THE PRINCIPLES

OF

CURRENCY AND EXCHANGES

APPLIED TO

The Report

FROM

THE SELECT COMMITTEE

OF

THE HOUSE OF COMMONS,

APPOINTED TO

INQUIRE INTO THE HIGH PRICE

OF

GOLD BULLION,

&c. &c.

LONDON:

PRINTED AND SOLD BY

W. WINCHESTER AND SON, 61, STRAND.

Dec. 1, 1810.

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OF

CURRENCY AND EXCHANGES,

&c.

THE House of Commons have ordered the Report of the Bullion-Committee to be printed. By so doing they have enabled the public to avail itself of the various information which it contains, and to form a judgment on the recommendations with which it concludes. These recommendations are now waiting the final decision of Parliament. On a subject usually so little studied, yet at this time so interesting to every part of the community, an examination of some of the leading principles of currency and exchanges may contribute somewhat to a just decision; and, however much the opinions resulting from such examination may differ from those of the Committee, they cannot be considered as in the least degree disrespectful to the Members of which it was composed.

The subjects proposed to the Committee for consideration were

The high price of gold bullion,

The state of the circulating medium,—and

The state of the exchanges between Great Britain and foreign parts;

On which, after entering into a detail of principles, and of the evidence submitted to them, they came to the following conclusions:—

"That there is at present an excess in the "paper circulation of this country, of which "the most unequivocal symptom is the very "high price of bullion; and, next to that, the "low price of continental exchanges.

"That the excess is to be ascribed to the want "of a sufficient check and control in the issues "of paper from the Bank of England; and origi-"nally to the suspension of cash-payments, "which removed the natural and true control.

"And they add, that, upon a general review "of the subject, they are of opinion, that no "safe, certain, and constantly adequate provision "against an excess of paper-currency, either oc-"casional or permanent, can be found, except in "the convertibility of all such paper into specie."

After the most careful examination, I presume to differ from the Committee in each of these conclusions:—I shall therefore, according to the plan

plan of examination which I have stated, first submit such other opinions as appear to me more justified by existing appearances; and then explain, as distinctly as I can, on what ground I venture to dissent from such high authority.—My own opinions are—

That there is at this time no excess in the paper circulation of the country.

That there is a sufficient check and control on the issues of paper, both from the Bank of England and from country banks. And

That the currency of the country is in no degree depreciated by the use of paper.

That the high price of bullion is owing to the present state of the foreign commerce of the country combined with its foreign expenditure, entirely unconnected with the extent of its paper circulation. And

That our present unfavourable exchanges are in no way caused by our paper-currency.

These opinions range themselves into two classes, the three first being governed by the principles which affect circulation, and the two last by those which regulate exchanges. I shall accordingly examine them separately under those heads.

PART I.

PART I.

That there is at this time no excess in the paper circulation of the country; that there is a sufficient check and control on the issues of paper, both from the Bank of England and country banks; and that the currency of the country is in no degree depreciated by the use of paper.

The first money which circulated in any country must have been, as our *coin* is, altogether composed of the precious metals, or of some other article intrinsically valuable; but, in almost every modern State where regular laws prevail, the currency has received a mixture of paper, which is not valuable in itself, but is only the representative of what is so. In the early stages of society, the seller of any article of use or convenience felt he was not secure in parting with it, unless, at the moment, he received in return an equivalent of some article of like intrinsic value; and thus money, during this rude state of things, was, of necessity, composed of some material in universal estimation: but, in the progress of time,

time, as the force of established laws became more and more felt and relied upon, men became more and more satisfied that a pledge or written engagement, promising the payment of a specific sum at a fixed time, was, during the existence of such laws, nearly of the same value as an actual transfer, at the moment, of gold or silver, or any other article of intrinsic worth, and was often more convenient.

Within this period, individuals and establishments, seeing the economy of specie which such written notes gave rise to in single transactions, began, under the sanction of their general character for wealth and prudence, not only to grant such notes in all their own dealings, but to make them pass in the intercourse between other men. These notes (at first in England termed goldsmiths' notes) engaged to pay to the holder of them, on demand, a certain portion of the coin of the country; and it was apparent, that, so long as the parties entering into such contracts were capable of fulfilling them, their notes or obligations were of equal value with the precious metals; and, in some respects of convenience, more desirable.

If an absolute assurance could be given with every note, whether of the Bank of England or of an individual, that the holder could at command convert it into real property of the value which

which it purports to bear, it must be owned that, at least for all the larger payments, it would be preferred to gold or silver. If, for every transaction of one thousand pounds, 952 guineas were to be carried, as would often be required, to a considerable distance, to be there told over, and each piece examined separately, as to weight and purity, how would the great operations of the State and of commerce be embarrassed? Although in a less degree, something of the same disadvantage still attends the use of gold for smaller payments; while, in the use of paper, not only we are saved the trouble of a more tedious reckoning, but we know there can be no deterioration in passing from hand to hand: and in case of loss, either by fraud, by violence, or by accident, there are easier means of remedying the injury.

It is not pretended that a paper currency, or one principally composed of paper, is wholly free from objection. I admit that it is more liable than coin is to be counterfeited; and that it gives, perhaps, too great facility to men who issue notes without capital, as some country bankers certainly do, to impose upon the lower classes of the community in their neighbourhood. It is not, however, the immediate object of the present Inquiry to go into a comparison

parison of the advantages or disadvantages of paper-currency, contrasted with gold and silver: that point may, I think, fairly be considered as having been decided by the relative quantities which, till 1797, the public voluntarily held of each. The leading object of the present section is to ascertain one fact,—whether there be an actual excess in that part of our circulation which is composed of paper?

To decide on this we must first agree on the duties to be performed by money. By money, in the sense in which I here use it, I mean the circulating medium, or currency of the country, whether it be composed of the precious metals, of paper, or a mixture of both. The duty of this mass, be it pure or mixed, is solely to facilitate and render convenient the payments, the exchanges, and, generally, the transactions of the community: but, to perform such a duty, it is necessary that there should be some limit to its amount: it is indispensable that no set of men should be able, by issuing paper for their own advantage, to increase the quantity of this useful instrument, until its essential quality, that of a measure of value, is lost;—and happily such is the case. The restriction of the Bank, which is supposed by some persons to have broken down the only guard against excess, by suspending

suspending its payments of cash, has still left in full force another more powerful limitation imposed upon the circulating medium of the country by one of the first principles of our nature—our self-interest.

To illustrate this, I ask,—I ask my reader, what sum of money, what value in the circulating medium of the country, whether of gold and silver, or of notes, he keeps in his pocket, or in his house?—The answer must necessarily be, from one, a little more; from another, a little less;—but, from the richest to the poorest, from the highest to the lowest condition, there will be admitted to exist this governing rule—a constant desire that the actual sum so kept should be as little as the convenience or supposed necessities of the individual will admit. All have so apparent an interest in this rule, that its existence must find a ready assent in every mind. Too large a value in what is transferrable by mere possession not only exposes our persons and our homes to unnecessary risk, but the value thus left in some hazard is kept at an actual sacrifice of the advantage which we forego in its not being usefully employed. Generally speaking, one of our first cares, on receiving large sums of money, is how again to dispose of them to our advantage; and if we are more regardless of lesser sums, it is because

because they form a part of that limited mass of which we anticipate the use. A care so regulated occupies the whole district in which we live, and the whole kingdom. Like the general anxiety which Nature has implanted in us for the preservation of our health, we have a desire as uniform, though perhaps not so powerful, for the care of our fortunes; and if, occasionally, there be found an exception in the passion for hoarding, which sometimes seizes distrustful minds, the pity and surprise which such mistaken avarice excites are only new proofs of the universal operation of a more reasonable economy.

But, admitting that individuals thus act under the influence of prudential considerations, are there not, I shall be asked, merchants, trading companies, corporations, and the Government itself, who all contribute in adding to the circulating currency of the country, and in increasing it to an indefinite amount? I admit that they all do extend the limits of circulation; but all are governed by the same or a greater degree of economy in the sums they keep at their own cost and risk. The Government (we see by the Report) keeps no useless money in the Exchequer; and it will easily be believed that merchants and traders, who deal in money for no other end than

than to profit by it, keep no larger sums locked up in their repositories than are necessary for their probable demands, each estimating such demands by experience in his own concerns.

But still it will be affirmed, that commercial men must be unbounded in their desire for money, even in the sense of currency, because the possession of it gives them a control over the goods of others, and they justly undervalue the small sacrifice they make in the shape of interest or discount in anticipating the great profit that may arise from their commercial speculations. In this manner, it may be said, the circulating medium may be indefinitely increased; but these very men carry no more money about their persons when they have obtained such loans than they did before; they lock up no more in their strong chests. If they pay the amount to their banker, or to any former creditor, or if they pay it away in open market, it becomes the immediate care of the party who receives it not to allow the sum, whatever it be, now placed in his custody, to remain unproductive and at his hazard; and thus no greater amount is added to circulation by this class of the community than is added by any other of the same number of individuals.

