AN

ESSAY

ON THE PRINCIPLE

OF

COMMERCIAL EXCHANGES.

S. Gosnell, Printer, Little Queen Street, Holborn.

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COMMERCIAL EXCHANGES,

AND

MORE PARTICULARLY OF THE EXCHANGE

BETWEEN

GREAT BRITAIN AND IRELAND:

WITH AN INQUIRY INTO THE PRACTICAL EFFECTS

OF

THE BANK RESTRICTIONS.

BY JOHN LESLIE FOSTER, ESQ.
OF LINCOLN'S INN.

LONDON:
PRINTED FOR J. HATCHARD, BOOKSELLER TO HER MAJESTY,
NO. 190, OPPOSITE ALBANY HOUSE, PICCADILLY.
1804.

INTRODUCTION.

It was the original intention of the Author to have confined the following pages to a brief examination of the system of commercial intercourse, which for some time has subsisted between Great Britain and Ireland; but in the prosecution of the inquiry, it appeared indispensable previously to establish fixed and general principles on the subject. Hence this Essay has assumed the form of a general treatise. The original intention has, however, been so far retained as to make the intercourse between Great Britain and Ireland more particularly the object of investigation, than the mere illustration of general principles might perhaps have required.

Few of the difficulties which have occurred in our political system, have occasioned a greater interest among those who have felt their pressure, than the embarrassments now experienced in Ireland. Fortunately they have attracted the serious attention of the Legislature, and been fully investigated by a Select Committee of the House of Commons. The exchange against Ireland, the most prominent symptom of her distress, and which had attained a height five times more unfavorable than had been experienced during the various fluctuations of half a century preceding, became the first object of their inquiry. The almost total disappearance of coin of every description, by which it was accompanied, seems to have been considered as an inferior evil. Perhaps, indeed, the fact was hardly known, except to those whose residence in Ireland had forced the melancholy truth upon their observation.

The general theory of exchange was necessarily investigated by the Committee; and as it is perhaps the subject of political economy which has been the least discussed, it is the less surprising that such a variety of opinions were advanced.

The acts for restraining the cash payments of the national banks of England and Ireland have had so great an influence upon the political systems of the countries, that in any inquiry like the present their operations must receive the fullest consideration; they have therefore necessarily occupied a considerable portion of the following pages.

It is by their practical effects alone that we can presume to judge measures of so unprecedented a nature.

Perhaps it may be necessary, for the information of such readers as have not been in Ireland, here to explain the nature of the difference between the currencies of England and Ireland, as without a clear conception on this point many of the following pages must be unintelligible. At the time of the great recoinage, in the reign of King William, it was determined that the English shilling should pass for thirteen-pence in Ireland *; that is, for one shilling and one penny Irish. Any sum of

* The reason of this determination does not sufficiently appear.

English currency, therefore, is now equivalent to the same sum of Irish, together with one twelfth more: 12*l.* English is equal to 13*l.* Irish; 100*l.* English is equal to 108*l.* 6*s.* 8*d.* Irish. Hence 8*l.* 6*s*, 8*d*, or 8$\frac{1}{3}$, is said to be the par of exchange between Great Britain and Ireland; and at whatever rate the exchange is stated in the following pages, 8$\frac{1}{3}$ must always be subducted, in order to exhibit the amount in which it is favorable or unfavorable; for instance, when the exchange is said to be 19, it is 10$\frac{2}{3}$ per cent. against Ireland.

ERRATA.

Page 8, line 16, *for* value of some kind, *read*, some consideration.
13, — 2, *for* the commodities to be bought with it, *read*, their commodities.
61, — 3, *for* raised, *read*, received.
69, — 24, *for* expected, *read*, exported.
99, — 5, *for* 1787, *read*, 1797.
121, — 23, *for* and which has, *read*, which have.
135, — 4, *for* draws, *read*, obtains.
143, — 18, *for* interest—is, *read*, interests—are.
144, — 16, *for* which, *read*, whom.
21, *for* pays, *read*, pay.
147, — 2, *for* date, *read*, sight.
148, — 8, *for* 1*s.* 10*d.* *read*, $\frac{1}{10}$.

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Effects on the Exports and Imports of Ireland—On her national Wealth—On the Quantity of her circulating Medium—Important Error prevailing on this Subject—Contradicted by Experience as much as by Reason—The natural Effects of Ireland's foreign Expenditure counteracted by the Remittance of the Loans from England—Operation of the Loans on Ireland's Exports and Imports—The Phenomena presented by the Commerce of Ireland thus accounted for—otherwise inexplicable—Future Prospects of Ireland in consequence of this System—Similar Effects produced by the Bank Restriction—Operation of the Restriction on the Balance of Debt between England and foreign Countries—Are these Effects beneficial—Operation of the Restriction on the Exports of Great Britain—Tendency of the Restriction to perpetuate itself—Effects of the Restriction on the Balance of Debt against Ireland—Its Operation on her Exports and Imports—Policy of the System pursued by the Traders in the North of Ireland.

The excess of exports above imports was long the criterion by which political economy appreciated the wealth of nations.

The first opposers of this theory appear to have been satisfied with exposing its error, in attempting to accumulate in any country a greater quantity of

the precious metals, than the demands of its commerce and expenditure required. Some of its more modern antagonists have carried their hostility still further, and assert that the balance of trade is purely ideal, and, *in rerum naturâ*, cannot possibly exist. It appears that the uncertain application of words, more than any inherent difficulty, has rendered this a subject of controversy: but it is necessary that the nature and effects of the balance of trade should be clearly determined previous to entering on the following inquiry, as it is by all admitted considerably to influence the rates of exchange, and is by many supposed to be their exclusive cause.

The balance of trade is so generally understood to signify the excess of exports above imports, that a writer who attaches to it any other meaning must sometimes fail to make himself intelligible; for it often happens that the balance of money to be paid by one country to another, by no means corresponds with the excess of its imports above its exports. Ireland's remittances for absentees, the interest of her debt paid in London, Great Britain's remittances for her foreign expenditure, are all operations unconnected with commerce, but which influence the wealth of the countries, and the rates of their exchanges, at least as much as their exports and imports.

In the following inquiry, to avoid confusion, two distinct terms shall be used as expressive of these two distinct ideas. By the *balance of trade*, the difference between commercial exports and imports shall always be understood; by the *balance of debt*, the difference between money to be paid, and money to be received. The balance of trade necessarily forms a part of the balance of debt.

If, instead of denying the existence of a *balance of trade*, the writers alluded to, had confined their arguments to the *balance of debt*, they would have revolted a smaller number by their positions; for it must be admitted that exports *may* exceed imports, and we know have actually exceeded them to a great amount, during the whole of the last century in favor of England; yet it does not follow, that the balance of *debt*, as distinguished from *trade*, can be permanently favorable or unfavorable to any country on the whole of its transactions.

This general proposition, a truth of the utmost importance in the present inquiry, must be guarded by some exceptions, before it can be admitted.

1st. It is to be observed, that it is possible that the balance of debt may continue permanently favorable or unfavorable to any country, between it and any other country, though not between it and the whole world.

2dly. The balance of debt may be for or against any one country with the whole world, for a limited time: great foreign expenditure, bad harvests, sudden emigrations of the proprietors, may all make the value that must be sent out greater than the value immediately to be received; the difference in this case must be paid in the precious metals.

3dly. As the commerce of the country increases, it may demand an additional quantity of the precious metals for its circulation, and therefore a part of the surplus brought in by the balance of debt will be retained for that purpose.

These propositions, announced thus generally, are liable to much misconstruction; their meaning will be more fully explained in the course of this chapter.

In every commercial country there must be a circulating medium proportionate to its demand; we have no data to state the terms of this proportion, but we may be certain that the quantity *

* This has been pointed out by Mr. Thornton, in his valuable Essay on Paper Credit; it has been stated still more distinctly by the Edinburgh reviewers: "The quantity of money necessary for performing a certain number of exchanges in a given time, may be considered as nearly in the inverse ratio of its velocity of circulation." No. I, page 178. "It is quite true

required, will be great in proportion to the extent of its commerce, and small in proportion to the velocity of its circulation. A nation which confined itself to domestic commerce, might adopt for its circulating medium any substance and form, which it found most convenient; but if it is to support commercial relations with the rest of the world, it must have recourse for a certain extent to the precious metals, as affording the only circulating medium common to them all.

The greater we suppose the entire amount of the circulating medium, in any country, while the velocity of circulation and the extent of its commerce continue the same, of the less value any given portion of it must obviously become.

that the number of exchanges bears no ratio to the mere quantity or amount of circulating medium, because the quantity required, varies, as we have often observed, with the rate or velocity of circulation. But the amount of circulating medium, and the rate of circulation, may be taken together, and considered as forming a complex quantity; and then there can be no doubt, that this complex quantity bears a ratio to the number and value of exchanges. This ratio, it is evident, may be fixed and constant, though the two component parts of that complex quantity are perpetually varying; because, while trade continues the same, they must vary inversely as each other; nor does it affect the truth of this proposition, as thus stated abstractedly, that the present resources of political arithmetic do not yet enable us to assign the ratio." No. IV. page 418.

For instance, if we suppose that the commerce of a country required 10,000,000 of circulating medium; if, by any possible operation, another million could be added to the 10,000,000, while the commerce remained the same; the 11,000,000 representing exactly the same value as the 10,000,000 did before; each million and each pound must have lost one tenth of its value, that is, represent one tenth less than it did before such increase took place.

But so long as the circulating medium of any country consists of the precious metals, such excess of their quantity and consequent depreciation of their value, never can take place. The precious metals, like every other commodity, seek a market where they are dear, and retire from one where they are cheap. The trade of the bullion-merchant for ever prevents their value becoming permanently less or greater in any one country than in the rest; and distributes their quantity to each, in such a proportion to its demand, that their value continues every where nearly equal*: for instance, in Great Britain, if, in consequence of a favorable balance of debt in any one year, the balance is paid to it in

* Their intrinsic value is least in those countries which have the most direct communication with the mines; in all, it is compounded of their value at the mines, and of the expense of their carriage.

bullion, as there will be a greater quantity in the country than there can be a demand for, it necessarily will sink in price, and the bullion-merchant will immediately find it his profit to purchase it for exportation, until the quantity remaining shall bear the same proportion to the demands of Great Britain, that it did before the payment of such balance. But the only mode in which this bullion can be exported, is in exchange for commodities. The exportation of the redundant bullion, and the importation of the commodities for which it is ultimately exchanged, are carried on by different hands and distinct capitals: the latter is however the necessary consequence of the former, as it is impossible for any country to part with bullion, or any other commodity, without receiving value of some kind in return. The operations of the bullion-merchant therefore augment the quantity of imports in the year following, and thus restore that equality of the imports to the exports, which the tendency of the precious metals to preserve every where an equality of value must necessarily occasion, unless some other mode of their application is provided.

Yet a balance of *trade* may certainly continue; and in the instance of Great Britain, we know that during the whole of the last century the balance of trade has been permanently favorable, and to an immense amount. From the year 1700 to the

year 1800, the amount of the respective balances of each year, stated at their official value, exceeds 348 millions sterling; the real value is much greater.

But in the *foreign expenditure* * of Great Britain, during that period, we find an easy mode of accounting for the application of the bullion brought in by the balance of trade, and at the same time the cause which gave rise to that balance.

No one can suppose, that Great Britain's foreign expenditure *has not counteracted* the balance of trade; but equally erroneous is an opinion which some appear to entertain, that, had it not been for the foreign expenditure, this balance of trade could have existed in her favor; for it will be found that this balance owed its existence solely to that expenditure. Had it not been for the foreign expenditure, the balance of trade could not have been in her favor during the century, to a greater amount than the demand of the country for plate and coin.

The trade of the bullion-merchant would have made it impossible that any greater accumulation

* The necessary connexion between foreign expenditure and an excess of exports above imports, as well as the loss attending *such* a balance of trade, are stated with great force by Dr. A. Smith, book iv. chap. 1.

could take place; for, however great might have been the excess of exports during any limited time, proportionate must have been the subsequent increase of imports, which the trade of the bullion-merchant would necessarily have occasioned; and thus the difference between the exports and imports would have been annihilated. In short, it was that foreign expenditure which occasioned that balance; had it not been for that foreign expenditure, that balance could not have existed. *The total amount of exports and imports would probably have been immensely greater, but the difference between them much less*, and, instead of amounting to the immense sum of 348 millions, would have been equivalent only to the demand for plate and coin in Great Britain during that time.

Thus it is that the trade of the bullion-merchant for ever prevents the balance of *debt* being permanently *in favor of a country*, by continually exporting in exchange for commodities the surplus quantity of the precious metals which a temporary balance of debt had introduced. There are other causes equally powerful, which prevent the balance of debt ever being permanently *unfavorable* to a country, by rendering it impossible permanently to exhaust it of the quantity of the precious metals necessary to its circulation. In a word, it will be found quite as impossible to drain a country of the

specie necessary for its circulation, as to fill it with specie beyond what that necessity requires.

