deposit of Amsterdam and Hamburgh. In those establishments bullion is always to be purchased from the Bank at a fixed invariable price. The same thing is proposed for the Bank of England; but in the foreign banks of deposit, they have actually in their coffers, as much bullion, as there are credits for bank money in their books; accordingly there is an inactive capital as great as the whole amount of the commercial circulation. In our Bank, however, there would be an amount of bank money, under the name of bank-notes, as great as the demands of commerce could require, at the same time there would not be more inactive capital in the bank coffers than that fund which the Bank should think it necessary to keep in bullion, to answer those demands which might occasionally be made on them. It should always be remembered too, that the Bank would be enabled by contracting their issues of paper to diminish such demands at pleasure. In imitation of the Bank of Hamburgh, who purchase silver at a fixed price, it would be necessary for the Bank to fix a price *very little below* the mint price, at which they would at all times purchase, with their notes, such gold bullion as might be offered to them.

The perfection of banking is to enable a country by means of a paper currency (always retaining its standard value) to carry on its circulation with the least possible quantity of coin or bullion. This is what this plan would effect. And with a silver coinage, on just principles, we should possess the most economical and the most invariable currency in the world. The variations in the price of bullion, whatever demand there might be for it on the continent, or whatever supply might be poured in from the mines in America, would be confined within the prices at which the Bank bought bullion, and the mint price at which they sold it. The amount of the circulation would be adjusted to the wants of commerce with the greatest precision; and if the Bank were for a moment so indiscreet as to overcharge the circulation, the check which the public would possess would speedily admonish them of their error. As for the country Banks, they must, as now, pay their notes when demanded in Bank of England notes. This would be a sufficient security against the possibility of their being able too much to augment the paper circulation. There would be no temptation to melt the coin, and consequently the labour which has been so uselessly bestowed by one party in recoining what another party found it their interest to melt into bullion, would be effectually saved. The currency could neither be clipped nor deteriorated, and would possess a value as invariable as gold itself, the great object which the Dutch had in view, and which they most successfully accomplished by a system very like that which is here recommended.

THE END.