Here

Here then is a limitation, and an insuperable one, to the quantity of money in any given state of society. If the society be rich, that is, if it be composed of rich individuals, and be also numerous, the amount in circulation will be greater; if the society be limited in numbers, or composed of members less affluent, the sum will be less: but the aggregate of the sum, in gold, in silver, and in paper engagements, in each person's pocket or house, will, in every state of such society, form the total of, and be the limit to, the currency of the country.

After thus shewing that our currency, taken in the aggregate, is limited and controlled in its amount by an unalterable restriction, a short examination of its effects, as they appear in detail, will shew how that restriction operates on the issuers of paper money.

The great fountains from which the paper circulation of the country flows are the Bank of England and provincial banks. The former of these sends forth paper to the amount of twenty millions; and the united issues of establishments in the country, it is believed, may amount to about twenty-five more: but the conductors of all these concerns, whether in London or in the country,

try, carry them on for the profit they yield; and their profit clearly must depend upon the extent of paper they send forth. Is there, then, no limitation? Is it owing to the moderation of their desires that these men, instead of issuing only forty-five millions, do not issue four hundred?—Fortunately, it is not to such moderate desires that we owe our security against redundancy: the check of a saturated circulation interposes; and the least excess beyond the wants of the public, estimated by each individual for himself, flows back upon the Bank of England or the country banker who occasions it.

The way in which this takes place is different in London from what it is in the country. In the latter situation, the methods to which bankers have recourse for introducing their notes into circulation are loans to their neighbours on bonds, on bills discounted; and sometimes, though rarely, on mortgage. The borrower, in retnrn for the accommodation of such loans, receives the sum, with which he is indulged, in the notes of the lending banker, who thus, in fact, advances only his credit, and not his money, and it is the interest of both parties, especially of the lender, that these notes should not return soon for payment; they therefore circulate at first from favour, till at length custom,

tom, and the regularity with which they are always acquitted when brought for payment, gives them, and succeeding issues, the ready acceptance of the whole neighbourhood. In the unequal contest between gold and paper which hence ensues, it is easy to foretel which will at last prevail: every accommodation and inducement is held out by the parties interested to diffuse the latter, while the former has no advocate but its intrinsic value, which, while great confidence in paper prevails, is little regarded. What then follows? The range of this bank, we have supposed, which is confined to the circle in which the partners are known, are observed, and are trusted, becomes filled with their notes to the extent of the former circulation of metals, joined perhaps to the notes of some former establishments; and gold, no longer wanted here, but still possessing qualities of universal attraction, finds its way to other districts, and finally to other countries. This done, the measure is full; the banker can, by no assiduity or skill, force upon his neighbourhood more of his notes than there was before of specie and of other notes: should he attempt to do so, they will return incessantly upon him, and he will be called upon for their value in what is of universal, not of local, request; that is, he will be called upon for gold,

gold, or for Bank of England notes; which last, although not absolutely of universal value, are so in England, when compared with the paper of any county or district.

But I have stated that there are two sources whence notes proceed—and, admitting that the circulation of provincial banks is thus limited by liability to payment in Bank of England notes, what check is there on that great and powerful body, the Bank itself? Although of a different kind, there is one possessing equal powers of control which restrains here also.—I put out of view the respectability of the Directors of the Bank, whose character secures us against any attempt at a forced circulation. I likewise leave out of my argument the original duties imposed upon that establishment, which was first formed, not for the mere purpose of profit to the undertakers, but for the convenience and support of commerce and commercial men.—Absolving the Directors from these obligations, I will, for the sake of argument, suppose them entering into the management of their trust with all the eagerness of private adventurers, and seeking only the extension of their profits in the diffusion of their notes. I will add to this, what is the fact, that, since the Suspension Act, they are placed in a more favourable situation for effecting a redundant issue than country bankers ever were, because,

cause, as I have shewn, the latter must pay any excess they may have sent forth in the paper of some other establishment, esteemed more solid than their own, which cannot be the case with the Bank of England.—Still the circulation even of this apparently unfettered establishment is limited: its managers cannot induce the population within their sphere to carry in their pockets, or hoard in their bureaus, more of bank-notes than each man anticipates the want of for his own purposes; and that this universal limitation exists here, as it does every where, becomes apparent when we trace the mode in which the issues of the Bank are made.

They are of three kinds:—The first consists of advances to Government of their own notes in anticipation of some of the established taxes.—The second consists in issuing to the public their notes in payment of the public dividends.—The third is the fund destined for commercial accommodation, and consists of the like notes issued in discount of bills.—In one or other of these channels all Bank of England notes find their way into circulation; and a very little consideration will shew how necessarily, and how soon, they must all find their way back into the bank from whence they issued.

As the public Exchequer is, by law, alike open

to

to bank-notes and to the gold and silver coin of the country, and as scarcely any of these precious metals now mix in the payments of the metropolis, it follows, that, in the course of the year, the anticipations to Government on account of taxes must necessarily be repaid to the Bank by a return of its own notes thus paid as duties into the public Exchequer, and afterwards transmitted to the Bank.

In the same manner the public dividends are issued from and returned to the Bank: from five to six millions every quarter are thrown into circulation from this source; but, though thus sent forth, the notes of which these issues are composed cannot remain out above a certain length of time. Before the expiration of the same quarter, the duties and taxes, which are to provide the means of paying the next issue of dividends, must find their way into the Exchequer, and from thence must without delay be transmitted to the Bank, thus occasioning an absorption equal to the late effusion.

The last mode which the Bank employs for diffusing its notes is the discount of bills;—this operation, as is generally known, consists in advancing to merchants and traders the amount of bills which have a limited term (not exceeding sixty-five days) to run, and which the wants of

of the parties make it necessary for them to turn into money before the period of payment arrives.—The sum thus issued, it is believed, amounts to ten or twelve millions; be it what it may, it is evident that the whole of the bills so discounted and transferred into the hands of the Bank will become due in two months, that they will then be sent out for payment, and that as many notes will be received by the Bank in their discharge, and be thus withdrawn from circulation, as were issued by that body at the time of their discount.

But may not the sum thus issued in payment of dividends and in anticipation of taxes become so enormous, that, joined with the issues on discounted bills, the aggregate may be redundant without the means of relief which holders of country notes possess, in having the power to demand payment in other currency? This cannot be: above a million of notes are every week returned to the Bank in discharge of bills discounted, and are thus altogether withdrawn from circulation; above a million, it is true, are again usually sent forth upon other bills discounted; but they are advanced on fresh applications occasioned by public wants, and the amount is accordingly continued the same, or experiences an increase or a diminution exactly corresponding to

 those

those wants. This applies to every similar period; in every ten weeks, that is, five times in every year, the public, by forbearing to desire new advances of notes, have the power to suppress one half of the Bank's circulation. During all this time, too, the Exchequer is affording the same protection against excess: in every thirteen weeks above fifteen millions of notes are withdrawn from circulation in payment of contributions and taxes; and thus, four times a year, the public have, through *this* channel, the means of closing its transactions with the Bank to the extent of the remaining half of its circulation. It therefore appears, that should any distrust of the Bank's good conduct ever be excited, or should any rival to its present universal circulation ever be established, it is possible for the community at any time to recover payment of every note issued by that body within three months.

What is thus possible, in an extreme case, is possible and practised every day, to a limited extent. Whenever the quarterly payments of the public dividends, or any other cause, throws an unusual number of notes into circulation, the Bank feels the demand commonly made to it for issues upon discount immediately reduced. At such times the depositories of mercantile men being overcharged with bank-notes, the owners seek

seek for productive employment of the excess in discounting bills; and the industry which the interest of individuals inspires, added to the greater latitude and convenience which their rules admit of, in many important respects, will always insure to them, in preference to the Bank, this means of investing their surplus money. Exactly, therefore, by so much as the excess of its notes in the hands of the public at any moment amounts to, the Bank will immediately be abridged of its usual power of diffusion.

In this manner the portion of our currency which is of paper expands with the expansion of the operations it has to perform, and collapses as these operations become less numerous or of less value; and thus it is never redundant, nor ever deficient in amount. In this respect it is infinitely preferable to gold, which cannot be increased by the wants of the public; and which, depending on foreign influences, is liable to be often inconveniently reduced, and sometimes to be almost annihilated (as we now see it is) by our foreign exchanges turning against us. Yet this convenience arising from the use of paper the Committee would take away, and they recommend as a measure of precaution, preparatory to the Bank resuming payments in gold, that part of its circulation of paper should be abridged. Should such ~~accommodation~~ recommendation be adopted, the consequence

consequence would necessarily be, that the public would either experience the embarrassment and inconvenience of a deficient medium for their daily transactions, or, following the practice of the country, they would be obliged to have recourse to the notes of private bankers to supply the void.

With such a control, then, as exists in our habits of economy, and with such additional limitations as I have just shewn are imposed by their own interest on the Bank of England and country bankers, it seems unnecessary to adduce other arguments to prove that there is no excess in the circulating medium of the country. If any other evidence be required, it may, I think, be found in a comparison of the actual circulation in 1797 (which was exempt from all imputation of redundancy) with that of the present time.