When an unfavorable balance of debt has been paid in the precious metals, the demand for the precious metals which will be universally felt, in consequence of the exportation of a part of what was necessary to circulation, immediately enhances the value of that portion which has been left; but the dearness of the precious metals, and the cheapness of commodities, are exactly the same; the want of the precious metals, which will be generally felt *, must give birth to an increase of produce and manufactures, by which alone they can be obtained; and the cheapness of these commodities, which necessarily ensues on the demand for the precious metals, attracts the foreign market. The productions of that country, by their cheapness, compared to the precious metals, will be forced

* It is observed by Mr. Thornton, that "in consequence of the scarcity of circulating medium, produced by the failures of 1795, the price of corn fell in a few places no less than 20 or 30 per cent.; the fall arose from the *necessity of selling* corn under which some farmers were placed in order to carry on their payments; *much of the circulating medium being withdrawn, the demand for it was in those places far greater than the supply*, and the few persons therefore who were in possession of cash, having command of the market, obliged the farmers to sell at a price thus greatly reduced."—Thornton's Essay on Paper Credit, page 196.

out to foreign countries; as, on the other hand, the dearness of the precious metals will invite them to flow into that country, in exchange for its commodities:—exports therefore increase, until the quantity of the precious metals required for the commerce of the country is restored. The trade of the bullion-merchant in this instance, as in the former, regulates the amount of the precious metals within the country. *When the balance of debt is in favor of any country, his operations increase its imports; when it is unfavorable, they augment its exports.*

Such is the process by which any nation recovers its specie, if any great emergency has induced it actually to export it; but perhaps no nation ever actually exported a considerable part of its specie, unless compelled by a sudden and violent dearth, or invited by such a measuse as the Bank restriction; for, in fact, the balance of debt seems to be redressed, not by compelling exportation *to recover, so much as to retain,* the specie. In either case, the demand for the precious metals, either to export them, or to recover them when exported, equally enhances their value, *by causing their scarcity in proportion to the demand*; that is, reduces the price of commodities, and thus attracts the foreign market. The willingness of foreign nations to buy, is increased just as much as the necessity of those

at home to sell. The first find their gold cheap, and the commodities to be bought with it dear; the second find specie dear, and their commodities cheap.

The motives for foreign nations to carry on such a commerce, will be similar to those which induce our East India Company constantly to export specie to India, in exchange for its commodities, and not *vice versa*, because that specie has a greater relative value to commodities in India, than in Europe.

It must however be observed, that it is far from true, when stated as a general proposition, that *universally* the "greater is the scarcity of circulating medium, the more effectual is the stimulus applied to industry, to produce those commodities, by which alone that circulating medium can be obtained." Almost every stimulus, when applied in excess, produces an effect opposite to that which follows from its being applied in moderation; and in a highly commercial country like England, it is certainly possible that too great, and, above all, too sudden a reduction of the circulating medium, instead of exciting industry, may give it a most fatal check, and occasion difficulties still greater than those which it was intended to remove. It has been fully explained by Mr. Thornton, in his excellent Essay on Paper Credit, how the impolitic reduction of the Bank of England notes, to the amount of 20 per cent. in one month, rendered the circulating medium of the country absolutely inadequate to effect the daily payments even of the metropolis; and to the universal alarm that ensued, Mr. Thornton attributes, still more than to any preceding imprudence of the Bank, the memorable run on them for gold, which ended in the suspension of the cash payments of that great company. In support of this proposition, Mr. Thornton has combated, with great justice, an opinion too prevalent at that time, that in *every* case it was the duty of the Bank to diminish the quantity of their "notes in circulation, in any regular proportion to the run on them for gold; *and that it was the severity of the pressure which was to produce the remedy*." Mr. Thornton has proved, that where the demand arose from *sudden alarm*, which, by impeding the velocity of circulation, rendered a greater amount of circulating medium temporarily necessary, to augment that alarm tenfold, and to bring circulation altogether to a stand, was obviously an aggravation, instead of a remedy for the evil. But it certainly never was Mr. Thornton's intention to deny that a reduction of the quantity of circulating medium enhanced its value, and, by the demand that was occasioned for it, gave existence to those productions of industry, which alone could

obtain it; and it certainly was not Mr. Thornton's opinion, that where such a demand was allowed to operate gradually, and not suddenly, moderately and not with violence, it would produce any of the inconveniences on which he dilates.

The commercial situation of Great Britain during the last century, and especially during the last war, so clearly illustrates the necessary connexion between the balance of trade and foreign expenditure, as to deserve particular attention, more especially as, when considered in this light, it may lead to conclusions very different from those which have sometimes been entertained.

For the eight years of peace, ending 1793, the amount of the balance of trade in favor of Great Britain was in all 13,685,746*l.* official value. For the eight years of war which succeeded, it was 46,905,169*l.* official value; or, if estimated 70 per cent. higher, to give its real value, 79,738,787*l.* *. Thus we find a prodigious increase of foreign expenditure, accompanied by a prodigious increase of balance of trade. In no other mode could the quantity of specie requisite to Great Britain be

* See Mr. Irving's evidence before the Secret Committee of the Lords, appointed to investigate the Affairs of the Bank, 1797.

kept in circulation than by exporting her produce to the amount of her foreign expenditure. If we could ascertain the amount of her foreign expenditure during the war, it might probably appear at least equivalent to the balance of trade in her favor. The amount of the foreign expenditure was fortunately ascertained *, during the first four years of the war, and appears to have been 33,510,779*l*.

It may be added, as a remarkable circumstance, that the exports were principally increased to those countries which were the theatre of our expenses. The exports to Germany were more than quadrupled ‡; during peace they were not above 1,900,000*l*. per annum; but *annis* 1795 and 1796 they were above 8,000,000*l*. per annum each year.

The proposition which it is wished to establish, is, that *if the exports to all the world could be added to the amount of specie exported, they would be found equal to the amount of imports, and of foreign expenditure.*

As the foreign expenditure can never enter into the books of the Custom-house, those who looked

* See the Report of the Secret Committee of the House of Lords, 1797, page 253.

‡ See Ditto, page 254.

no farther, were with reason astonished at the prodigious excess of exports above imports which they exhibited; not considering that the foreign expenditure would have nearly balanced the account; and many rejoiced at contemplating what they considered as a certain symptom of increasing prosperity: it certainly was a symptom, and a very unequivocal one, of the prodigious wealth of the country which could afford to incur such enormous expenses; but regarded as *a means of increasing* the wealth of Great Britain, nothing could be more fallacious. The excess of her exports above her imports was precisely that part of her produce for which she received no value in return; the only consideration which *the nation* received for them, was the services of her fleets and armies abroad, and subsidies to foreign princes, the expense of the maintenance of so much *unproductive* labor, and the amount of British value for ever irretrievably lost.

If it is asked, whether the *merchants* who exported that excess of her produce, received no value in return; the answer will further illustrate what has been advanced: it was no loss to the merchants, but it was to the nation; for it was the nation that ultimately paid the merchants; the excess of their exports above their imports was paid for ultimately by Great Britain, and not by foreign nations.

The operation appears to have been practically as follows:—a portion of British capital was borrowed by the government to defray the expenses of the nation, and taxes imposed for the payment of the interest; that part of the money lent, which was destined for foreign expenditure, was necessarily sent out either in specie or in bills of exchange, but, in each case, *necessarily forced* the exportation of British produce to that amount, to pay for these bills of exchange; for the specie which was sent out, was to be recovered by the export of manufactures, and the bills of exchange for the same reason could be answered only by exportation to their amount. The bills drawn on government by their agents abroad, and discounted in the countries which were the theatre of expense, represented the expenditure in the first instance; but these bills furnished the foreign discounters at once with the means, and with the temptation*, to become the purchasers of British manufactures, and laid Great Britain under the absolute necessity of increasing her exports to the amount of those bills. *The foreign expenditure may therefore be considered as having been paid for in exports, in the first instance.*

* With the temptation, as they were necessarily discounted at an unfavorable exchange. In this instance, the unfavorable exchange was the cause of the balance of trade, and not the effect of it.

It is obvious that *the capital of the British exporters was replaced not by the capitals of foreign consumers, but by the capital of the British nation*; and the only return the nation received, was the unproductive labor of her soldiers and sailors, and the still more unproductive labor of the princes whom she subsidized. This capital was therefore so much loss, not so much gain; it was usefully employed in a political view, so far as the mischief done to the enemy is regarded; but considered in a financial or commercial light, it operated no otherwise on the wealth of Great Britain, than if, at the expense of the nation, it had been purchased by the government, and thrown into the sea.

Lord King has accounted in another manner for the balance of trade being permanently in favor of England, in that commerce of which the Tables of Exports and Imports take notice. According to Lord King, the possession of the Indian commerce, which is carried on by the exchange of European silver for Indian commodities, "involves the necessity of maintaining a favorable balance with the continent of Europe;" by which alone that silver can be obtained. When the subject is considered in this view, it will appear, that in one quarter of the globe our exports must always exceed our imports, and that in another our imports must exceed our exports, but that in the aggregate amount of the commerce of this country with all the world, "*the balance will be reduced on an average to the most perfect equality*. If the accounts of the imports and exports between Great Britain and all other countries could be obtained, it is probable, that, notwithstanding all the inaccuracy of the Custom-house books, the truth of this opinion would be sufficiently apparent. But the Tables of Exports and Imports which are printed for the use of Parliament, usually *exclude* the trade with the East Indies."

The novelty and ingenuity of this hypothesis having attracted the particular attention of the Edinburgh reviewers, Lord King, in a second edition of his work, has paid that attention to their criticism, to which it is so well entitled, and has supported his former opinion at some length, and, if I may be permitted to judge, with success, against the objections which they had urged.

But as it is obvious, that Lord King's theory is entirely incompatible with that offered in this chapter, it becomes incumbent on me to examine how far it is founded.

On this I shall make but two observations.

The official balance of trade in favor of Great Britain with all countries, except the East Indies, during the last century, amounted to 348 millions; the real value was possibly above 500 millions. Yet certainly Great Britain did not export 500 millions worth of silver to India during that period, or even the difference between this balance of trade and her demand for plate and coin; yet this supposition seems necessary to the maintenance of Lord King's hypothesis.

2dly. If Great Britain had *any* foreign expenditure during the last century (and we know that during four years of it her expenditure abroad was no less than 33 millions *), in what conceivable manner was that expenditure supplied, except by an excess of her exports above her imports in her commerce with all the world, *the East Indies included?* But if the foreign expenditure of Great Britain be added to her imports, and it be admitted that the exports of Great Britain are on the average equal to her imports and foreign expenditure taken together, then it certainly appears to follow, that the trade with India involves the necessity of a favorable balance with the rest of Europe.

* This curious fact was ascertained by the Secret Committee, appointed, in 1797, to examine the affairs of the Bank.—Page 253, Lords' Report.

It may perhaps be imagined, that the connexion of the balance of trade and foreign expenditure of Great Britain, however important in itself, has been stated more at length than was demanded by the subject of this Essay. It was, however, an example of the effects of foreign expenditure, much more capable of illustrating the principle than the foreign expenditure of Ireland, which remains to be considered.

The foreign expenditure of Ireland at present may be reduced to two articles,—the remittances to absentees, and the interest of her debt payable in London: the former have been stated at 2,000,000*l.* per annum*; but are probably less on the average. The interest for loans payable in London is 1,275,000*l.* per annum, to which about 250,000*l.* will be added by the expenses of this year.

This foreign expenditure must operate on the resources of Ireland in the same manner as has been already stated in the case of England; forcing a balance of trade in her favor to the amount of the expenditure, *unless counteracted by causes as powerful as unfortunate*; and making to Ireland no valuable return for that excess of exports, but consuming so much of her revenue, if

* See the Evidence, page 2.

not of her capital. It may be necessary to examine this operation of the foreign expenditure of Ireland on her resources rather in detail, as it is a subject on which great errors appear to be extensively entertained, more especially in that country.

The absentees have ever been considered as the great grievance of Ireland; but the mode of their operation, and the effects that they produce, seem very different from those which are generally attributed to them. Let us first consider the operation which they exerted previous to the system of raising the Irish loans in England, and which they must exert again whenever that system is laid aside; we shall next consider in what manner their operation is influenced by that system. Supposing then no loans to be raised in England, it appears that the first and immediate effect which their residence abroad produces is to force an excess of Irish exports above imports, to the same value as the remittances which are to be made to them.

Let us suppose the case of a single absentee proprietor, who has an estate in Ireland of the value of 20,000*l.* per annum; his rents must be remitted to him, either in gold, or in bills of exchange; if they are remitted in gold, an increase of Irish produce must be sent out to recover specie to an equal amount, as indispensable to the circulation of Ireland; and therefore may be considered as having been sent out, in the first instance, in discharge of that remittance: the reason that such should be the inevitable consequence of a balance of debt has been already so fully stated, that it is unnecessary to repeat it; but the fact is, that the remittances to absentees seldom or never are made in specie. This was fully admitted in the evidence taken by the Select Committee. Even in the north of Ireland, where the rents are paid in gold, the gold does not leave the country; the remittances, for a reason which shall be stated hereafter, are made, in bills at a course of exchange not sufficiently high to tempt the gold out of the country; but when the remittances are made in bills of exchange, it is so obvious that they are ultimately paid for in Irish produce, that it is scarcely necessary to illustrate it; for if the bill of exchange be drawn in Ireland upon London, and bought by the agent in Ireland to be remitted to the proprietor, it has necessarily been drawn in consequence of a demand which the Irish exporting merchant has upon England. If, on the other hand, the bill be drawn by the absentee in London, on his agent or banker in Dublin, it cannot be sold on the Exchange in London, unless to some merchant who has imported, or is going to import, commodities from Ireland: or if we suppose, that, for want of a purchaser in London, the bill is remitted to Ireland in the first in-

+ The demand for the produce consumed abroad exists only in consequence of a bounty — That consumed at home would naturally exist

stance for payment, and that specie in consequence is exported, still that must occasion an exportation of produce to recover specie to an equal amount.