In this comparison I shall omit entirely the whole circulation of country banks. The Report justly remarks, " that the same check, which the " convertibility into specie under a better sys- " tem provides against the excess of any part " of the paper circulation, is, during the present " system, provided against an excess of country " bank

" bank paper, by its convertibility into Bank of " England paper."—The alleged superflux, then, must be found in the issues of the Bank of England; and this I shall now examine.

Referring to the Report, page 25, I find that the average amount of bank-notes in circulation in May last, when the amount was at the highest, was

	In Notes of £5, and upwards,	In Notes under £5,
	14 Millions.	6 Millions.
I find, also, that, previous to the restriction of 1797, the sum of notes of £5 and upwards was from 10 to 11 millions; I will take the average.....	10½ Millions.	
And that of notes under that value there were		None.
	3½ Millions.	6 Millions.

Thus shewing an increase in thirteen years of six millions in notes under £5, and three millions and a half in notes of a higher value. Of the first description, (those under £5,) the Committee admit " that a *part* must be considered as " being introduced to supply the place of the " specie

" specie which was deficient at the period of " suspending cash-payments;" but this admission is evidently insufficient. In considering what void is filled up by small notes, our concern is not with the degree of deficiency of gold at the time of suspension, but with the actual amount of the void at this moment, after thirteen years of great waste by melting and exportation. At the time when the Bank ceased to pay gold, the proportion of the precious metals in our payments was still great, compared with its present amount; and accordingly we see, in the document referred to, that the whole issue of small notes in the first two years was under two millions; by regular progression the sum increased to 3, to 4, to 5, until now it has reached to 6 millions; but the experience of every man in the habit of witnessing the money transactions of the capital will, I think, tell him that gold, in the same or in a much greater proportion, has gradually disappeared; and that now, so far from a *part* of this new description of notes being sufficient, the whole of it is unequal to supply the decrease of specie in the last thirteen years, during a great part of which there have been such strong temptations to melt it down.

It appearing then that the substitution of notes for guineas in our lesser transactions is a mere conversion

version of our currency from one kind of circulating medium to another, and not an addition to its amount, it follows that the whole of the excess (if there be any) of Bank of England paper is to be found in the class of notes which are above the value of five pounds:—this increase, or this excess, has, in the period referred to—that is, in the last thirteen years—amounted to three millions and a half.

I have stated, that, in the unimpeached times which preceded the restriction, the notes of the Bank of England in circulation amounted to between ten and eleven millions; and in those days there also was seen in use that proportion of guineas which has been banished by the smaller notes. These, I have shewn, there is every reason to believe, amounted to as much as the notes which now supply their place—six millions;—many circumstances lead me to think they amounted to more: taking them, however, at the computation I have made, the mixed circulation of London before 1797, in gold and Bank of England notes, could not be less than sixteen millions and a half. It is now twenty millions, exclusive of the small portion of gold which yet remains, being an increase of about one-fourth.

But in the same period has there been no change

change whatever in the condition of society? has there been no addition to the population within the sphere of the Bank's circulation? has there been no greater number of commercial transactions to adjust, or larger public revenue to remit into the Exchequer? In each of these, singly, I think I see almost a sufficient demand to draw forth the additional sum in dispute; and I must have recourse to a suggestion of the Committee, "that the notes are of late more economised in "great transactions," to account for the fact, that this increase is not greater. Some of these points, which I have touched on as necessarily involving an increased use for Bank paper, admit of more certain calculation; these all warrant my position, that the increase we witness is not more than is necessary for the extended functions it has to perform. The issues for the public service, and the emissions from the Bank in dividends, have each risen much above a fourth; and while these great operations in the capital are thus inviting an increase of notes by our increased occasions, above seven hundred country banks, which formerly held in gold the sum which they deemed it prudent to keep as a deposit in their command, now retain that portion in Bank of England paper, thus attracting a great permament issue of bank-notes to districts to which they never reached before. It is

is difficult to form any conjecture of the sum thus locked up; but, stating it so low as one thousand pounds for each house, we find, in a single general measure, one-fourth of the alleged excess accounted for.

The increase of wealth and population in London and its neighbourhood, where bank-notes almost exclusively circulate, does not admit of a like certainty of calculation; but the great towns, for so they are, which have been added to the northern and eastern parts of the City and Westminster, and the increase of villages in every direction, as well as the crowded appearance of our streets and markets, must satisfy us of the increased number of candidates for the currency in use. But not only is the number of persons greater, but a large proportion have greater concerns to adjust; not only there are more considerable merchants, more bankers, more agents, more dealers in every species of property, in the period under consideration; but each man's transactions are numerically and actually increased.

He has, in most instances, more rent to pay, more taxes, and more for the purchase of most articles of consumption; while, on the other hand, there is an equal increase in his receipts. In the upper ranks of society, except to those who unfortunately have only fixed incomes, there are every

every where increased rents of land, increased profits of trade; while, in the lower ranks, there are increased wages in every employment. When I take all this into view, I cannot think that the increase of one-fourth in the circulation of this prosperous and busy district exceeds that just demand which, I still hold, is regulated by each man's view of his own convenience.

I think I have shewn the existence of a restricting principle in our nature and habits, which, by limiting the quantity of money in every man's pocket or possession to the amount he finds necessary for his daily exchanges, limits, by consequence, the whole circulation of the realm. —I have shewn how this principle operates in the limits it imposes on the two great sources of paper-currency, the Bank of England and country banks,—and I have shewn, by a comparison between 1797 (a time of acknowledged purity of system) and the present day, that the Bank of England has not increased its issues beyond the amount they would have naturally reached had payments in cash never been suspended.

But the Committee, not placing (as I think) sufficient weight on these considerations, decide "that no safe, certain, and constantly adequate "provision against an excess of paper-currency, "either

"either occasional or permanent, can be found, "except in the convertibility of all such paper "into specie." Let us shortly examine this position:—

Taken in its utmost extent, it would lead to a practical impossibility. If, in times of the greatest abundance of specie, the public, from any cause, had called upon the Bank, and upon every country banker, for the sum declared in their notes to be held on the usual condition of repayment on demand, the Bank of England and the country banker must have been alike incapable of fulfilling the letter of their engagements. The Bank, even in times when its engagements only amounted to about ten millions, when there was much more than that sum in specie in the kingdom, and when its credit was as yet unquestioned, found, in 1797, that it had pledged itself to a promise which it was unable to fulfil; and the Legislature was obliged to interpose, by a suspension of the established law, and by exempting it from the obligation of paying in specie. What then was the actual degree of convertibility of paper before the Restriction Act? It was something greater than sufficed for common and ordinary occasions on one hand, and less than was necessary for the extreme of popular alarm on the other. The truth

truth is, as the times become more secure, and more confidence prevails, there will always be a greater proportion of paper; and this has been uniformly the case in the last century, till now, when little else is seen in use. Happily we have not lately experienced, except in the short alarm of 1797, a doubtful state of public security. Should any such state of things, or any internal dangers, unfortunately arise in this country, our regular laws being suspended, our mutual confidence being banished, gold and silver, these so much desired metals, will reappear; but they will come, in such supposed case, not as tokens of plenty and security, but as proofs that want of confidence prevails; and that once more, as in early times, the seller of any article will feel no security but in receiving at the moment another article of like intrinsic value from the buyer.

It is clear, then, that whether now, or before the restriction of 1797, the convertibility of paper into gold beyond a very limited extent never existed. But if it is not convertible into gold, is it therefore of no value? is there nothing of intrinsic worth into which those who are fearful of its security may convert it in the temporary absence of this one article? Yes, into every thing that men desire, or that gold can purchase; and, when ordinary

dinary times return, it will again be exchangeable into gold itself, as if the present interruption had not happened. Gold, it must be remembered, is but one of the many articles which minister to our comfort or convenience: in the poorest times of our history, we, perhaps, had proportionably the greatest quantity of it, because there was then least dependence on the force of laws, and fulfilment of written obligations; but, taking any moment since the Revolution, there never were twenty-five millions in circulation in the country. How small, then, is this portion of our wealth, which we so much regard, compared with the great mass of two or three thousand millions, which we enjoy in lands, in houses, in merchandise, in shipping, in manufactures, and in every thing that constitutes wealth. If we have reason to be satisfied that the issuers of corporate or private notes possess a sufficient portion of these articles, of intrinsic worth, which the law will compel the conveyance of to us, when required, why should we be thus tenacious of payment in gold, which the next moment it would be our business not to hoard or to enjoy, but again to send forth in purchase of some one or other of these very objects we now so much set at nought?

Practically speaking, men have always acted on this conviction; and have, on no emergency of late years, save that of 1797, demanded gold in

in their dealings: and although, in theoretical discussions, we are pleased with a supposed power of calling for our debts in the precious metals, it is obviously impossible to exercise that power to any extent. However much in theory we may be pleased to contemplate the pure system of convertibility into gold, we can have no proof more convincing of the public being satisfied with other security than we saw in the effects of the suspension of the Bank's payments in coin; a measure as sudden as it was unprecedented; one, too, adopted at a moment of general alarm from other causes, but which never for an hour rendered the notes of that body of less ready acceptance.

Had the paper part of our currency retained its value only by its convertibility into gold, it must have fallen gradually for the last twenty years; during which time the proportion it contains of the precious metals has been declining. In the last ten years, it ought, by this rule, to have fallen above a half; and, judging by the power of conversion it now possesses, a bank-note of one pound ought not to be worth five shillings; yet we see our notes retaining their original credit, commanding every article at their original value, and exchanging for our coin itself in every transaction in which they meet. The truth appears to be, that all excess of paper-currency is restrained by the causes we have stated; and its convertibility

vertibility into gold, in a very small degree, is sufficient for convenience, as well as for preserving it from depreciation. I repeat, then, after assigning my reasons for so thinking, that,

There is no excess in the paper circulation of the country;

That there is a sufficient check and control over the issues of paper from the Bank of England and from country banks; and

That the currency of the country is in no degree depreciated by the use of paper.

At this place it is possible I may be asked, by some person not attending to the scope of this discussion, why I detain the reader with arguments about restrictions and limitations? why I do not appeal to every man's and every day's experience, and shew that the currency of the land will buy as much bread, as much meat, and as much of every necessary of life now, as it did thirteen years ago. I answer, that this makes no part of my present plan. A Committee of the House of Commons having stated, that a depreciation has taken place in our currency, arising from the specific cause of an excessive infusion of paper, my plan and object is

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to shew that there is no such excessive infusion, and that consequently any remedies grounded upon that assumption must be unnecessary. But, consenting to a momentary departure from the immediate question, I am again asked generally, whether the currency of this country has not of late years lost some part of its value, compared with all the other articles which we usually employ it to purchase? I answer, that I feel and believe it has; and that the same nominal income will not now enable the owner to obtain the same comforts and conveniences of life, which it did twenty or even ten years ago. But, to use a homely expression, let us put the saddle on the right horse, and not blame paper for a fault which is, in part, ascribable to gold itself.

Not only in England, but throughout Europe, gold has lost part of its value, compared with commodities; and the presumption therefore is, that that depression which took place after the discovery of America, and which had such manifest effects at that time, still exercises an unobserved, but gradual, power. Writers are divided in opinion as to the degree of this excess in the supply of gold and silver above the wants of Europe; but, considering the care with which such precious articles are husbanded, it is scarcely possible that the annual importation from the new world

world should not considerably exceed the annual waste and the export to Asia, and thus produce some slight diminution of their value. Another cause for the loss of value which money experiences in this country is the actual increase in price of the articles themselves which it is used to purchase. In a country insulated as ours now is, by political as well as natural circumstances, every increase of population must make an increase in the demand for all the articles which land and industry produce. To raise the former, worse soils and more unfavourable situations must be taken into cultivation; and the produce therefore will be obtained, and must be sold, at an increased expense. To create the latter, men must be paid at a higher rate of wages, because in every state of society, and especially in one progressive, as that of England is, men must receive somewhat above what is necessary for their support; and the expense of that support will be regulated principally by the cheapness or dearness of food. The operation of taxes is analagous to that of an increased price of the produce of land, and has had its full share in the enhancement of prices. The lower orders in every country pressing closely upon the limits which will suffice to nature for their subsistence, it follows, that, after a certain

point

point, whatever is taken from them in taxes, which are either direct, or which mix in the price of their food or clothing, must be compensated in greater wages or earnings. The taxes, indeed, which reach this humble rank of society in Great Britain, are very light; but, added to the increased price of food, they have every where produced an increase of wages. When then we, on one hand, take into our view the depreciation which, in some given degree, is experienced throughout Europe in the precious metals; and when, on the other, we consider how often increased wages mix and accumulate in every production we pay for;—when, also, we find every article brought to us loaded with the taxes necessary for the State; surely we may see in these very powerful and universal causes, operating upon one hundred and fifty or two hundred millions, at which we may estimate the income of the country, a sufficient explanation of the declining power of money, without seeking for it in the comparatively trifling actual addition, if any, to our circulating medium.

But, in this enumeration of causes which take from the power of money, by enhancing the price of all the articles of life, I am told I have omitted one not only very important in its effects, but one immediately connected with the subject of circulation:—

culation:—it is conceded to me that there is no depreciation of bank-notes, nor any excess in their amount; yet it is maintained that the facility with which they are procured from the Bank, by the mode of discount peculiar to commercial men, calls into existence an increase of purchasers in our markets, whose competition heightens the price of every article!!—This will not be urged by any person acquainted with the subject of *production*;—an increase of capital (which this is to the small degree in which it exists) never raises the price of commodities, but has exactly the opposite effect;—an increase of *consumers*, in any given state of supply, will raise the price of every article which is the object of their wants; and the enhanced price will continue until the stimulus of the increased demand has created a proportionably increased production;—but a competition of consumers is regulated by principles quite distinct from a competition of merchants, who buy to sell again: these must always have in view the price which the article they are in treaty for will obtain at its ultimate market; and, whether there be ten such competitors or a hundred, whether each has carried to the place of competition one hundred pounds of bank-notes or one thousand, he must still be limited, in the offer he can afford to make, by

by the price which he expects to obtain in selling again. So far, indeed, from this increased capital being the occasion of high prices, it is one of the principal means of keeping them down;—a competition of capitalists, like a competition of manufacturers, restricts their respective profits: at this moment we see so much capital in the country, that, from the want of more productive employment, it is lent to Government on terms much lower than during any former war. In Holland, where individual capital was more general than in any other part of Europe, the profits arising from it were the lowest. A great capital is the principal advantage which any country has in entering into a competition of sales with other nations; it makes roads, it erects machinery, it promotes canals; and, in the exact proportion in which it produces these facilities to production, it brings into our own and into foreign markets every article of necessity or luxury at a diminished price. Such are the effects of capital; and, in a trifling degree, such would be the effect on the price of commodities resulting from an increased degree of accommodation from the Bank, were it not prevented by the restricting bounds which limit circulation.

PART

PART II.

That the high price of bullion is owing to the present state of the commerce of this country with the rest of Europe, entirely unconnected with the extent of the paper circulation; and that our present unfavourable exchanges are in no way caused by our paper currency.

Having shewn that the amount of our currency is fixed by an impassable boundary, which precludes the possibility of excess; having shewn that the convertibility of the portion which is paper, into that which is of the precious metals, was always limited; having shewn that (except in times of alarm, when it might be better if there were none) a very moderate degree of convertibility is necessary for the common purposes of life; and appealing to every man's experience, that, in the small, indeed, but frequent exchanges in which gold and silver now mix, paper and these precious metals pass at a like value, thus establishing a standard for the former; it follows, that our currency is not now depressed by the use of paper.

But I am desired to take a guinea, and to melt it down;

down; and I am shewn that the moment it is freed from the stamp of law,—as soon, in short, as it becomes bullion,—it rises in value; and that that portion of gold, which yesterday exchanged only for a one-pound note and one shilling, now exchanges for the same note, and four shillings and six-pence.

This evidently must proceed from one of two causes; it must proceed from the currency of which it late made a part having fallen below its usual value, or from gold in the shape of bullion, which it has now become, having risen above it.

I think I have shewn that it is not in the former of these causes: and when I turn to the other alternative, and see so many circumstances combining to prove that bullion has risen above its ordinary price to the whole extent of the disparity, I am led to express my surprise that any doubts should ever have arisen on the subject.

At this place let me again revert to a few general principles; and guard my reader against what, till this discussion arose, I should have termed the exploded belief, that gold is an unvarying standard. In addition to the many excellencies which gold possesses, of divisibility, of portability, of being less perishable and more pure than any other substance we know of, it possesses also the merit of varying less in value from year to year, or

or in one place compared with another, than any other metal: but it must not be inferred that gold is therefore subject to no variation; since the discovery of America, and the influx which the mines of that part of the world have poured upon Europe, its value has fallen in this country to one-third: like every other article which ministers to our convenience or comfort, it is bought by human labour; and, being obtained in the new world with less expense of trouble than it was in the old, it has proportionably become cheaper in the great degree we have seen. Upon the same principle, it is also subject to some variation from locality: in America, where it is recently dug from the mine, it must necessarily be cheaper than in Europe, which it reaches with all the expenses of freight and hazard attending upon so long a conveyance.

It is, therefore, subject, like other commodities, to variation of value, according to time and place; although, from the regular production of the mines whence it issues, and the small expense of transporting it compared with more bulky articles, it is less so than any other substance; and in ordinary times, when the intercourse between every part of the world is free, it is, for all the common purposes of society, a sufficiently perfect measure of value.