Perhaps the most correct mode of considering the effect of the absentees in the abstract would be, that, had they continued in Ireland, they would have given birth to a quantity of produce equal in value to their rents, and *consumed it in Ireland*; but that, living in England, they still give birth to an equal amount of Irish produce, *but consume it in England*. The productions of Irish industry, and the consumption of it, are equal in both cases; but in the latter the produce passes through the Custom-house in its way to the consumer, and therefore falls under observation. But though the quantities produced and consumed in both cases appear to be the same in value, they are certainly different in the nature of the items of which they are composed. The Irish produce, which would have been consumed in Ireland had the proprietor remained at home, would have been such as his taste and pleasure should have dictated; but on his emigration they become such as the foreign market shall demand. The consumers also are different; for it is not to be supposed that the absentee spends his income in the purchase of Irish commodities; on the contrary, *he* spends his Irish rents in the encouragement of English industry; but then he is

in consequence of a bounty

the cause that others become the consumers of Irish produce of another description, and to an equal amount. The Irish producers are also different. Had the proprietor remained at home, he would have called forth industry, probably on his own estate, and in its immediate neighbourhood; but when settled in England, the proprietor of an estate in Munster may perhaps, to a much greater degree, encourage the industry of Ulster. It is he, indeed, that gives birth to the quantity of produce; but the quality must be decided by the demand of the foreign market. It is this circumstance, perhaps more than any other, which has made the absentee the object of jealousy in Ireland. The traveller who sees the neglected fields and miserable habitations of his tenants, often can trace out by ditches and hedges the line of demarcation between the estates of the absentee and the resident*; but as he cannot see, so he omits to recollect the circumstance, that the prosperity of the tenants of the resident may possibly be in consequence of the demand for their produce occasioned by the absentee.

Of the few who have been aware that the effect of the absentees was to force an increase of exports

* It would be very easy to point out examples; but this mode of illustration would be too invidious.

to the amount of their remittances, some have fallen into an extraordinary error, and concluded, that the absentees *were therefore so far beneficial!* But the supporters of so strange a paradox might have observed a distinction between the exports which are exchanged for imports, and those which are to discharge the foreign expenditure of the country—a *distinction no less important than that the former are paid for, but the latter not.* The exporting merchants, indeed, are paid alike for all that they export; but it is Ireland, and not another nation, that pays for that portion which is sent in discharge of her foreign expenditure. The capital of the Irish merchant, who exports the produce which is to answer for the remittances to absentees, has his capital replaced, not by British capital, but by the rents of the absentees. It is Ireland paid by Ireland to work for England. It is the part of England to enjoy, and of Ireland to labor. The only value that Ireland receives in return, is the permission to keep at home her circulating medium. Let the case be supposed, for greater clearness, that of an individual tradesman: if he found that of what he sold two thirds were regularly paid for, but the remaining third never, he would certainly consider *his balance of trade* as the only part of it that did not enrich him. The case of the nation is the same as of the individual.

Many who have felt the general grievance of the absentees, yet knew not how it operated, have not carried their views so far as to consider its effects on Ireland's commerce, but have adopted a mode of reasoning much more compendious.

After computing the greatest quantity of specie that could be supposed to exist in Ireland, and the least supposable amount of remittances to absentees, they have subtracted the balance of trade, if favorable, from the latter, and divided the quantity of specie by the remainder; and thus predicted the inevitable period at which Ireland would be left without a shilling. The period has arrived, yet it has generally happened that it found Ireland possessing more circulating medium than at the time of making the prediction.

They who have perused the Irish pamphlets and speeches of the last century have seen, that, during the whole of that period, it was their constant complaint then, as at present, that their gold *was about to* leave them, that the absentees *would* carry it all away, and leave poor Ireland without money;—a prediction annually made, never fulfilled, yet still repeated.

Even the superior genius of Swift fell into this error; or, perhaps, he only availed himself of a

popular prejudice to excite discontent from party motives. The following may serve as an amusing specimen of the terrors of our great-grandfathers, and as a proof that the apprehensions at present entertained are at least not new. It is an extract from a writer, who does not appear to have been actuated by any party motives, but to have been a sober-minded, well-meaning man, who could reason calmly on the subject.

In an anonymous treatise on the state of Ireland, written in the year 1729, and which seems to have been of authority in its day, the author, after entering into a detailed enumeration of the sums annually remitted to absentees, which he estimates at just 627,779*l.* 3*s.* 1*d.* proceeds to observe,

⊗ This treatise was written by Thos Prior Esq. the 3d Ed. appeared in his name in 1745

"That it appears plainly from this list of absentees, and the estimate of the quantity of species they may be supposed to draw out of the kingdom, that no other country labors under so wastful a drain of its treasure as Ireland does at present by an annual remittance of above 600,000*l.* to our gentlemen abroad. without the least consideration or value returned for the same x

"It is believed by many who understand our money affairs, that there is less species now in the kingdom than there was at any one time since the Revolution, if not since the Restora-

x In the original

tion. The most sanguine do not reckon that we have 400,000*l.* now remaining; if so, 'tis impossible to subsist much longer under such a drain; for if the quantity of money exported vastly overbalances any income or gain we have by trade (as plainly appears by examining the said list, the balance of our trade herein set forth, and a constant course of exchange against us), *it evidently follows, that all our remaining species will in a little time be carried off*;—the consequence whereof will be, that we shall be utterly disabled from carrying on our foreign and domestic commerce, paying rents, or discharging the public establishment. *It is to be feared this misfortune will fall upon us much sooner than could be thought of*, since we are credibly informed that Miss Edwards's estate in this kingdom, said to be worth 150,000*l.* is immediately to be sold, and the purchase-money sent away; that a noble Lord of the greatest fortune here is to have 80,000*l.* remitted to him by sale of part of his estate, and that several others are selling or mortgaging their lands for large sums. *If all these designs should take place, they will be sufficient to carry off all the circulating cash of the kingdom in a very short time.* When things come to this extremity, great must be the calamity of all." X - -

See list of Absentees P. 20-21

After the revolution of near eighty years, we may now observe, that, notwithstanding Ireland possessed only 400,000*l.* in specie, and had an annual subtraction of 600,000*l.* according to the author, from that sum; notwithstanding the constant course of exchange complained of; and notwithstanding the sale of Miss Edwards's estate; Ireland never was exhausted of its specie until the measure of the restriction rendered it superfluous: on the contrary, though the absentees have greatly increased since 1729, and though estates, greatly superior to Miss Edwards's, have since been disposed of, Ireland had increased her stock of specie from four hundred thousand pounds, which appears to have been its amount in 1729, to five millions *, at which it was estimated in 1797.

Severe as it must be confessed is the situation of Ireland, compelled to export the value of above 3,000,000*l.* sterling of its produce annually to another country more than it receives from it in return, yet it is clear that such a system, though it certainly tends to impede its advances to prosperity, can never ruin it, nor even exhaust it of that portion of specie necessary to its demand; the effect of such a balance of debt not being to cause an exportation of specie,

* See the Evidence, page 97 and 129.

but an exportation of produce *without return*, and the grievance consisting not in any tendency to ruin Ireland, but to force that country to labor severely, and to little purpose, to save a great portion of her annual produce, not for the purpose of accumulating a capital for herself, but of sending it to increase both the revenue and capital of another country. at the expence of a bounty to the extent of the loss in exchange.

It must, however, always be recollected, that the balance of debt against Ireland will equalize her exports to her imports and foreign expenditure, taken together, only when permitted to exert its operation uncontrolled. It certainly is possible that an artificial system may counteract the operation of the balance, so far as to allow it to retain all its mischiefs, and yet prevent its tendency to produce its own remedy.

The expedient of raising the loans in England for the service of Ireland seems to be of this nature. It may be replied, that this practice is unavoidable, for that they cannot be raised in Ireland: that may be; it is not, however, the less pernicious on that account.

The mischiefs it will occasion to Ireland by the permanent drain of money, or produce for the payment of the interest, have often been pointed out: it seems, however, to exert a more immediate operation less observed, but far more pernicious.

In the first instance, it enables Ireland to discharge the balance of debt in another manner than by the exportation of her own produce and manufactures. By the unnatural supply of circulating medium which it occasions in Ireland, it entirely counteracts that demand for circulating medium which the balance of debt would otherwise occasion, and the scarcity of which would, in the manner already detailed, give existence to such an increase of produce. Preventing the scarcity of circulating medium, it necessarily prevents the existence of all that increased produce which the scarcity of circulating medium would otherwise have occasioned. At the moment when it is most for the interest of Ireland that the circulating medium should be as dear as possible, it renders it as cheap; when increase of produce is most necessary, it takes away not only the necessity, but in a great measure even the temptation, of calling that produce into existence. As far as the balance of debt goes, the loan discharges it, and immediately returns to England in payment of that amount; which balance, had it not been for the remittance of the loan to Ireland, would have been paid for in produce, which *would have* existed.

But as the loan remitted to England may perhaps exceed the amount of the balance of debt due by Ireland, in what manner the excess is applied becomes an interesting subject of inquiry. It has already been stated, that no country can retain a greater quantity of specie than it can employ as the representative of its commerce, at the same value as specie is employed by the adjoining nations. Now, in whatever manner the loan is remitted to Ireland, the medium in which it is remitted must be a representative of value also in England; and not finding in Ireland any value to represent (for the value of commodities in Ireland is, as will hereafter appear, most abundantly represented in another manner), it can no more continue in Ireland, than if it were so much specie: it therefore instantly leaves Ireland, and returns to England; but after having discharged the demand of England against Ireland, it can return to England only in exchange for commodities.

The English loan therefore diminishes the exports of Ireland by the amount of the balance of debt, and increases the imports of Ireland by the excess of the loan above the balance of debt. The operation is practically this:—When the loan is to be remitted, the Treasury in Dublin draw bills on their agent in London, and sell them to persons wanting to remit

in Dublin: but the purchaser of their bills in Dublin has but two possible modes of applying them, either in liquidation of a demand against him in England, or, as is probably more frequently the case, in purchase of commodities in England to be sold at a profit in Ireland. If he applies the note for the first purpose, it obviously discharges the same office which exports to the amount must otherwise have performed; but if applied for the second, it is so positive an increase of imports, that it is unnecessary to dilate on it. In the first case the Treasury draught allows the holder to spare the circulating medium of Ireland, and thereby prevents the exports that must either have gone in its place, or to recover it, if actually sent. In the second instance, the Treasury draught allows the holder to have a demand upon London, which the quantity of the circulating medium in Ireland could not otherwise have permitted. It shall presently be shewn that the actual state of the commerce of Ireland is such as this theory would lead us to expect; and perhaps no other conceivable hypothesis can explain the phenomena which that commerce now presents.

Thus, instead of increasing the capital of Ireland, as has sometimes been supposed, the loan increases nothing but her expenditure. By swelling her list of imports, it encourages, or rather compels her to consume foreign articles, which she could not otherwise have purchased; at the same time, by diminishing her list of exports, it prevents the existence of those articles, the productions of her industry, which, were it not for the loan, the balance of debt would have occasioned. How the loan prevents exportation to the amount of the balance of debt, has been sufficiently stated. The excess of the loan above the amount of the balance of debt does not merely encourage but compel importation to the amount of that excess: *it in fact goes over in imports*, for in no other manner can it be remitted. Remitted in the first instance in specie, or in Bank notes, or in bills, neither the specie, nor the Bank notes, nor the bills can continue in Ireland *, where there is no

* Even on the supposition that these loans are so much addition to the capital of Ireland, still the amount of money, in which they are sent over, could not continue in the country, since the quantity of circulating medium, which any capital demands, is probably not $\frac{1}{100}$th part of that capital. The capital of Great Britain has been estimated at four thousand millions: the circulating medium of Great Britain is probably not $\frac{1}{100}$th of that sum; therefore, if a loan of two millions is remitted to Ireland, supposing that circulating medium bears the same ratio to capital in Ireland as in England, they who imagine it possible for the money to continue in Ireland, must contend that it has operated an increase, not of two millions, but of two hundred millions of capital.

value for them to represent; they immediately leave Ireland, and return to England; but they can return only in exchange for articles of importation into Ireland. Thus it is easy to account for those *daily lists* of imports and exports of the port of Dublin, whose formidable balance of imports excites at once the astonishment * and despair of Irish merchants.— One of these is inserted as a specimen in the Appendix, and the attention of the reader is particularly requested to this curious document, as a proof of the extent to which the course of trade may be inverted by financial regulations. The Dublin merchants refer to these tremendous lists as sufficient causes to account for the exchange; but they have omitted to state how any nation can purchase from the rest of the world more than it is able to pay for; for even allowing them their supposition, that the balance of debt may be greater than it is possible to *discharge*, still we must be permitted to deny, that any nation will be allowed to *purchase* from others without giving value in return. These daily lists may be considered (if I may be permitted the expression)

* Their *astonishment*, because, as they hold that the present exchange operates as a duty of no less than ten per cent. on all imports, they may with reason be surprised at their continual increase.

as the journal of the loan travelling into Ireland. Should the loans cease, these daily lists would assume a very different appearance. When commercial credit had recovered the first shock that might ensue, the exports would exceed still more than the imports do at present *. In the mean time, so long as Ireland continues to borrow more than the balance of debt due by her, this excess of imports is inevitable; it is the only mode in which human ingenuity can transmit the loan into Ireland. So long as a nation is allowed to trade, unfettered by regulations, the quantity of imports should be a subject of her pride, and not of her alarm. It is a symptom of her actual wealth, and not of the diminution of her riches. The fears of her patriots, that she is running herself in debt, are superfluous, and all the restraints they can lay upon her imports are as impertinent an interference with her expenditure, as sumptuary laws with that of individuals. It must be confessed, however, that Ireland is differently situated; *her*

* As there is reason to presume that the balance of trade, notwithstanding the loan, was last year in favor of Ireland, it may appear inconsistent to talk of the excess of imports; but it is the commerce of Dublin that is under consideration. The excess of exports at Cork and Belfast may more than counterbalance; and it appears a confirmation of this theory, when we observe that the same part of Ireland which receives the loan is the place where the imports so much predominate.

financial system forces her commerce into a channel directly opposite to that in which it would naturally have flowed. Her expenditure seems increased nearly in the proportion in which her capacity of paying is diminished; prevented from producing, and forced to consume, she has the certain prospect of seeing this artificial system one day abandoned, and of being left at last to compare the demands against her with the means she possesses of discharging them.

If this system could go on for ever, something might be said in its favor; but when these loans cease, and cease they must, for it is impossible for ever to borrow at compound interest *, and Ireland is fast advancing to that mode of raising her proportion of the supplies; Ireland will then have an immense balance of debt remaining to be paid, while the loans are withdrawn, which have

* If the system on which the Irish finances have been carried on of late years is persevered in, Ireland must next year borrow to pay the interest of her national debt. Perhaps it is a fact, which few Englishmen are aware of, that after paying the interest and charges of the debt, including that of this year, the revenue of Ireland will yield little more than two hundred thousand pounds into the Treasury. Ireland pays two parts, and Great Britain fifteen, of the national expenditure; yet Ireland this year has borrowed half as much as Great Britain!

hitherto supplied the destructive mode of making the payment. Ireland will then feel what at present seems to her no subject of alarm, that her industry has been diminished in the same ratio as the demands against her have increased, and that, in considering the balance of debt, she contemplates but one half of her difficulties.

Not to dwell upon the financial inconvenience which may result from the country possessing no revenue beyond what must be applied to the payment of the interest of the national debt, her commercial situation may be still more distressing. The balance of debt, *long checked in its operation*, will then be allowed suddenly to act in all its vigor, and it is to be apprehended that its action may prove the same as that of any other stimulus, applied in excess.

We have no data to determine *à priori* the precise effects which may be produced on the commerce, credit, and industry of Ireland, by abandoning this system; yet I suspect that those who foretel the ruin of that country will find themselves mistaken *. The balance of debt,

* Sir John Sinclair, in his History of the Revenue of Great Britain, has collected one-and-twenty passages from respectable writers, all men of authority in their day, tending to prove that England was actually undone in 1680, and has been in a progressive state of deterioration ever since. The prophet of destruction, in every age, has had a claim to the attention of his hearers, which, by a mere appeal to their reason, he never had possessed.

whenever it is allowed to operate against Ireland, cannot ruin the country so long as its exports can be increased, or its imports diminished. The current value of the imports in the year ending 5th January 1803, was 7,654,113*l.* and of the exports 8,571,412*l.*; leaving a balance of 917,299*l.* in favor of Ireland. If we suppose the loans now to cease, the imports would certainly be diminished, and the exports increased; but if we suppose the imports diminished to six millions, and the exports increased to ten, it is impossible to suppose that the balance of trade in favor of Ireland should not be at least equal to any conceivable remittances that would remain for Ireland to make for her absentees, and the interest of her debt due to England: and whenever the practice of making the loans in England shall cease, the effect will be a diminution of Ireland's imports, and an increase of exports, sufficient to create a balance of trade in favor of Ireland, equivalent to the demands against her; but in what proportion the imports will increase, or the exports diminish, it is impossible to predict. The only grounds of apprehension which it appears can reasonably be entertained of Ireland's ability to meet the balance of debt, whenever the loans shall be withdrawn, are, lest so sudden a change as might thereby be made in the direction of her trade should create commercial embarrassments; yet even this may be obviated, by withdrawing them gradually.

Let us now see how far this theory is supported by fact:—it would lead us to expect to find that the real value of Ireland's exports at present, together with the loans remitted to her from Great Britain, are equal in amount to Ireland's imports, along with her remittances for absentees, and for the interest of her debt due in England. Yet it is to be observed, that if it should appear that there was at any one time a considerable balance on either side of the account, still it would not be conclusive evidence, that this theory was unfounded, because it has been admitted, that a country may for a limited time receive more money than it pays, or *vice versâ*.

A return was made to the Committee of the real value of exports of Ireland, for the year ending 5th of January 1804; but unfortunately no return could be procured of the real value of the im-

ports; we must therefore be contented with a comparison in the year ending 5th of January 1803.

	£.	£.
* Current value of Ireland's exports for the year ending 5th January 1803	8,571,412	
‡ All money transmitted to Ireland from Great Britain for loans, lotteries, and other public purposes, within the year - - - -	1,459,590	
Total value received by Ireland		10,031,002

On the other hand we find:

§ Current value of Ireland's imports for that year - - -	7,654,113	
‖ Remittances to absentees, computed at	2,000,000	
Total value paid by Ireland		9,654,113
Leaving a balance in favor of Ireland		376,889

Thus the value given and received within the year, was nearly equal; the difference being so trifling as 376,000*l.* ¶. I do not mean to attach

* See Appendix, No. IV.
‡ See Appendix, No. V.
§ See Appendix, No. IV.
‖ See Evidence, page 2.
¶ The interest paid by Ireland for the debt payable in London, has no place in this account, because it is retained in London out of the loan made for Ireland; but if any one should choose to consider it as an item, it may be set down to the debtor side, adding an equal sum on the creditor side, as an increase of the loan transmitted: the result will of course be the same.

much consequence to this account, founded on no better data than the returns of the Custom-house; it must however be allowed, that it has a singular coincidence with the theory proposed, and leads to conclusions very different from those which represent the balance of debt as the source of Ireland's misfortunes.

But this theory may be put to a much more decisive trial, and to which it appears that we have sufficient means of submitting it. Although the returns of the Custom-house are not sufficient to decide the real value of exports or imports in any one year, they are fully adequate to determine the *relative* value of the exports and imports of one year, as compared with another. And if this theory is true, we must expect to find, that some remarkable changes have taken place in the relative value of the exports to the imports, in the different years, for a considerable time past.

First. We should expect to find, that previous to the practice of Ireland borrowing from England, her exports must have exceeded her imports, nearly by the amount of her remittances to absentees, which were no doubt very considerable.

Secondly. That when the practice of borrowing commenced, the excess of her exports must have

been reduced, as the loan provided another, and an easier, mode of making those remittances.

Thirdly. That as the loans increased, the reduction of that excess of exports must have been still greater; or perhaps, that it was entirely destroyed, and a balance of imports substituted in its place.

And first, we find that on an average of five years, ending March 25, 1794, *before the practice of raising the loans in England had commenced*, that the exports exceeded the imports 1,195,810*l*. 5*s*. 9*d*. per annum *, official value.

Secondly, we find that on an average of the five succeeding years, ending March 25, 1799, *after the practice of making the loans in England had commenced* §, that the excess of exports over imports was no longer 1,195,810*l*. per annum, but only 466,466*l*. 12*s*.

Thirdly, we find that on an average of the five succeeding years, ending January 5, 1804 ‡,

* See the Appendix, No. III.

§ It began anno 1795. Vide Appendix to the Evidence, p. 52.

‡ An alteration was made at the time of the Union, in the mode of stating the Irish accounts, the year having since been

when the loans had become much greater; that the excess of exports over imports was not only annihilated, but the imports came to exceed the exports by 1,071,428*l.* per annum. It must be recollected, that this is stated according to the official value; for, if stated according to the real, there is reason to believe, that the balance of trade would, even during these latter five years, appear in favor of Ireland §; this however in no degree affects the argument, as the official value must suffice for the comparison of one year with another, which is all that is here necessary.

This theory will receive an additional confirmation, if it should appear, that in the present, or rather the succeeding year, the excess of imports, stated according to the official value, shall be considerably increased; which we may be led to expect, since the sum to be transmitted this year to Ireland, amounting to about three millions, is so much greater than at any time preceding.

Such appear to be the direct effects of the system of raising the loans in England, upon the commerce of Ireland: another system seems to

stated to end on the 5th of January, instead of the 25th of March: this will not materially affect the result.

§ See the evidence of Mr. Marshall, Inspector-general of Exports and Imports.

have exerted upon Irish industry a similar operation, and which has been perhaps still less noticed than the former.

The *Bank restriction* has allowed, if not compelled, a considerable portion of the specie of the country to be applied to the liquidation of the demands against her; the restriction therefore, as far as this specie has gone, has prevented the existence of so much of the produce of Irish industry, while it has increased the *ultimate** demand against the country, by the amount of the specie exported. But as this effect of the restriction is not peculiar to Ireland, it may be proper first to consider its operation in Great Britain.

It has been already observed, that the foreign expenditure of Great Britain, during the last war, operated as a stimulus to her industry, in the same manner as the balance of debt should do to that of Ireland. One of the many effects of the Bank restriction appears to have been to deaden that stimulus.

The foreign expenditure of Great Britain forced a balance of trade in her favor, to the amount of

* Whenever the specie is to be recovered.

that foreign expenditure, *minus* the quantity of specie which was exported, and which the country was able to dispense with. The greater the quantity of specie that could be dispensed with, the less therefore was the balance of trade in favor of Great Britain; that is, the less the productions of British industry. The Bank restriction, by enabling the nation to dispense with a very great proportion of its specie, diminished therefore the balance of trade to that amount. Had it continued absolutely indispensable to *recover* the specie that had been exported, previous to the restriction, or to *retain* that which remained in circulation after it had been resorted to, British produce would been forced into existence to that amount; but the Bank restriction pointing out to the country a mode by which that loss could be endured, the stimulus which would otherwise have been given to industry, was destroyed, and it was found much easier to substitute paper in the place of specie, than to recall it by exertion. This may to some appear a great saving; and if it could be permanent, it would be liable to less objection. But if these countries are ever to have specie again, to form its proportion of their circulating medium, if that specie will not return without being paid for by exports, and if one of the effects of the restriction has been to adjourn to one future ex-

ertion the production of those exports, which, had it not been for the restriction, would gradually have been called into existence by that portion of British labor which the restriction has prevented from existing; we must admire the impolicy of a measure, which, to satisfy the wants of a day, sold the most valuable utensil of commercial industry, and adjourned indefinitely the consideration of recovering it again.

Whatever may have been the gain to the nation, in parting with its specie, equal must be the loss inseparable from its recovery. Whenever the restriction is taken off, the immense expense of recovering the specie must be incurred. Some indeed appear to think, that the specie will return of itself, or that the Bank, by some mystical secret, can produce it at their pleasure; they think it is the business of the Bank, and not of the nation, and so they are satisfied: it certainly is the business of the Bank; but still the Bank cannot perform an impossibility, even if it should be thought their duty to undertake it. Can any one suppose that the tenth part of the specie that will be necessary now exists in their coffers?

In short, if one good effect of the restriction has been to permit the nation to "*substitute a very* *cheap instead of a very expensive medium of circulation* *;" whenever it shall prove necessary again *to substitute the very expensive in the place of the very cheap medium*, it will be impossible, without submitting to a loss in the latter operation equivalent to the gain of the former, or, in other words, until Great Britain has fully paid for her former extravagance,—until she shall give the manufactures and produce which the exportation of her specie prevented her from producing. Thus alone the specie can return, and then the Bank can assist, as the agent, in setting it in motion: but he that proposes to postpone the removal of the restriction until a favorable balance of debt shall have brought in the specie necessary for the purpose, *waits for a period which never can arrive*; for, however great the balance of debt may be at any time in favor of the country, all the specie which it brings in must be exported as fast as it appears. Before the restriction was imposed, all superfluous specie was exported; but during the continuance of the restriction, almost all specie is superfluous. The same causes which formerly prevented the country possessing too much specie, now operate to prevent its possessing any. The restriction must first be taken off, and then the increased exports and diminished imports which its removal *must*

* Dr. Adam Smith.

occasion, will supply the country with the specie required.

Every system of banking displaces a certain proportion of the precious metals as *unnecessary*; and the Bank restriction, for the same reason, tends to displace them entirely. The first is as beneficial to a country, as the latter is pernicious; for it is improbable that the banking system, unaided by a restriction, will ever displace any portion that really is requisite for its purposes; all therefore that can be spared is so much clear gain, since the specie exported will certainly obtain value in return, and since the expense of maintaining the circulating medium will be so much diminished *.

* The reader will recollect, that it was the opinion of Mr. Hume that Bank notes were an *addition* to the circulating medium of the country; and on this is founded his attack on the banking system. The fallacy of such a supposition has been abundantly demonstrated by Adam Smith: he is of opinion that *Bank notes* are not an *addition* to the precious metals; but a *substitution* for them, and that paper credit is therefore beneficial, as it supplies "a very cheap, in the place of a very expensive medium of circulation." It may be observed, however, that even supposing the banking system acts only by substituting, and not by adding, still it is attended with a loss to a certain degree; for instance, if we suppose that the banking system in England has displaced twenty millions of gold, still these twenty millions must be applied, in some manner, in other countries; but as, wherever it is applied, it must depre-

This was the opinion of Adam Smith; but he certainly may be excused for not having foreseen that the system of banking was one day to be aided by an ally, with whose assistance it should deprive the country of the precious metals altogether.