Thus

Thus it has continued (allowing for the considerable but regular depreciation just mentioned) for nearly three centuries, and thus it will probably always continue, to serve as the best approximation to a perfect standard: it has not changed its nature, nor will it in any material degree be less useful to mankind that we occasionally see, and now feel, its natural tendency to an equal value transiently interrupted by political circumstances. We have hitherto experienced very little inconvenience from such local and temporary alterations; nor shall we now from that we witness, if we do not create inconveniences by improper interference.

Without entering into the intricacies of foreign exchanges, it must be evident to every man, who will consider the subject, that when a country, like an individual, makes purchases more in value than it sells in return, that country must, for the moment, remain in debt to the extent of the difference:—it must be equally clear, that, if a nation obtains from other countries advances for the maintenance of its subjects detained abroad, for the support of its armies on foreign service, or for the payment of its subsidies to other States or Princes,—to the extent of all these, for the time, the accommodated country will be in debt. In all these ways has England been accommodated and become

become indebted to the Continent; in most of them does it still continue to be accommodated, and to contract new debts; and, unlike as in former times, when the intervention of neutral States, or the ingenuity of our merchants, made exportation, even in a period of war, little liable to obstruction, England is now, with teeming warehouses, unable to force the articles with which she would discharge her obligations, through the barrier which political circumstances have interposed.

But there is a limit to all credit, and particularly to the extent in which merchants on the Continent, who are generally less affluent than our own, can afford to make advances to this country. Something then must be remitted in discharge of past advances, or intercourse must cease. In endeavouring to continue so useful and so profitable an intercourse, every expedient which private ingenuity can suggest will be devised to defeat the obstruction, of whatsoever nature it may be: the convenience of every port for admission will be examined, the assistance of neutral flags and neutral ships will be resorted to; and, above all things, the aptitude of particular articles for secret and expeditious transport will be anxiously investigated: and in this investigation, in this comparison of qualifications, will gold

gold be forgot? Is it probable that that commodity, which, of all others, is, in proportion to its value, the most easily transported, the most easily concealed, and the most sure to find a ready market, will be overlooked by men so acute as our merchants are? The very reverse is the case: the first thing that feels the impulse of an unfavourable exchange is this very gold, which the Committee would seem to think unsusceptible of influence.

What then follows this demand for gold? All the train of appearances which result from a demand for other articles: it becomes more and more scarce—it gets higher and higher in price.

But, if the demand for any article of which there is an extended market—if the demand for woollens or linens, for example, the supply of which is capable of being increased to a great extent, raises the price in their respective instances, how much more suddenly must the price of gold be affected, of which the English market is so limited? There is, perhaps, no country in the world, in proportion to its wealth, that has so little. We have not, as at Hamburgh and Amsterdam, a constant transmission through our provinces of foreign coins: our own coin is very limited; what there is can afford but little relief, being barred by penal statutes from the use

use immediately desired of exportation. Our gold and silver plate can contribute as little to the end in view, as scarcely any increase of value, by a high exchange, would compensate the loss it would sustain in being deprived of its fashion and workmanship.—What then remains to constitute the English market? Only the small sum of a few hundred thousand pounds, which we find, from the Report, passes annually through the Bullion-Office; and which, stimulated by such urgent occasions, it is no wonder we see increased in price.

In reply, I am asked, are not the mines of the new world open to us as to the other nations of Europe?—But the produce of the American mines are usually brought to Spain, and, being there, we do not want to have them brought to England at a time when the sole purpose for which they are in such request is to send them back to that country, or some other part of the continent of Europe. Such quantities of specie, indeed, as our commercial intercourse with the Portuguese and Spanish settlements enable us to procure, are brought home, and form, as we see, the principal part of the scanty fund deposited at the Bank;—but how ineffectual is this to settle the heavy balance of payments we are every day incurring?

If we require an additional proof that gold and silver

silver are urgently wanted by this country, and that its usual stock and ordinary resources are unequal to the demand, we shall find that proof in the conduct of Government itself, which, after exhausting every scheme for supplying our necessities on the Continent by common means, have been obliged, in repeated instances, to enter into contracts with the Spanish settlements, and to grant licences for the transmission of specie from thence, even when intercouse was shut against other things. Could Government have found the precious metals as it could have done shoes, or clothing, or provisions, in England, would it have had recourse to such modes? The conclusion is inevitable:—it is a new proof that the British market or deposit of the precious metals is extremely small, and must necessarily be easily affected in price by any urgent demand.

Whenever the imports and the foreign expenses of this or any other country exceed its exports, its exchanges will be unfavourable, and gold dear; whenever the reverse is the case, when our exports exceed our imports and foreign charges, our exchanges must be favourable, and gold cheap. How then can that be considered as an undeviating measure, which is thus ever affected by circumstances so uncontrollable?

It will be asked how it then happens, that, in all

all the changes we have seen arising from the state of our exports and imports, gold, after a long series of years favourable to England, has never fallen much under the price it bears relatively to other commodities?—The answer is plain:—when the balance of trade was against the Continent, it had always the option to pay its debts in whatever best suited our market, and, consequently, there never could be any redundancy of this, more than of any other article of commerce; as soon as the measure of our wants became full, the surplus would flow back to where it was more desired, and other articles would be selected, more suited to our market.

But it will be said this theory does not hold good at the present moment. The measure of the Continental market is admitted to be full: gold, therefore, not being dear there, there cannot be the usual attraction of a high price to excite exportation from England; yet the tendency of the current is strongly that way. This is one of the phenomena arising from our new situation: our motive for exportation now, is not as it used to be—a high foreign market; but it is one equally powerful—the necessity of discharging a large foreign debt, which the political obstruction of the times makes it more advantageous to liquidate by this, than by any other article more difficult to transport. At such moments our commercial greatness

greatness even turns against us by the unwieldiness of the operations it imposes on the precious metals to perform. Should France, in her comparatively limited intercourse with other States, experience a depression of her exchanges, the currency of that immense empire would scarcely feel the drain; while England, dealing as it does for millions, and expending millions in foreign objects of policy, must necessarily with a limited currency have greater variations in her exchanges, and these variations will be greater or less as her trade and payments happen to concur or counteract each other.

I cannot anticipate the necessity of further illustrations to prove that at this time, and in this country, gold is dear: it seems extraordinry, that, instead of acknowledging it, as we do every other article of commerce, to be dearer when it is of more difficult attainment, we look, at the expense of insuperable objections on the other side, for arguments to shew that its rise in price is not a proof of an increase in its exchangeable value, but of an excess in the currency with which it is bought.—Let us try these two opposite opinions one way more, by the test of consistency in their effects.

First, to shew that gold varies, that is, rises and

and falls with the demand for it, I compare it with the state of our exchanges, which indicate the degree of that demand :—

In the years 1797, 1798, and 1799, I find the exchanges greatly in favour of this country.	Gold, not then being wanted for more than ordinary demands, remained at its standard price.
In 1800, 1801, and 1802, the exchange became unfavourable, and was 4, 5, and 6 per cent. against England.	Accordingly gold, the most exportable of all articles, acquired a new value, and became dear, and sold at 4*l.* 1*s.* 4*l.* 2*s.* and 4*l.* 3*s.* per ounce, which is an increase of about 4, 5, and 6 per cent.
In 1803, 1804, and 1805, 1806, 1807, and 1808, the exchange, with the exception of a few months in 1805 and 1806, continued favourable.	And we find gold, as we had reason to expect, at a corresponding price; it was all this time almost unvaryingly at 4*l.* per ounce.
At the end of 1808, and through all 1809, a very great and unfavourable alteration took place in our exchanges; they fell to 15, 16, and 20 per cent. under par.	Then gold became in request; it was wanted to satisfy foreign demands, and accordingly it rose to 12, 14, and 15½ per cent.
In April of the present year the exchanges recovered a little, and were only about 10 per cent. against this country;—	And gold accordingly fell to within 10 per cent. of the Mint price.

Next, to shew that currency has not fallen, I

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take the same test of a comparison. If it has lost its value from excess, it must have sunk in some degree proportionable to the increase of that excess. Let us see how the fact corresponds with that principle:—

In the years 1797, 1798, and 1799, during those immediately succeeding the suspension of cash-payments, and consequently of the greatest alarm, and during which there was sent forth an addition of 5½ millions to the circulation of bank-paper, being an increase of above 50 per cent.—in these years, when the effects of the excess, had there been any, must have been most apparent,—	Gold never altered its price; its price in currency never increased.
In the years 1800, 1801, and 1802, an increase took place in the issue of bank-paper of three millions more, being an additional increase of 23 per cent.	Gold bullion became dear in these years of unfavourable exchange;—gold rose in value 4, 5, and 6 per cent.
In the years 1803, 1804, 1805, 1806, and 1807, a further increase of issues took place to the extent of a million and a half, making in all an increase on the original circulation of a hundred per cent.	Gold bullion became cheaper; it fell back to within 2*s.* of the Mint price.

From

From January 1808, to Christmas 1809, there was little or no increase of paper;	Yet gold rose from par to 12 or 15 per cent. above the Mint price.
In April 1810, although there was no decrease of Bank of England paper,—	Yet gold fell to 10 per cent.