The measure of the restriction in Ireland seems to have exerted an operation in this respect* perfectly similar to that which we have attributed to it in England.

The amount of specie exported from Ireland since the restriction has been estimated by Mr. Franks‡ so low as three millions: every one must acknowledge, that, had it not been for the restric-

ciate in value, and as the value of the precious metals becomes finally equal in neighbouring countries, the gold that has remained in England will also be depreciated: yet Great Britain is a gainer by the operation; for the loss has been divided with all the world, but the gain has been exclusively to her. But if we could conceive it possible that all countries should adopt the banking system in proportion to their commerce, they none of them would have substituted the cheap in place of the expensive medium, but have made a mere addition to their circulating media, and depreciated them nearly in the same proportion.

* In other respects it will hereafter appear to have fallen with peculiar and most partial severity on Ireland.

‡ See the Evidence, page 130.

tion, specie to this amount could not have been spared from circulation; but it is singular enough that some persons appear to consider this as one of the recommendations of the measure. "The extension of Ireland's paper, they inform us, allowed her to export her gold* in liquidation of the demand against her." Protesting, in the first place, that the exportation of specie, *after the measure of restriction was resorted to*, furnishes no presumption of any balance of debt subsisting against the country (since the measure of the restriction would cause its exportation even to create a balance of debt in its favor, or, in other words, in exchange for articles of import‡), we shall observe, that in either case the permission to export her gold was not of advantage, but singularly detrimental. Whether the exportation of the specie of Ireland was in liquidation of a balance of debt actually existing against her, or in exchange for commodities which Ireland was to receive in return; in either case, but especially in the former, had it not been for the restriction, Ireland's produce, and not Ireland's specie, must have been exported; *the exportation of the specie therefore prevented the existence*

* See the Evidence, page 102.

‡ The restriction may thus have tended in the same manner as the loans to increase Ireland's imports in proportion, as well as to diminish her exports.

of so much produce *. The Bank restriction has in this manner prevented the existence of Irish produce to the extent of three millions: it has, however, operated to the detriment of Ireland, not merely to the extent of three millions, but of six; for whenever the restriction shall be taken off, it

* The quantity of plain linen, the staple manufacture of Ireland, exported from Ireland,

	Year		Yards.
In the year ending 25th March	1791	was	39,718,706
	1792		45,581,667
	1793		43,312,057
	1794		43,257,764
	1795		42,780,840
	1796		46,705,313
	1797,	year of the restriction,	36,559,746
	1798		33,497,171
	1799		38,466,289
	1800		35,676,908
From 25th of March 1800 to 5th January	1801		25,041,516
In the year ending 5th January	1802		37,767,077
	1803		35,491,131
	1804		37,432,365

See the accounts laid before Parliament.

It is scarcely necessary to point out the striking diminution which has taken place since the restriction. I am aware that this may be attributed to other causes. Coupling this fact, however, with No. VI. in the Appendix, a suspicion may be entertained that Ireland has been exporting specie instead of exporting linen.

will be necessary to recall these three millions of specie; but it will be impossible to recall them, except by giving value in return: so that the restriction has rendered industry indispensable, exactly in proportion as it has prevented its existence: first, it has prevented the exertions of the industry of Ireland to the value of three millions, by allowing the exportation of so much specie; next, it renders it ultimately necessary to recall three millions of specie, which nothing but an increased industry, to the extent of three millions, can effect. Thus rendering an *increase* of industry, to the extent of three millions, indispensable, it has operated as a *diminution* of it to the same extent.

It may be observed, that its mischievous operation would have extended much further, that is, caused to be exported a much greater quantity of specie, had it not been counteracted in the North of Ireland by the steady resolution of the linen-manufacturers and merchants to refuse Bank notes, and make all their payments in gold, followed by the practice of several absentee landlords, who required payment of their rents in specie. A considerable quantity of specie has thus been retained in the North of Ireland as its medium of circulation, which, had it not been for this custom, would infallibly have been exported by the Bank restriction, like the rest of the specie, *in lieu of produce,* and creating a future debt against Ireland to the same amount. It follows, that those merchants and landlords have acted for the benefit of the public still more than of themselves; and that, had the other merchants and landlords of Ireland followed their example, these effects of the restriction, and the necessity of the appointment of the Select Committee, might have been averted.

CONTENTS OF THE SECOND CHAPTER.

OPERATION OF THE BALANCE OF DEBT UPON EXCHANGES.

Operation of a Balance of Debt against a Country on the Rates of its foreign Exchanges—Instanced in Ireland on the Supposition that the Balance of Debt is against it—No Connexion between the Amount of the Balance and the Rates of Exchange—Limit of the Operation of the Balance of Debt upon Exchange—It never did nor ever could rise beyond this Limit, until permitted by the Bank Restriction—How Specie regulated the Exchange—Instanced in Ireland in 1672—*Yet not by leaving the Country—The Balance of Debt not redressed by the Operation of Exchange—Operation of an Exchange arising from a Balance of Debt on Exports and Imports—Limit of its Operation—The Exchange against Ireland does not arise from a Balance of Debt—The Balance of Debt at present is in favor of Ireland—The Exchange unfavorable not to the Debtor but to the Creditor Country—Proofs of the Fact* *of the Balance of Debt being in favor of Ireland —Presumption that immense Remittances to Ireland would not reduce the Exchange to Par.*

THE preceding inquiry into the nature of the balance of debt seemed necessary, before entering into an examination of its effects upon the rates of exchange.

Although no balance of debt can continue permanent against a country, yet it often takes place for a limited time, and to a great amount. In such circumstances, the money to be drawn from it exceeds the money to be transmitted to it; the bills drawn on the debtor country therefore exceed the bills drawn on the creditor country; but the merchants on 'Change in the debtor country, wanting to remit, are more numerous than those who want to draw; while those on 'Change in the creditor country, who want to draw, are more numerous than those who want to remit. In each case, the supply of bills is inversely as the demand; but the value of a bill of exchange, like that of every other article, being regulated by the proportion of the supply to the demand, the bills drawn on the debtor country, being more than are demanded, must be sold cheap, and the bills drawn on the creditor country, being fewer than are demanded, must be sold dear.

This may be made clearer by an example:—if Dublin has to remit more money to London, in payment of her imports, remittances to absentees, and payments for the interest of her loans, than Dublin has to receive from London, in payment of her various exports, and of the loans made to Ireland; the remitters in Dublin are more numerous than the drawers, and the drawers in London more numerous than the remitters. On 'Change in Dublin there are fewer bills on London than are required; the holders therefore demand for them a greater sum of Irish money than they sell for when at par*; and the buyers are obliged to give it, in

* Some difference of opinion has arisen, about the precise signification of the words "par of exchange;" the merchants have certainly a right to attach to it whatever signification they think proper. When the pars of the various exchanges were first settled, it was with a reference to the quantity of silver or gold contained in the respective currencies, as issued from the mint: $29\frac{1}{4}$ *d.* English, was found to contain as much silver as a French half-crown; $29\frac{1}{4}$*d.* therefore has been considered the par with France. The pound sterling of Great Britain should contain as much silver as 33 schillings 8 grotes Banco of Hamburgh; 33 : 8 therefore is said to be the par with Hamburgh. One hundred pounds British should contain as much silver as 108*l.* 6*s.* 8*d.* Irish; $8\frac{1}{3}$ is therefore said to be the par with Ireland. If the currency of any country should come to contain more or less silver than formerly, *the real par* of exchange would certainly be altered; the merchants, however, would probably continue to speak in the manner to which they had been accustomed. See the Evidence, page 41.

order to procure them: in this instance, the exchange is said to be unfavorable to Ireland, because any given sum of Irish money will exchange for a less sum of English money than it is really worth.

On the other hand, in London, the persons who want to draw from Dublin, are more numerous than those who want to remit: there are more bills on Dublin to be sold, than are demanded; and the sellers therefore must give them for less than they would demand, if the buyers and sellers were equally numerous: here again the exchange is unfavorable to Ireland for the same reason. It is obvious, that if there were no mode of making the remittances, except in bills of exchange, the price of these bills must proportion itself exactly to the supply, and that if Dublin had to remit twice as much as it was to receive, the exchange must be 50 per cent. against Dublin; for the remittance being absolutely indispensable, and there being by supposition no other means of making it than by bills on London, as there is but half as many of these to be had as would transmit the debt of Ireland at par, each bill on London *must represent* just twice as much Irish money as was equivalent to it at par. In this case it would follow as a necessary consequence, that *there must be a constant proportion between the balance of debt*

and the rates of the exchange *; in whatever proportion the money to be remitted, exceeded the money to be raised, in the same proportion English bills must be more valuable than Irish money; but nothing can be more certain than that, in fact, no such connexion between the amount of the balance of debt and the rates of the exchange exists. *When the balance of debt has raised the exchange to a certain limit, it ceases to operate on the exchange*; and the balance may afterwards be greatly increased, yet the exchange continue stationary: this point is of great importance in the consideration of this subject.

This limit of the unfavorableness of an exchange, as produced by the balance of debt, is *the expense of transmitting the precious metals from the debtor to the creditor country*; that is, the cost of its carriage, the price of its insurance, and, in some cases, a compensation for the risk incurred in violating the laws of the country, which prohibit its exportation; to which are to be added, in most foreign exchanges, such reasonable profits as will induce the bullion-merchants ‡ to invest their ca-

* The reader is requested to observe, that in this chapter the exchange is considered solely as it is influenced by the balance of debt.

† The intimate connexion between the commerce in bullion and the commerce in exchange is very clearly stated by Lord King. *Vide* page 153, second edition.

pital in that branch of commerce. Let us again, for the sake of illustration, advert to the exchange between Dublin and London, as it existed previous to the restriction, while commerce was still conducted on the principles which experience and reason had established, and before its *general rules* were so signally violated.

While gold was in circulation, no person in Ireland, having a debt to discharge in England, would give for an English bill of 100*l.* British, much more than 108*l.* 6*s.* 8*d.* Irish, together with the expense of sending and insuring 108*l.* 6*s.* 8*d.* in gold from Dublin to London, because he could make the remittance by demanding gold at the Bank for 108*l.* 6*s.* 8*d.* and paying for its carriage to London, and insurance against the risk of its being lost; but since the establishment of the mail-coaches, the price of carriage and insurance is from one to one and a half per cent. *. No one, therefore,

* See the Evidence, page 3. The expense of transmitting money from England to Ireland:

	s.	d.
Carriage and insurance to Holyhead, per cent.	7	6
Freight to Dublin - - - - -	2	0
	9	6

with a commission of five shillings per cent. on Bank and Government accounts, but of ten on smaller ones. If insured in the packet, it is an extra expense of five or seven shillings more.

so long as gold was to be had, would give much more than 109 or 110*l.* Irish for a bill on London for 100*l.* British *. A trifle more might occasionally be given, because many persons would pay a few shillings rather than be at the trouble of demanding gold at the Bank, and packing it for its journey. Accordingly we find, by a reference to the rates of exchange, that, for four years previous to the restriction, 109*l.* 5*s.* Irish was the greatest price paid in Dublin for 100*l.* British; and if we may be allowed to estimate the exchange of Dublin on London by the exchanges of London and Dublin, which we possess since 1728, it does not appear that the exchange had ever risen beyond the expense of sending gold from one country to another, since that period †.

The same limit which the power of procuring gold imposed upon the rates of exchange in Dublin,

* When the exchange is with a *distant* country, a moderate profit for the bullion-merchant must be added to the price of carriage and insurance, to give the limit of exchange. Many would take charge of sending gold from Dublin to London who could not think of sending it to Hamburgh or Cadiz. The bullion-trade with foreign countries is distinct even from the trade of the general merchant.

† The year 1753 excepted, when the high exchange arose from other causes, which will be discussed in their proper place.

equally confined the exchange in London; for no person on 'Change in London would refuse to give 100*l.* British for an Irish bill for 109*l.* *, with one per cent. additional for the interest of his money, because, by sending that bill to his correspondent in Dublin, and having the amount remitted to him in gold, he might receive a sum in London equivalent to 100*l.* British: to suppose that he should demand more, would be to suppose he could obtain a profit which the competition of the dealers in exchange must for ever prevent.

Accordingly we find, that from the year 1728 ‡ until the measure of the restriction was resorted to, the exchange of London on Dublin never exceeded $11\frac{7}{8}$ §, except in the year 1753, when it arose from circumstances which will hereafter be explained, and which will be found to confirm the theory proposed in this Essay.

* The exchange of London on Dublin, previous to the restriction, was generally about one per cent. higher than Dublin on London; but one per cent. of this was interest, and not exchange. See Appendix, No. VII.

‡ See Appendix, A. 2, of the Report of the Select Committee.

§ The real exchange, properly speaking, was one per cent. less, for the reason explained in the Appendix, No. VII. This reduces the highest rate of the exchange to $10\frac{7}{8}$, which was not higher than the price of the carriage of gold at the time when those high rates prevailed; *i. e.* from 1729 to 1737.