Can any proof be more decisive than that which these statements afford that the prices of bullion have had no correspondence with the issues of bank-notes? The Committee do not indeed allege that our currency is depreciated to the whole extent of the rise which bullion has experienced; they limit the charge they bring by stating only that it must exist to a certain degree: even so qualified, this opinion is not just, but, carried to the full extent, as it has been by some persons, it leads to the most obvious absurdities. According to the creed of such persons, that gold is invariable, and that the cause of its departure from the Mint price must be found in the variation of our currency, it would follow—

That in 1800 the whole currency of Great Britain became depreciated to the extent of six per cent. and consequently that it lost about three millions of its value;

And that, in 1805, with a greater proportion of paper, with a larger public debt, and with an ex-

 tended

tended war, the same currency, in all these respects less secure, recovered all the value it had lost.

Were such opinions just, it would follow also, that if Mr. Goldsmid, in executing any very urgent commission, should raise bullion two or three per cent. above the usual price, he would by such rash act strike off a million from the value of our currency: but the truth is, in all these instances it is only a few ounces of bullion that have got dearer or cheaper; our currency remains just the same.

At this place I shall again shortly depart from the direct course of these Observations, to notice the argument of a class of advocates for the measure recommended by the Committee, but who urge it upon different grounds.

These Gentlemen allow that our currency is not depreciated; that gold is increased in value to the whole extent of the disparity we see;—but, admitting all this, they say, a pound of gold, having been coined into 44 guineas and a half, the holder of a bank-note for 46*l.* 16*s.* 6*d.* (the sum corresponding with 44½ guineas) is entitled at all times to a pound of gold; and he is so, they say, by the express letter of his contract, and

and by the law of the country, even now, when a pound of gold is worth fifty-six pounds. But, independent of the injustice of placing the parties to any contract in a situation not in contemplation at the time of making such contract (a situation resembling that of a mortgager pressed to sell his estate in a time of great depression of property, which a court of equity would not permit), the very terms of the contract are against this reasoning. There is not in existence any note of the Bank of England, or of a country bank, engaging to pay a pound of bullion: the engagement such notes contain is to pay a certain portion of the coin of the realm; which coin, bereft as it is, and always has been, of exportability, is of the same value now that it was when it issued from the Mint; and never was intended to give to the possessor the fluctuating and now very unusul advantages of bullion, from which it is so distinctly separated by the law.

Of the same kind is the popular instance of a public dividend; inasmuch as it is the opinion of the Committee carried to the extreme. A believer in depreciation carries me to the Bank, and there shews me a small ingot, which was once a guinea, but which now he proves to me he could sell for 1*l.* 4*s.* 6*d.* In coin of this value, he reminds me, was once paid every pound of these dividends now poured upon the public in notes,—these depreciated

depreciated notes, which, compared with this piece, are worth only seventeen shillings for every nominal pound. But is not the answer plain? Let this ingot again receive the unvarying character of coin which the law gave it, and meant it should always retain; let it once more be secured by the Tower stamp from those influences which its exportability subjects it to, and which now affect it so much; take from it that susceptibility of change, which, as bullion, makes it unfit for a measure of value; confine it, as our coin always has been, to its use of a domestic standard;—then that ingot, that guinea, will be of the value of this note and this shilling; it will then be of the value it bore when you paid it to the State in purchase of this very dividend; and it will be of the value to which it will once more return when it has lost the enhancement it now experiences from temporary and unexampled causes.

SUCH

SUCH is the reasoning which has led me to a conviction that there is no depreciation of our currency, and that the present enhanced price of bullion is owing to the unfavourable state of our intercourse with the Continent. In stating the grounds of my opinion, I have endeavoured to anticipate such objections as occurred to me might be made on each point: I shall now very shortly examine the principles and reasoning which are detailed in the Report as the grounds of an opposite conclusion.

In the first page the Committee state the price of bullion for four years, ending with 1809: in the next page they state our foreign exchanges for the same period, and shew that they exactly correspond with each other, rising and falling at the same time. The natural inference to be drawn from this correspondence would seem to be, that the high or low price of bullion arose from the state of the exchange; that they were cause and effect;—but a different conclusion is formed—" so extraordinary a rise in gold, cou-
" pled with so remarkable a depression of ex-
" change, points out something in our domestic
" currency as the cause of both appearances."

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They then proceed to examine separately the high price of gold and the low state of exchange; in each of which they appear to adopt very objectionable opinions.

In Part I. they lay down as a principle, " that, " in a sound state of our currency, the founda- " tion of which is gold, no demand for gold, " however great, can have the effect of produc- " ing here, for any considerable time, a mate- " rial rise in its market-price." If I have made myself at all understood in a former page, (p. 44,) it must, I think, be apparent that a high market-price of gold must continue just as long as the exchange is unfavourable, however long that may be: while we have an unfavourable balance to pay, we shall ever wish to pay it, amongst other things, in that article which is of cheapest conveyance; and that article will in consequence be dear: when we have no balance to pay, that article will then, and not till then, resume its former level.

In the next paragraph the Committee state that there is no unusual demand on the Continent, no high market-price of gold there, to account for the high price here. That there is no unusual demand abroad is admitted; but there is no necessity for a high foreign market to make a great demand at home; it is dear here, as I have shewn, because it is easier to convey the value

value of fifty pounds into the heart of France, or of the Continent, in the shape of a pound of gold, than in that of a hogshead of sugar or a bale of cloth.

In page 5 the Committee enter into an examination of the nature of gold as a measure of value, to shew that, however it may vary in value, compared with other commodities, it cannot vary from itself;—that an ounce of gold, therefore, now buying 4*l.* 2*s.* of our currency, instead of 3*l.* 18*s.* as it used to do, is a proof that our currency is cheaper. This, too, I have explained:—our currency is the same; the exportable gold here instanced has acquired a new power—that of paying at the cheapest rate a foreign debt—and consequently a new value; but it is a value which it will lose when the balance of trade and payments turns again in our favour. That portion of our gold which is in coin, which we have barred from exportation, and, of course, from this accidental quality, remains as it was, at the Mint price; and the difference, estimated in the Report, page 6, at 4½ per cent. is only an enhancement in the given price of exportable bullion as an article of trade.

The section concludes by this position—" that a " general rise of all prices, and in the market-price " of gold, with a fall of foreign exchanges, will be " the

"the effect of an excessive quantity of circulating "medium, not exportable to other countries, or "convertible into a coin which is so."—But, so long as the limitations I have explained exist, there can be no excess. Our circulating medium, when it was all of the precious metals, was never exportable,—consequently no change has taken place in this respect; and, in its present state, it is just as convertible into other coin, and into every thing that is valuable, as it ever was. One description of commodities alone have changed their relative price—those particularly fitted by their qualities for facility of transit; and surely it is not by comparing our currency with these only, that a fair test is offered of its deterioration.

In part II. the Committee enter into the subject of exchanges. They begin by admitting candidly, that, in the opinion of Mr. Greffulhe, Mr. Chambers, Mr. Coningham, and several other witnesses examined, the present unfavourable state of this index of our foreign intercourse resulted solely from the present state of our trade and payments:—in one Gentleman, however, whose name is not mentioned, they find a qualification of this opinion, which, on examination, the Committee finally adopts, viz. "that bullion is the true regulator both of "the value of a local currency, and of the rate "of

"of foreign exchanges;" and in page 11 they state, that the difference of exchange resulting from the state of trade and payments between any two countries, is limited by the expense of conveying and insuring this bullion from the one to the other,—estimating at the same time such expense at the highest at 7 or 8 per cent.

With a view to confirm this principle, certain calculations are proposed to Mr. Greffulhe (page 14), of which the result is, that any man having 13 ounces of gold, in London, will be glad, during an unfavourable exchange, to give one of these ounces to pay a debt with the other twelve in Paris. This loss of one in thirteen is equal to about 7½ per cent.—exactly what we are shewn are the expense and risk of conveyance to Paris;—in other words, it amounts to what the Committee call the real limit of exchange. But, admitting this calculation in all its parts, the inference which the Committee draws from it, viz. that all excess above this real limit must be ascribed to a defect in our currency, is surely not just. Of what avail is it to us to know that gold would pay our Continental debt, at a loss of only 8 per cent. if we have not gold to the extent of that debt which we can export? Having it not, we resort to silver; that too is exhausted; and, however much we should prefer the precious metals, if they existed, we must have

have recourse to other articles, more bulky, more expensive in conveyance, more liable to seizure, till the risk and expense of transport extend the real limit to 12, to 15, or 20 per cent. as we have seen.

In the same section the Committee represents the *actual* balance in favour of England, in its European intercourse for 1809, as amounting to about 15 millions; while, in the Appendix, Nos. 75 and 76, it is shewn that this is not an actual but an official valuation (which is made on other principles), and that the actual balance in our favour is only about seven millions:—but, although great in amount, this error is not material in principle. Whatever may have been the actual balance of trade in our favour for 1809, the Committee admit, that, when the drafts on Government for its foreign expenditure, the freights due to foreigners, and the interest payable to them from our funds, are cast into the scale, that year exhibits (page 12) a real balance of trade and payments against England:—yet, with this truth admitted, and with evidence before them that there was not gold in our markets sufficient to perform its supposed office of a real limit, they conclude the section by stating—surely without cause—" that they find " it difficult to resist an inference, that a portion, " at least, of the late great fall in our exchanges, " must

" must have resulted, not from the state of trade, " but from a change in the relative value of our " domestic currency."

In part III. the Committee state the inquiries they had gone into to ascertain " whether the Di- " rectors of the Bank held the same opinions " with them as to the necessity of watching " the foreign exchange, and deriving from it a " practical rule for the control of their circu- " lation; and also whether the great fall of ex- " changes and rise of gold last year had sug- " gested any suspicion of the currency of the " country being excessive."

The Governor, the Deputy Governor, and the Director who were examined, all avow that they had no reference to a criterion which, if the limitations mentioned in the first part of this inquiry exist, could have no influence on their decisions in this respect. The issues of notes from the Bank of England, as from other establishments, can be regulated only by the demand for them; and the concurring testimonies here recorded form a strong corroboration of the principles I have endeavoured to establish.

It would be an useless repetition to re-state these principles in reply to those brought forward in this section; I shall only make some remarks on

on such positions or opinions as appear to me inconclusive or erroneous.

In pages 16, 17, 18, and 19, in order to shew the evils arising from excessive issues, the Committee refer to instances in the Bank of England soon after its establishment; in the Bank of Ireland in 1804, and in certain banking companies in Scotland after the seven-years' war, in each of which, great inconveniences are alleged to have arisen from an over-issue of paper. These instances are little more than glanced at in the Report; I shall therefore only notice each as shortly. With regard to the first, the Committee themselves furnish us with the most complete explanation, by stating that the coin of that day was depreciated by wearing and clipping, and that the credit of the Bank was injured for a time by the "*straits*" it was in to keep up its payments in specie, then the only test of solvency:—this, coupled with an error it fell into of too much identifying itself with the Government, then also in great difficulties, could have no other result at a time when banking establishments were still new, and when men must have watched their conduct with a caution corresponding to their recent introduction.

The case of Ireland is an illustration of all the principles

principles I have laid down. Between 1799 and 1804, the alarm of a threatened invasion, and the terrors of an existing rebellion, impelled a considerable portion of the Irish community, with an anxiety proportioned to the danger, to remove themselves and their property to a place of greater security. What was the consequence? Exactly what we have seen is the consequence of our present necessity in this country to send remittances to the Continent:—Irish individuals and Irish families gave more and more for bills upon England; the exchange on this country got higher and higher, and gold rose in Dublin to a corresponding premium. It was not that an Irish gentleman, so alarmed, thought the Bank of Ireland had issued too many notes that he wished to exchange them for those of England; but because he wished the whole or some part of his property to be out of the reach of risks then peculiar to that part of the empire. The whole phenomena of that day are in strict uniformity with those of the present times:—gold, the most exportable of all commodities, continued in Dublin at a premium, while, in London, a bill drawn upon Dublin could not be sold but at a great loss; and for the most obvious reason, because the person purchasing was taking that risk which the seller was so desirous to divest himself

himself of:—yet, in this state of things, bills on Belfast sold in London at their usual rate: they did so, because, in the north, gold was still the circulation of the country; and as soon as the draft was paid in this metal of intrinsic value and universal request, it was sent to England:—but Time, the silent yet certain restorer of an ordinary state of things, has gradually done what Government and the Committee of that day in vain attempted to perform; the high exchange drew forth, in their natural succession, the gold, the silver, the linens, the provisions, the produce and the industry of Ireland; those individuals who were most alarmed, thus got greater means of remittance; while in the same time the alarm itself was gradually subsiding, till now we see in Ireland, what we ought to anticipate seeing in this country, relatively with the Continent, the exchange restored to par, and that, too, with a circulation of notes in Ireland as unlimited and as great as it was in the deprecated year of 1804.

The case of the banking companies in Scotland seems at first view to be the most favourable to the arguments of the Committee; their fault was certainly in part that of over-issues:—it was an ill-advised attempt at extensive circulation in an early stage of country banking, when its principles

principles were not understood; the evil complained of, however, was corrected by withdrawing from the notes of those banking companies the optional clause, which made them uncertain and inconvenient, and by assimilating them to the notes which now circulate in the same district at their full value.

In Part IV. the Committee is led to an examination of the progressive increase and present amount of the paper circulation of the country, whether of the Bank of England, or of provincial banks. That of the Bank of England I have already considered in the early part of these Observations: it only remains to examine the estimates which are adopted of the last, and to remark on an apparent mistake in principle in detailing the extraordinary difficulties of 1793, in page 27.

The year 1793 was one of singular distress throughout the country; there was a failure of confidence and of private credit: in both cases, men distrusting the solidity of houses engaged in trade wished to withdraw their funds from a real or supposed risk. In this moment of danger the Committee imply that the Bank ought to have extended its discounts, and thereby have relieved the distress it witnessed; but surely it was not the duty of the Bank to take the peril

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on itself, and to assist every embarrassed establishment at the risk of its own safety. What was the real evil? It was not a want of the currency of the country then existing; it was not a decrease of the medium, used to make exchanges (the sole legitimate purpose of money, and of the Bank's circulation), that caused the distress;—the currency of that year of difficulty was probably as great as it was in that before, or in that which succeeded; and had the Bank attempted to increase it to any considerable degree, the superflux returning on them would have created that drain on them which they saw so fatal to others. But it was not notes, it was mutual confidence which was wanting, and the evil was cured by a restoration of that confidence. The Government appointed Commissioners to inquire into the solvency of such houses as applied for relief: to such as established their claims it lent the pledge of its own security by issuing Exchequer-bills to them; and thus Government, without adding to the circulation, did what the Bank would in vain have endeavoured to do at the expense of its established rules, and at the hazard of its reputation for prudent management.

In pages 28 and 29 the Committee bring a heavy charge of excess against country banks. In the latter they give a statement of the number of notes

notes of these establishments, above two guineas, stamped in the year 1808, compared with those stamped in 1809; and from it a conclusion is drawn, "that the total amount in circulation "of this class of notes alone was in 1809 in-"creased three millions; a sum which, added "to an increase of a million and a half in the "same year from the Bank of England, was an "addition to the circulation of Great Britain "alone little short of the amount which, in any "one year since the discovery of America, has "been added to the circulating coin of the "whole of Europe."

But I submit whether the principle on which this calculation is made be not evidently erroneous. The notes in question are limited in their duration to three years; if few were issued in 1805, few, at the expiration of their term of three years, would require to be restamped in 1808; while, if many were stamped in 1806, many would require to be renewed in 1809: so that, even supposing there was no addition to the circulation, a great increase would appear by comparing the year 1808 with 1809:—accordingly we find, in the Appendix, No. 53, that the corresponding years of 1806 and 1809 were both unusually productive. The just test of comparison, then, is not the amount thus paid for stamps

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in any one year; it is the amount paid in any three years. On any given day, the amount of the circulation of the country must be all the notes stamped within the three preceding years of that day: all the notes stamped after the commencement of the period must be still in force and in use; all stamped before that era must be expired, and of course withdrawn: allowing, therefore, for a few which may remain out beyond their appointed time, but which do not affect the comparison, as the allowance applies alike to every year, the comparison of which the Appendix affords us the materials stands thus:—

		Above £2 2s.	Above £5 5s.
Duty paid for reissuable notes in the three years ending October,	1807	£80,226	£38,482
Ditto	1808	74,322	33,277
Ditto	1809	77,606	36,124
(Deducting increased duty 1809)			

Shewing that, although there was an increase of stamps corresponding to about a million in 1809, yet that, even then, the circulation, so far from being increased, was above half a million less than it was in 1807.

CONCLUSION.

In the present actual state of our foreign exchanges, when a given quantity of gold pays a larger portion of a debt on the Continent than any other article in this country of equal value,—a judicious merchant, in examining his stores, would determine to export his stock of the precious metals, and, after benefitting by the present certain increased prices, he would trust to a change of times for an opportunity of replacing it, when the tide of exchanges (as sooner or later it will do) sets in the contrary way, and when gold and silver again drop to the Mint price. Had our Government or the public hoarded millions, it would have been their true interest to have followed the same course at this time: and the judicious part of the latter now do so, to the extent of their means, being ever careful to sell dear, and to buy cheap. But the Committee, seemingly in opposition to the maxims which govern us in common life, reject the delay of a few months or years, when peace, and its consequent, favourable exchanges, will have made the replenish-

ment

ment of our stores free from difficulty ; and they select a most unfavourable moment for attempting what is nearly impossible ; but which, supposing it possible, would at all events be injudicious as to the time of execution.