If the expense of transmitting gold from Dublin to London was increased, whenever a balance of debt was due by Dublin, the exchange might rise to the amount of that expense; and if we can conceive the expense of sending gold from Dublin to London 50 per cent. a very unfavorable balance of debt would certainly raise the exchange against Ireland to that amount.

We are indebted to Sir W. Petty for the knowledge of a curious fact, that in his time the exchange was 15 per cent.* against Ireland, in consequence of an ingenious system of *regulation*, which provided that the remittances from Dublin to London should pass through Barbadoes; and it is not surprising that the expense of carrying and insuring the money was proportionate to the length of the journey. We are told by Sir William:

"That to remit so many great sums out of Ireland into England, *when all trade is prohibited between the said two kingdoms*, must be very charge-

* This was all a real exchange against Ireland; for there was then no difference in the currencies. The pound sterling in Ireland contained as much silver as the pound sterling in Great Britain. The pound sterling of Ireland was reduced at the time of the great coinage in the reign of William III.—*Primate Boulter's Letters.*

able; for now the goods which go out of Ireland, in order to furnish the said sums in England, must, for example, go into the Barbadoes, and there be sold for sugars which, brought into England, are sold for money to pay there what Ireland owes: which way being so long, tedious, and hazardous, must necessarily so raise the exchange of money, as we have seen 15 per cent. frequently given annis 1671 and 1672;—although, in truth, exchange can never be naturally more than the land and water carriage of money between the two kingdoms, and the insurance of the same upon the way, if the money be alike in both places. But men that have not had the faculty of making these transmissions with dexterity have chose rather to give 15 per cent. exchange as aforesaid than to put themselves upon the hazard of such undertakings, and the mischief of being disappointed:—"

It is impossible to deny, that so long as gold can be procured, the exchange can never rise beyond the expense of sending it; but it may possibly be imagined, that in time an unfavorable balance of debt might exhaust a country of its gold, and that then the rates of exchange would be regulated exactly in proportion to the balance of debt: yet nothing can be more certain, than that an unfavorable balance of debt has no such effect; that its operation is *to force exports, and diminish imports; but neither to raise the exchange indefinitely, nor yet exhaust the country of its circulating medium.*

If gold were a necessary part of the circulation of Ireland, no conceivable balance of debt could wring from it that portion which was necessary to its circulation. Even an unfavorable exchange* of 10 per cent. has not been able to deprive the North of Ireland of its gold: not a guinea ‡ leaves the North of Ireland in consequence of the exchange. If it is answered, that the Northerns have affixed an additional and artificial value to the guinea sufficient to retain it, this is all that is contended for, and in the same manner an artificial value would be added to it in every part of Ireland, if gold was the necessary medium of its circulation? Why does the demand for it, as the medium of circulation in the North, add to it a value, in every circumstance, just sufficient to retain it? And why, if it was in demand as the ne-

* If it is answered, that the exchange is not against the North of Ireland, where gold is in circulation, this will equally establish the principle contended for; which is, that where gold continues in circulation, the exchange cannot be greater than the expense of its carriage.

‡ It was fully admitted in evidence, that the guineas do not leave the North of Ireland: the remittances are made entirely in bills, which are purchased or paid in Belfast with guineas; and the exchange of Belfast on London is almost always in favor of Belfast.

cessary medium in every part of Ireland, should it not acquire the same value throughout the country? The proposition which it is wished to establish is, that were gold the necessary medium of circulation, it must, from the nature of things, receive an artificial value in the country exactly proportionate to the balance of debt, and sufficient, in every instance, to retain it within the country. And *thus* it is, that every balance of debt carries with it the powerful and certain principle of its own destruction, not in the unfavorable exchange which it produces (whose feeble operation must be as confined* as the limit by which it is restrained), but by the value which it gives to the precious metals; —a value seen only in the cheapness of commodities that ensues, and the quantity of them that is thereby forced into existence for exports;—*a quantity and a cheapness both proportionate to the balance of debt, though bearing no proportion whatever to the rates of exchange*, which continue fixed at the expense of transmitting gold, and which gold confines within that limit, not by actually going in the place of bills, but by its constant readiness to go. Whatever the balance of debt

* As the real exchange can never now be above one or two per cent. against Ireland, the bounty which it grants to exports never can be above one or two per cent.; an encouragement too trifling ever to increase them sufficiently to discharge the balance.

against Ireland might be, gold, no doubt, would be exported so far as it could be spared from circulation; but after that the bills on Ireland must be exchanged for those on England at a loss limited to the expense of carriage of gold from Ireland to England; and to whatever value the amount of the bills on England was less than the demands on Ireland, exports must be called, or rather forced into existence; unless the demand was sudden and violent, in which case it is probable that imports would diminish, as well as exports increase; but in either case a balance of trade would be created sufficient to discharge the demand against the country. It may even be observed, that under such circumstances gold would have a positive tendency to flow into the debtor country, and not to leave it; the same increase of value which it has received from the demand to retain it will attract it from abroad, as gold, like every other commodity, will seek the best market.

It may be said, that though such might be the effect, if no national Bank were established, yet that so long as there is a Bank obliged to furnish gold, gold will be expected until the Bank is ruined: but the Bank, in undertaking this obligation, has not left itself without remedy. The Directors well know, that their conduct, under such circumstances, would be to reduce the amount of their notes in circulation until the drain on them was discontinued; that is, *until the circulating medium had from its scarcity attained such a value,* that exports were called into circulation sufficient to discharge the balance. Thus the Directors formerly used to adopt the same remedy which, had there been no Bank, the balance of debt would itself have produced. Since the restriction has been imposed, they appear to have changed their principles as much as they have changed their practice; for their evidence* seems now to infer, that it is proper that an unfavorable balance should not render money scarce, and that *they* act as the friends of the country in supplying it with a quantity of circulating medium in proportion to its scarcity.

It is evident that an unfavorable exchange, proceeding from a balance of debt, must operate as a bounty on the exports, and duty on the imports of the debtor country. When a sum of foreign money can purchase more English money than usual, it is a temptation to the foreigner to purchase commodities in England, because he purchases them just so much cheaper, as his money has increased

* See the Evidence, 101, 102, 99. The practical effects which the restriction has produced by thus suggesting to the Directors a new theory of banking, shall be discussed more at length in the fifth chapter, where the general remedy for unfavorable exchanges shall be considered.

in value, compared to that of England. The unfavorable exchange thus contains within it a tendency to redress itself, by encouraging exports to discharge the balance; but *this tendency never can be greater than the encouragement it offers to exports; and this is confined to the price of sending gold or silver from the debtor to the creditor country.* Between England and the Continent this may amount to five or eight per cent.; between England and Ireland it cannot much exceed one per cent. Their vicinity to each other, and the ease of communication between them, have happily confined the expense of carriage within such narrow limits. So far then as one or two per cent. the balance of debt against Ireland may be considered as tending to redress itself through the medium of exchange; but beyond that, disregarding the efforts of so inefficient an agent, it exerts its own more powerful energy, an energy always commensurate to the difficulty to be removed. The balance of debt is not redressed by the puny operations of exchange, but by the scarcity of money which ensues on the extensive demand for it, by the artificial value which money obtains within the debtor country consequent to such demand, and which is not marked in its foreign exchanges, but by the cheapness of all commodities which follows on the increased value of money; and by the exertions of industry within the country to produce these commodities, as the only means of obtaining it. Such a situation occasions the increased value of the precious metals as compared with commodities, more than the increased or diminished value of the circulating medium of one country as compared with another.

We have no data to determine the precise time in which any given balance of debt will increase the exports to a sufficient amount for its discharge; much must depend on the peculiar circumstances of the case; but it may be asserted generally, that its operations cannot be long delayed, since its tendency appears to be to raise the exports as coeval with itself, rather than as its subsequent effect.

Thus limits may be assigned, both of time and amount, beyond which the real exchange, or in other words the exchange, so far as it depends upon the balance of debt, can never rise. In Ireland it has risen far above both these limits, and must therefore be sought for in other causes: it has exceeded *the limit of time*; for though that limit cannot be accurately defined, it is impossible to suppose it the half of the time that the exchange has continued against Ireland. It has exceeded the *limit of amount*, for the real exchange cannot be much above one per cent. against Ireland; but the exchange complained of has been near twelve*.

* In September 1803, the exchange of London on Dublin was 20; that is, $11\frac{1}{3}$ per cent. against Ireland.

A real exchange has also a constant tendency to diminish; but this has for years continued progressively to increase. The causes, the effects, and the remedy of that exchange, shall be investigated in the succeeding chapters. Those causes, it will be found, owe their origin exclusively to the measure of the Bank restriction; and though nothing but the removal of that great evil can prove an effectual remedy for the mischiefs it occasions, yet perhaps it may appear, that while it shall be deemed expedient to suffer its continuance, some means may be devised to palliate, at least in Ireland, the severity of its operation.

It has hitherto been admitted in argument, that the balance of debt is at present against Ireland, in order that an opportunity might be afforded of proving, that even on that supposition the present exchange is of a nature not to be attributed to such a cause; and no doubt can be entertained, that if the loans made to Ireland from this country were to cease, the balance of debt would at first be greatly against Ireland; but it may well be doubted, so long as this country sends annually* into Ireland a loan of

* It has been said, that the whole of this loan is not actually sent; but, if a part of the loan is retained in England to pay the interest of the debt already contracted, an equal sum is retained in Ireland, which would otherwise have been transmitted for the payment of the interest. The balance of payments therefore is in no degree affected.

2,000,000*l.* or 2,500,000*l.* whether so great a payment is not at least equivalent to the annual balance of debt due from Ireland. If it should appear that, in consequence of these remittances, the balance of payments is actually in favor of Ireland, that the exchange is therefore unfavorable, *not to the debtor, but to the creditor country*; the phenomena the exchange presents more loudly demand investigation, since the conclusion must then be, that *the operation of the balance, so far as it has gone, has been to lower the rates of an exchange proceeding from other causes*, and which, were it not repressed by this circumstance, would shew itself under a still more formidable aspect.

That the balance of payments is actually, and has been all along, in favor of Ireland, is the opinion of Mr. Marshall, the Inspector-general of Exports and Imports in that country, whose clear and satisfactory evidence proves that he has given the greatest attention to this subject.

The Committee naturally directed their attention to ascertain the important fact whether Ireland or England was the debtor country; they disregarded the clamor which, referring to the absentees, assumed without examination, that the balance must be against Ireland. The Committee knew, that, however great was that evil, it was still not inde-

finite; and they found no ground to suppose that the annual remittances, on account of absentees, exceeded 2,000,000*l.* To this they should naturally have added the interest of Ireland's debt, payable in London, in order to ascertain the total foreign expenditure of Ireland; but finding that the money requisite for this purpose was, in fact, never drawn from Ireland, but retained in England out of the loan, and the surplus only sent into Ireland, they added this surplus to the balance of trade in favour of Ireland, and found that it exceeded the sum computed to be due to absentees. The necessary conclusion was, that more money has been transmitted into Ireland than drawn from it.

From the documents laid before the Committee, it appears that the account, debtor and creditor, of Ireland, may be stated as follows; first, for the year ending the 5th of January 1803:

CREDITOR.

By balance * of trade in favour of Ireland, stated according to the *current* value - -	£.917,299
Amount ‡ of all sums transmitted to Ireland on account of loans, lotteries, and public services - - - - -	1,459,590
	£.2,[illegible]6,889

* Appendix, No. IV. ‡ Appendix, No. V.

Brought over (creditor) - - - - - £.2,376,889

DEBTOR.

To remittances to absentees - - - 2,000,000

Balance in favor of Ireland - - - 376,889

But if Mr. Marshall's estimate be adopted, the amount will be near a million greater, for reasons too long to be inserted, but to which the reader is particularly referred *. Mr. Marshall estimated the balance of trade in favor of Ireland in that year, not, according to the current value, at 917,299*l.* but at 1,816,814*l.*

For the year ending Jan. 5, 1804, sufficient documents could not be procured. It appeared that the real value ‡ of the exports of Ireland for that year was - - - - - £.8,241,487

And that the sum § transmitted to Ireland for loans, lotteries, and other public purposes, was - - - - 1,145,111

Making together a sum to be set down to the credit of Ireland of - - - £.9,386,598

Against this should be set on the debit side of the account, the remittances to absentees, and the value

* See the Evidence, page 126.

‡ See the Appendix to the Evidence, page 60.

§ See Appendix, No. V.

of the imports; but unfortunately the value of the imports was not ascertained. We may, however, conclude from the official rates *, which answer sufficiently for comparing one year with another, that the balance of trade was still more favorable than in the preceding year, and consequently also the balance of debt.

As for the present year, of course no data can be procured until January 1805: but when we consider the great increase of the loan to be transmitted to Ireland, it is impossible to suppose that the balance of debt should not be still more in favor of Ireland than in the preceding years.