They recommend that, in two years, the Bank should resume its payments in gold, whether peace be restored or not. If peace shall then prevail, the order will have been superfluous, as the law unaltered already directs cash-payments in that event. Should peace not be restored, the Bank, thenceforward, instead of joining in the common tendency of the community to export in the liquidation of our foreign debts, must counteract that current, and must add to our unfavourable balance by increasing our imports : they must raise the difficult supplies, which they will be obliged to provide for their cash-payments, by the most ruinous means to themselves ; for they must purchase abroad, to bring it home, that very commodity which the whole trading world are seeking at home to send abroad. Still, if the sacrifice of one, or two, or three millions, could be supposed sufficient for the object in view, it might be desirable to relieve fearful minds at that expense ; but is it not apparent, that one supply, or one hundred supplies, will not suffice in the given state of exchanges ? Have we not seen at least

least eight or ten millions of our specie melted down and sent away in the last fifteen years ? and can we expect, with the same inducements for exportation, that the same consequence will not follow again ? Certainly this will happen ; and the Bank, to their sorrow, and to the surprise of those who hoped better results, will, after years of expense, and the waste of millions, find their coffers as empty of the precious metals as they are at present.

It is clear then we ought to leave to more favourable times, and to the alteration of our foreign exchanges, (which will, of itself, correct the evil,) that disparity in value of our bullion and our currency which the proposed regulations in the Bullion Report can never correct. Carried to the extreme of possibility, those regulations would produce the most inconvenient effects :—it is within possibility, that the Bank, constantly coining and constantly importing to supply a waste greater than it could replace, might be obliged to declare its inability to keep out its notes at this expense, and might find itself under the necessity (I put an extreme case) of withdrawing its paper from circulation altogether. What then would be the result ? Either the public must be satisfied with a worse currency, and accept for their convenience the notes of private bankers

bankers to the extent of the void; or they must import twenty millions of the precious metals to perform the offices which bank-notes now execute so well. In the former case our exchanges would remain exactly as they are now; in the latter almost inconceivable case, we should—do what? not keep our currency at the standard,—not preserve an equal measure of value,—but we should, at the expense of a million a year in interest for the use of this expensive instrument, and of two or three millions in unfavourable exchanges to acqnire it, bring up our currency to the war-price of bullion, which price, obtained by such sacrifices, it would again lose the hour after peace and free intercourse were restored.—To supply our wants at such a time would seem to resemble the improvidence of an individual who should lay in a stock of ice in summer, or of fruit in December.

But, admitting this expensive consequence of ordering the resumption of cash-payments to be highly inconvenient, I am asked, bad as the alternative is, is it not better than a breach of faith on the face of every note we see in circulation? The contract contained in every promissory note is, that the holder should receive, when he pleases, the sum therein specified, in one or other of the precious metals, which our laws

laws make exclusively a legal tender:—whatever it might do, therefore, as to future contracts, was it not a departure from justice when the law of 1797 absolved the issuers of notes from a positive engagement contained in all these obligations then existing? But let us here not blame the statute of 1797 for more than it has done: it has indeed prohibited the Bank of England from payment of its notes in coin; but, with the exception of a trifling form in holding to bail, it has left the law exactly as it stood before, with regard to the rest of the community: every individual stands precisely as he did before 1797, and is as liable to a settlement of his debt in the coin which the law alone acknowledges as he ever was. If he is not called upon for gold, it is from no legal bar to that demand, but from the acquiescence of the public in a difficulty imputable to causes out of his control; and if, in the thirteen years during which the precious metals have been so scarce, we have seen no exercise of this power over the person and property of the issuers of notes, it forms a strong additional evidence that the public do not feel either inconvenience or any decreae of confidence.

But if the law (it will still be said) is left unaltered between man and man, it is not so left with reference to the Bank of England. With regard

gard to that body, the law is suspended; and the holder of one of its notes cannot, as against his neighbour, proceed to judgment, and seize its goods. But it must be always remembered that this is not done from partiality to the Bank; the consequences of the new law may have incidentally promoted the advantage of that body, but it is on public grounds that the Restriction Act is justified. When it foresees public inconveniences, does not the Legislature constantly interfere with private rights? When grain is too profusely exported, does it not impose a restriction on the owners against further exports? When an individual would circulate his own notes for sums under twenty shillings, does not the law interpose on the ground of public inconvenience?—Surely then, when the extraordinary circumstances of the times presented such temptations to break one of our acknowledged laws, and when the coin of the country was daily melted down and exported by men who could neither be controlled nor detected, it was time to put an end to the source of their traffic, and, by preventing the Bank from being made the channel of supply for such purposes, not only to preserve a part of our coin from annihilation, but, in relieving the Bank from such demands, to relieve the community from

from the intolerable expense of purchasing gold only to coin, and of coining gold only to be melted down.

In the Act, as it now stands, it may be said the innovation on the former law has been carried to an unnecessary extent. It is true that, by the liability which is imposed on the public Exchequer to receive Bank of England notes, the State has pledged itself for their validity, and there can never be any practical difficulty in the disposing of any amount at the value they purport to bear: but still it may be said, that it would be more conformable to our usual habits if the law were restored to its former state, and if we could again demand payment of our debt in this as we do in all other cases, by a direct appeal to our debtor, the Bank itself; by the Restriction Act we can still demand of it to exchange a note of a hundred or a thousand pounds for any others of a like amount; but here our power ceases; and we not only cannot by any legal proceeding seize its stock of the precious metals, which may perhaps be considered as under the guardianship of the State; but we are prevented from proceeding against its effects in bills discounted, or against the mortgage it holds on the whole property of the country, in the shape of advances to Government.—But it must ever be borne

borne in mind that the Restriction Bill is not the act of the Bank, imposed to protect it against the just rights of its creditors; it was an act of the Legislature, adopted on public grounds, and in fulfilment of one of the duties of Government—to prevent or lessen a public evil in the exportation of our coin; and it would be obviously unjust to expose the whole property of the Bank of England to confiscation because it does not do what it declares itself willing to do, at all hazards, when permitted, and which it will again do whenever the law declares it is no longer bound by the fetters which public convenience now impose upon it.

I trust it will not be thought that those who thus argue against the removal of the Bank restrictions during war, and of course during the probable continuance of unfavourable exchanges, are therefore indifferent to the advantages of a safe, a convenient, and an unvarying currency, or to the benefit of a certain mixture of the precious metals in its composition. The efficient state of this useful instrument, to which we daily and hourly have recourse for assistance, deserves our peculiar care; but we ought to watch it without any of those prejudices or alarms which we daily see in men otherwise intelligent, who impute our debts, our taxes, our commercial

commercial distresses, to some irregular action of this (to them) unintelligible machine.

The sole and exclusive use of money, in the sense of currency, is to constitute a convenient and certain standard of value in the exchanges of society: other advantages being alike, whatever instrument performs this office at the least expense must be the best. Between the expense of gold and that of paper there is no comparison; and accordingly, during the last century, in which paper began to be a candidate for public favour in opposition to gold, it has gradually gained upon its rival. In a former page I have noticed the advantages it possesses in being more portable, more easily reckoned;—in addition to these, I think I may now state, that, joined with a certain mixture of gold and silver, it is more unvarying in its value; it is not subject to the influences of our foreign commerce or our foreign policy; and it increases or decreases in exact correspondence as the society expands or contracts. The security which gold affords to its possessor, in a time of general alarm, is an advantage of a very questionable nature; it gives a few persons a supposed safety, which it would be better that they should only feel in joining to ward off the common danger. With all these considerations, however, to reconcile me to the

the existing state of our circulation, I still admit it to be one of necessity and constraint: nothing short of urgent reasons of State warranted the first Suspension Act; and nothing but a continuance of the same causes can justify the present. There are real advantages attending the partial use of gold, arising from its intrinsic value; there are other benefits not less desirable, resulting from the confidence and security which in many cases it inspires; and, in a well-regulated currency, the public ought to be unfettered in their choice of an instrument which they pay for alike whether it be composed of gold or of paper. That we have not now this choice is the result of political circumstances entirely out of our control. Happily, when once removed, there is every reason to believe that they can never recur; it is not to be anticipated that the Power which now holds the Continent in bondage, and shuts its ports against our commerce, will always be able to exercise the same injurious sway. Whenever that ceases, and with it ceases the necessity of our late foreign expenditure, we shall again see the precious metals at their Mint price; and our currency will then, without any expense, be restored to such proportions of coin and paper as the community, guided only by views of convenience, will require. In the mean while it must be a source of great satisfaction

satisfaction to those who concur in the opinions I have submitted—a satisfaction consistent with the greatest respect for the Committee—to feel that the evils arising from a depreciated currency do not exist; that our foreign exchanges have not suffered from that cause; and that there is no real necessity for adopting the suggestions of a Report, which, if followed up by an act of the Legislature, there is much reason to fear would disappoint the expectations of those who framed it.

THE END.

Printed by W. Clowes and Co.
Northumberland-court, Strand, London.

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