Such are the reasons *à priori* to conclude, that the balance of debt is, and has been, in favor of Ireland. To oppose these reasons, the persons who supported the contrary opinion *could bring forward no one fact, nor any data of any kind*, on which to found this supposition of the balance of debt being against Ireland. They rested their assumption solely on the fact of the unfavorable exchange. An unfavorable exchange, according to them, was an infallible criterion of the state of the

* See Appendix, No. III. Stated according to the official value, the balance of trade was, in the year ending 5th January 1803, 996,855*l.* against Ireland; but in the year ending 5th January 1804, only 505,262*l.*

balance of debt: but a more complete begging of the question cannot be imagined; for it assumes, that an unfavorable exchange can be occasioned solely by a balance of debt: whereas many other causes shall be assigned which would occasion such an exchange as now exists against Ireland: besides, it has already been proved, that a balance of debt is totally inadequate to create an exchange so high and so permanent. But even conceding this, still, upon pointing out any other possible causes, their conclusion is necessarily destroyed; but if, in addition to pointing out a possible cause, it can be shewn that it has actually operated, and that extensively in Ireland, the proof that the exchange is not attributable to the balance of debt will be still farther confirmed.

However decisive the arguments drawn *à priori* may appear, arguments *à posteriori* are not wanting, which seem still more clearly to evince that the balance of debt is in favor of Ireland, and that the present exchange is of a nature not to be much affected thereby.

Nothing can be more certain than that every debtor country has a tendency to increase its exports, and every creditor country to increase its imports; but Ireland has done the latter. The reader is referred to Appendix, No. III. by which

it is evident how prodigiously the imports of Ireland, within the last ten years, have been increased beyond the exports. An individual may buy more than he can pay for, but a nation cannot; for what foreign merchants will give their commodities without value in return? Should they lose one year, will they run a similar hazard the year following, or rather for ten years together? To imagine that they should continue to supply a nation that did not pay, and allow a balance of unaccounted millions to accumulate, is so extravagant a supposition as not to merit a serious refutation. Yet such a supposition must necessarily be made by those who contend that the balance of debt has been against Ireland.

A paper presented to the Committee ascertains a remarkable fact, from which we are led to conclude, that a balance of debt in favor of Ireland, although prodigiously great, would not much affect the rates of exchange.

In the month of March last the Treasury of Ireland drew the immense sum of 585,960*l.* * from

(* Extract of a return of the weekly receipts at the Treasury of Ireland:

Drawn and remitted from England,

1804. From March 3 to March 10 - - -	£. 98,713	19	8
—— 10 to —— 17 - - - -	282,568	16	0
—— 17 to —— 24 - - - -	145,094	14	3
—— 24 to April 3 - - - -	59,583	6	8
	585,960	16	7

England, yet the exchange was never lower than 16½. Add this 585,960*l.* to the other payments made to Ireland during the month, and is it possible to suppose that the payments made by Ireland in that short time so far exceeded as to keep the exchange 8 per cent. above par against Ireland? The presumption is, that if the Treasury drew seven millions during the year, they would not lower the exchange below 16½; for we see they drew, during an entire month, at the rate of seven millions per annum, without effecting a greater reduction. If a remittance of seven millions could not reduce the exchange below 16½, it might require twenty or fifty millions to bring it to par.

Yet they who consider the balance of debt as the sole efficient cause of exchange, must contend, that however great the remittances might be, which should be required to reduce the exchange to par, equal in amount must be the balance of debt due by Ireland. Are they then prepared to say, that they conceive it possible that that balance is so enormous that seven millions a year (that is, a sum almost as great as the whole imports of Ireland) should form but a small part of it? Does not the supposition appear to them extraordinary, as well as melancholy? Yet I have heard it gravely answered, that such must be the fact, for that the

exchange proved it. It certainly is a strange mode of reasoning, when the conclusion is found to involve an impossibility, to contend, that still that conclusion must be adopted rather than the premises rejected from which it follows.

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CAUSES UNCONNECTED WITH THE BALANCE OF DEBT REGULATING THE NOMINAL RATES OF EXCHANGES.

The nominal Rates of foreign Exchanges regulated by the Value of the Medium in which the Payments are made—The Measure of Value itself liable to Fluctuations—Its Value may be augmented or depreciated—Augmented by a Seigniorage—Depreciated, if a Medium consisting of the precious Metals, by Degradation or Adulteration—If of Paper, by Discredit or Excess—Instance of an Exchange arising from Seigniorage—Instance of an Exchange arising from Degradation—Remarkable Instance of an Exchange arising from Adulteration—Mode in which Excess produces Depreciation—Its Operation on Industry—Observation of Mr. Hume—Advantages of the banking System—Inaccuracy of Dr. Smith on this Subject—A circulating Medium of Specie cannot be excessive—Nor a circulating Medium of Paper convertible into Specie—A Paper not convertible may—In what Cases it has been so—Instanced in France—Its

Effects on the Quantity of Specie in Circulation—On Prices—On foreign Exchanges—Sole Security against Depreciation through Excess—Has been destroyed by the Bank Restriction—Inquiry whether it is possible that the Paper of Great Britain should become excessive—Security on which it is issued cannot prevent it—Nor the Eagerness of the Demand to obtain it—Security may be perfect, and yet Excess take place—Difficulty the Directors experience to avoid excessive Issues—The Restriction destroyed the Criterion by which they used to judge—At present they disregard all other known Criteria—Favorable Exchanges, united with a high Market Price of Gold and Silver, complete Proof of the Depreciation of Paper.

IN considering the operation of the balance of debt upon exchange, we have hitherto supposed, for greater clearness, that the payments on each side are made in bullion, or in a coin whose value is fixed; but the exchange, or rather the nominal rates of it, must farther be affected by any fluctuation in the value of the medium in which the payments are made. Much of the evidence offered to the Select Committee, appears to have entirely omitted this consideration; and taking it for granted, that the rate of exchange was exclusively regulated by the balance of debt, seems to have imagined it perfectly immaterial, in what manner that balance was discharged; whether in paper or in gold; whether in paper of unexceptionable security, or in paper of no security at all; whether in pure gold, or in adulterated gold; whether in a coin entire as when issued from the mint, or in a clipped and mutilated currency; whether in a mint currency, or in a currency of tokens*; that is, of silver pieces, professing to represent a greater weight of silver than they contain.

The present pars of exchange‡ were originally computed with a reference to the quantity of the

* The Spanish dollars issued by the Bank, at 5 shillings, contain no more pure silver than 4*s.* 6*d.* English ought to contain; they are therefore called not 5 shillings, but *tokens* for 5 shillings. It has been contended that this is no proof of the depreciation of Bank paper, for that they are only promissory notes, and that the Bank might have called them 15 shillings as well as 5; but a promissory note should either have intrinsic value itself, or else be merely the representative of it: if it is issued as the value itself, it can be no more valuable than the silver it contains; if issued merely as the representative of value, why go to the expense of having it of such precious materials? if it is to be considered merely as a Bank note, why not make it of paper?

‡ See the Lords' Report, Committee of Secrecy, 1797, page 99.

precious metals contained in the currencies of the different countries. If the currency of any country has since been altered in its value, the original par of exchange can be no longer the real par, and, if still adhered to in computation, is merely nominal; for the currency of every country is nothing but its measure of value; the measure of value is itself liable to variation, and, if altered, can no longer bear the same ratio to the measure of value, in any other country which has not undergone a similar alteration. If the English measure of length were to be altered, the nominal length of all objects measured by it must be increased, and the proportion of the English measure to that of any other country must be changed. It is exactly the same, as to the English measure of value: if a power of regulating the length of our measure of length was given to any corporation, in the same manner as, since the restriction, the Bank regulates the value of our measure of value; and if they should think proper to reduce the English foot to $\frac{11}{12}$ of its present length; 14 French feet would no longer be equal to 15 English feet, as at present, but to 16 English feet and 4 inches: in that case, some persons would possibly be astonished at the alarming superiority which the French feet had attained; but at the same time it is likely that they would consider as "speculative men, men who had no idea of practice," those who should suggest to them as probable, that restoring the English foot to its original length, might once more render 15 English feet equal to 14 French feet.

The par of exchange with Hamburgh* is not accurately fixed; it seems however pretty generally agreed among merchants, that 33 schillings 8 grotes is about par: 33 schillings 8 grotes Banco of Hamburgh were thought to represent nearly the same quantity of the precious metals as a pound sterling in London; but if, in time, the pound sterling of Great Britain, that is, since the restriction, a pound note of the Bank of England, becomes purchasable for a less quantity of the precious metals, than when 33 schillings 8 grotes of Hamburgh were reckoned equivalent to it; if, instead of being purchasable for *four Spanish dollars and two English shillings*, it should become purchasable for *four Spanish dollars*;

* It seems difficult to determine the precise par of exchange between London and Hamburgh; men who from their situation should be the best informed, vary in their opinions. It was stated to the Secret Committee of the House of Lords, in 1797, by Mr. Eliason and Mr. de Mattos, at 33 schillings 8 grotes; and Castaigne's Tables proceed on this computation. Mr. Boyd was of opinion, that, computed on the price of gold, it was 34 : 3½, and on the price of silver 35 : 1½, and that the medium par was 34 : 8½.

whether we say, that the paper is depreciated or the silver has risen in its value, it is equally impossible that the English note should purchase as much silver abroad as formerly, when it can no longer purchase it at home*. If the merchants of Hamburgh would formerly give 33 schillings 8 grotes of their money for the pound sterling, when it was exchangeable in London for as much silver as is contained in four Spanish dollars, and also in two shillings; they will no longer give as many of their schillings for it, when it can only purchase four Spanish dollars. When the pound

* Of course this reasoning does not apply to every fluctuation in the price of silver at home: the merchants abroad can neither know the price of silver in London, at any given time, nor is it material to them, *so long as the market price is sometimes greater and sometimes less, than the mint price*; but when the market price is *steadily and permanently* above the mint price, that is, when the English pound note can no longer procure the weight of silver which 20 shillings should contain, it is depreciated. Silver is not only the representative of value, but value itself: if the pound sterling of Great Britain *(that is, during the restriction, a pound note of the Bank of England)* becomes purchasable for a less weight of silver than before, it has become less valuable; nor can it be replied, that the value of the Bank note may be constant, while silver rises in its value, for it must be recollected, that the Bank note *does not profess to represent any certain value, but a certain weight* of silver; and therefore if silver had risen cent. per cent. if the Bank note did not rise cent. per cent. along with it, it would be depreciated.

note can no longer obtain, even from English patriotism, the same quantity of gold or silver as formerly, it is in vain that it should expect to be more successful in a foreign country: and if, under such circumstances, it should at any one time obtain the same quantity at Hamburgh as formerly, that is, if it should obtain a greater quantity of silver abroad, than it could at home, the only conclusion to be drawn is, that the exchange really is in our favor, though nominally at par; and that if the pound note could procure in exchange, the same quantity of silver at home as formerly, it would procure a still greater quantity abroad.

In short, whatever cause should operate to reduce the value of the English pound note, as compared with gold and silver, the same must make it lose in its value, as compared with any foreign currency; that is, the exchange, calculated according to the present par, must be against England:—or, to state the proposition generally, *if the currency of any country becomes less valuable than formerly, it becomes exchangeable for a less quantity of the currency of any other country, which continues as valuable as formerly.*

Let us now consider the different manners in which the currency of any country may suffer a change in its value, and a consequent change in

its ability to procure a certain quantity of any foreign currency.

First, if any nation should impose *a seignorage* on its coinage, the coin becomes of greater value than the quantity of the precious metals it contains; for it equals the value of the precious metals, and also the amount of the seignorage*.

* That is, provided the seignorage does not exceed the expense of coinage; the value of the coin will then be like that of every other article of manufacture, the price of the material together with the price of the labor employed in producing it. Such was the decided opinion of Dr. Smith: it must be recollected however, that this has been controverted by Mr. Thornton, though, if I may be permitted to judge, not with the same success which has distinguished other parts of his valuable Essay. Mr. Thornton, speaking of the inefficacy of a seignorage, to prevent the exportation of the coin, observes, "Guineas not only circulate at home, but are liable to be sent abroad in the event of any unfavorable balance of trade; they are worth, in that case, just as much as the foreign country will give for them; and the foreign country, in estimating their value, since it means to melt them, *does not at all take into its calculation the expense of the coinage of the piece of metal*; it acts like a buyer not of new but of old plate, *who destines it to the melting-pot, and therefore refuses to allow any thing for the fashion.*"—Thornton, page 208. Now if this reasoning be just, it would appear equally to follow that an unfavorable exchange might occasion the melting of gold watch-work, in order to be exported in the shape of bullion; but the value of the watch-work is resolvable into two parts:—first, the price of the gold, and secondly the price of the labor employed in

A pound weight of silver in English coin, on which there is no seignorage, would no longer be able to procure a pound weight of silver in the coin on which the seignorage was imposed.

The exchange would therefore appear to be against England, by the whole amount of the foreign seignorage, when it was really at par. This will account for the exchange* formerly appearing

converting it into watch-work; and this latter part of the price must ever countervail any possible encouragement to the exportation of bullion. In the same manner it seems that if a seignorage of 5 per cent. was paid on our coinage, 100 guineas would then cost the original mint price of the bullion, and also 5 guineas, as the expense of having been converted from bullion into guineas; the first purchaser must evidently give this value for it, and he would never part with it, except for an equivalent consideration; so that, however unwilling the foreign country might be *to "take into calculation the expense of the coinage of the piece of metal,"* it would find it impossible to obtain the piece on any other terms; the foreign nation could then obtain neither our guineas nor our watch-work, without paying first the value of the materials, and secondly the price of the labor exerted in giving them their form.

* Vide, Sir James Stewart's Pol. Econ. book iv. chap. 11, page 320. In another place, Sir James draws a striking picture of the anxiety of England to discharge this *ideal balance* according to the modes prescribed by the mercantile theory: "England may lay as many restrictions, duties, and clogs as she pleases upon the French trade, and may even reduce it to nothing, without ever removing the cause of complaint, while

to be constantly in favor of France, and against this country, to the infinite alarm of our merchants and statesmen, who considered the exchange as a certain symptom of a balance of debt due to France, and who perplexed themselves in vain to discover how that debt had been incurred, how it might be prevented from increasing, and how it might be discharged.

Secondly, If the coin of any country in which the bills of exchange drawn on it are to be paid, should become *worn and degraded,* the exchange must appear to become unfavorable to that country, to the extent that its coin has lost in its value*; and if that country should reform its currency by the issue of a new coinage, the exchange would cease to be against

at the same time she may be ruining a trade which pays her upon the whole a great balance, and upon which trade she has it in her power, *by following a different system in her mint,* to render her exchange as favorable as with any other nation in Europe." Book iii. chap. 11, page 24.

* Where a country employs both gold and silver in its coin, its foreign exchanges must be calculated on one or other, and not on both; in almost all foreign nations it is calculated on silver, in England on gold: the debased *silver* currency of England and Ireland can never affect their exchanges, so long as the pound sterling contains the same quantity of gold as formerly; because the silver bullion to be remitted in payment of the balance of debt against England, is purchased by the gold coin, and not by the silver.

that country. A remarkable instance* of the extent to which the rates of exchange can be influenced by this cause is exhibited in the Commercial History of Great Britain, though apparently no longer in the recollection of British merchants. We are informed by Dr. Adam Smith‡, "that before the reformation of the silver coin in King William's time, exchange between England and Holland, computed according to the standards of their respective mints, was *five and twenty* per cent. against England; but the value of the current coin of England, as we learn from Mr. Lowndes, was at that time *five and twenty* per cent. below its standard value."

Thirdly, If the coin of a country in which the bills of exchange drawn on it are paid, should become *adulterated*, that is, if a greater quantity of base metal should be mixed with the precious metals in its coin, *the same comparative loss of value must ensue*; that is, the rates of exchange must be against that country, in proportion to the depreciation of its currency. A nation from whom we are not to learn the elements of political economy, but who at least, by their errors, are capable of giving instruction to more enlightened people, have had recourse to financial operations, whose

* This was referred to by Mr. Marshall in his Evidence.

‡ Vol. ii. page 288.

effects so strongly illustrate the effects of *adulteration* of the coin, on foreign exchanges, as to be worthy particular attention. The Turkish Sultans have sometimes attempted, though of course without success, to augment their revenues by the adulteration of the coin. The operation of this fraudulent and oppressive measure upon their foreign exchanges, was exactly such as this theory would lead us to expect. Three great adulterations have taken place in the Turkish currency, the first in 1770, the second in 1787, and the third in 1796. Before these frauds were resorted to, the Turkish piastre contained nearly as much silver as 2*s*. 6*d*. English; and in the year 1767, I find that by the course of exchange, 8 of them were given for the pound sterling of England: that is, 800 for a bill of exchange on London for 100*l*. The three great adulterations which have taken place since that time, have reduced the amount of silver contained in the piastre, to less than one half of the quantity contained in 1767; and at the present course of exchange*, 16 Turkish piastres are to be obtained for a pound sterling, that is, 1600 are paid by a banker at Constantinople, for a bill of exchange of 100*l*. on London. It is evident, that if the rates of ex-

* Or rather in the summer of last year: it is not probable that the exchange has much varied since that time.

change are computed according to the par of 1767, the exchange is now *one hundred* per cent. in favor of London. The same sum of English money that would have exchanged for one hundred Turkish piastres in 1767, can now exchange for two hundred piastres, or rather tokens for piastres. It is unnecessary to state the authority on which these facts are here asserted: if the author is misinformed, it will be in the power of any merchant of the Levant Company to correct his error *.

How prodigious then must be the balance of debt due from Constantinople to London, in the opinion of those who consider the rates of exchange as the infallible criterion of its amount; and what bounties on exports, what duties on imports, would they not advise the Turkish statesmen to adopt, in order to avert its fatal influence! The merchants of the Levant Company may, however, be disposed to doubt the

* The author had hoped to have been able to procure the exact degrees of depreciation of the different Turkish coinages, and to have compared them with the rates of their exchanges, with which he has reason to believe they would be found remarkably to coincide. A gentleman, who, by his indefatigable researches in the Levant, has collected every information relative to those countries, and who is in possession of specimens of all the Turkish coins issued during the last century, had intended to assay them in order to ascertain this curious fact:— the assay, however, had not taken place when this work was put to press.

fact of the balance being unfavorable to Turkey: they know and feel, that, notwithstanding an exchange of 100*l.* per cent. in favour of this country, *it is this country which is the debtor*; they know, that from the nature of their commerce this country *must* be the debtor, since the general character of the trade with Turkey is a barter of a small quantity of English manufactures for a large quantity of Levant produce: the difference is necessarily sent out by England in bullion, and the *real* exchange therefore necessarily in favor of Constantinople.

There seems to be a singular analogy between the exchange of London on Dublin, and London on the Levant: in each case the real exchange, that is, the exchange computed in gold and silver, is against London; in each case London is the debtor. In each case the nominal exchange is notwithstanding immensely in favor of the debtor country. In each case the cause of the nominal exchange is the currency of the creditor country having ceased to contain or represent the same quantity of the precious metals as when the par of exchange was computed. *In each case no balance of trade, debt, or remittance, could bring the nominal and real exchanges to agree*;—for instance, if the debt of London to Constantinople was of any assignable magnitude, still eight Turkish piastres would not exchange for a pound sterling, as in 1767; and for this simple reason, that such a balance of debt could never restore to the piastre the quantity of silver it contained at that time. It is the same with the Irish Bank note. The Turkish piastre and the Irish Bank note differ only in the degree of their depreciation*.

These three appear to be the principal modes in which the value of a circulating medium consisting of the precious metals may be affected. Coin may receive an accession of value by the *imposition of a seignorage*, or suffer a loss of value either from *degradation* by a loss of weight, or from *adulteration*, by the mixture of a greater quantity of alloy. A circulating medium, consisting entirely of paper (a phenomenon which it was reserved for these islands to exhibit), is exempt from the influence of any of these causes; neither seigniorage, nor degradation, nor adulteration, can in any degree affect it; but it is on the other hand subject to be depreciated in two manners, neither of which can operate on a circulating medium of the precious metals: and it is scarcely necessary to observe, that if a paper medium should be reduced to *represent*,

* This, it must be confessed, is an anticipation of what remains to be demonstrated.

that is, to be able to procure a less quantity of the precious metals, it must influence the rates of exchanges of bills payable in that paper exactly in the same manner as the degradation or adulteration of a circulating medium of the precious metals.

A paper circulating medium may be depreciated either through *discredit* or *excess*. How discredit may produce depreciation is too obvious to be dwelt on; neither is it necessary in this inquiry, as no one attributes discredit to the Bank paper either of England or Ireland.

It will, however, become a serious consideration, whether they are also exempt from the second cause of depreciation (that is, excess), whether it is *possible* that they can be excessive, what are the guaranties of the public *now* against their becoming so, and whether such depreciation has not actually taken place both in Great Britain and in Ireland, but especially in the latter? But before entering on the inquiry as to the fact of excessive issue, it will be proper to examine at some length the necessary connexion that exists between excess and depreciation, and the operation of depreciation through excess upon the rates of exchanges.

If it is possible that the whole amount of the circulating medium of any country can be increased, while its commerce and expenditure continue stationary, or increase faster than they require; for instance, that its circulating medium shall be doubled, while its commerce and demands for money continue stationary; or trebled, while its commerce and demands have been augmented but one half: in either case, any given sum of that circulating medium will obviously represent but one half as much value as it did before such increase of the whole amount took place.

Therefore any sum of it which formerly was deemed equivalent to any given sum of the currency of a foreign nation, for example, to 100*l.* British sterling, will be worth only 50*l.* British sterling, after such increase of it has taken place.

To make this plainer by an example: If we suppose that 108*l.* 6*s.* 8*d.* Irish currency, was in the year 1797 equivalent to 100*l.* British sterling; but that since that time the circulating medium of Ireland had been doubled, while the commerce and demands of Ireland had continued stationary; or had been quadrupled, while the commerce and demands of Ireland had only doubled: in either case, 108*l.* 6*s.* 8*d.* Irish currency would now represent only one half of the value it did in 1797; it would purchase now only one half of the quantity of Irish commodities that it did then; but in 1797, 100*l.*

British was equivalent to 108*l.* 6*s.* 8*d.* Irish, in the purchase of Irish commodities: whatever cause, therefore, reduces 108*l.* 6*s.* 8*d.* Irish to exchange for only half the quantity of Irish commodities that it did in 1787, will also reduce it to exchange for only one half of 100*l.* British; for whatever causes shall make the possessor of cattle, linen, corn, bullion, guineas, or any other object of intrinsic value, to consider the Irish Bank note as equivalent to but one half of its nominal value, in exchange for them, will produce the same effect* in the possessor of an English Bank note, or of a bill of exchange on London.

In this case it will require 216*l.* 13*s.* 4*d.* Irish sterling to be deemed equivalent to 100*l.* British sterling, and the exchange will be said to be cent. per cent. in favor of Great Britain.

In the same manner, if the circulating medium of Ireland has received an addition of only $\frac{1}{8}$th of its whole amount beyond what its commerce and demands have required, the exchange must become unfavorable to Ireland in proportion to that ad-

* Self-evident as this appears, it is continually denied or doubted in the evidence. It was admitted, that excess of paper must raise prices; but the consequent operation on exchange seems to have been considered as a point of high mystery.

dition; that is, it will require about 119*l.* Irish to be given in exchange for 100*l.* British.

It is not meant to assert, that depreciation immediately follows on an addition to the circulating medium, nor even ever takes place in proportion to the entire extent of the addition. The reader will recollect, that it was the opinion of Mr. Hume, that it was not until a considerable time after such addition that the consequent depreciation ensued, and that the interval was favorable to industry by the increased power of commanding labor, which was given to the holders of the additional circulating medium. He might have added, that when the depreciation did at last ensue, it did not bear an exact proportion to the amount of the addition which had been made, because the increased industry which it had produced demanded an increase of circulating medium; but it is plain that depreciation must be the ultimate consequence of such addition, unless the increase of industry produced in consequence of it should be sufficient to create *a capital* sufficient to employ the whole of the circulating medium added; for the circulating medium which the capital of Great Britain requires is probably not one hundredth part of the capital itself: suppose then a million added to her circulating medium, unless this million can create one hundred millions of capital previous to the time when depreciation

would ensue, the depreciation is unavoidable. If the addition of circulating medium is made in the precious metals, as soon as depreciation ensues they leave the country in exchange for articles of import; and this seems to be the case with Spain and Portugal: but if the addition be made in a paper which cannot leave the country, the depreciation becomes permanent. It was on these grounds that it was formerly observed, that the loans made by Great Britain to Ireland ought not to be considered as an increase of the capital of Ireland; *they are an increase of her circulating medium, and not of her capital* *. They operate in the same manner in Ireland as the remittances from South America do in Spain and Portugal; and no one now imagines that the millions annually imported from the mines operate a continued increase of *the capitals* of those impoverished countries. It seems, that as moderate additions of circulating medium may contribute to excite an increase of industry, so, on the other hand, immoderate and continual additions may produce the direct opposite effect, *their depreciation, that is, the encouragement to import, taking place before the increase of industry has been called for.* The increase of industry, which the first introduction of

* The distinction between currency and capital has been well pointed out by Mr. Wheatley in his Essay on Currency and Commerce.

silver into Europe from America is allowed to have occasioned, may serve as an illustration of the former effect. The increase of poverty so visible in Spain and Portugal, attributable to the *continual and steady increase of the circulating medium*, will illustrate the latter.

It follows, that there is a happy mean between a very small and an immoderate increase, which, while it encourages industry, does not give rise to depreciation. Perhaps the system of banking pursued in Great Britain previous to the restriction possessed the rare advantage of practically ascertaining this quantum of beneficial increase, which no reasonings *à priori* could possibly have determined. We may be led to this supposition from observing, that it was always the interest, both of the bankers and the merchants, to increase the circulating medium as much as possible; but that as often as depreciation through excess ensued, it became the interest of the merchants to force the bankers, by a run on them for gold, to diminish the circulating medium until that depreciation ceased.

It seems, therefore, that Dr. Smith was too hasty in forming his opinion, that the banking system operated merely as a substitution of a cheap in place of an expensive medium of circulation. It seems to have a necessary tendency to increase the

quantity of circulating medium; but with this rare advantage, that so long as it is well regulated it never can increase it beyond the amount demanded by the increased industry, which it likewise will have occasioned.

To determine *à priori* this limit of beneficial increase, would be certainly a very desirable object; but possibly the resources of political economy will never be equal to the task. If the system of banking pursued before the restriction practically ascertained it, it was sufficient to compensate for our ignorance of its theory, and sufficient to make us regret, that a system so advantageous should ever have been abandoned to substitute in its place another, whose effects may be not only depreciation through excess, but a general bankruptcy in consequence.

What then is the amount of circulating medium in every country, beyond which if it extends, it is excessive? Excess is merely a relative term, and means, that the circulating medium is *so much* more abundant in proportion to its effective demand* than in other countries; that, like every other commodity of which the supply exceeds the

* It is to be recollected, that the demand is a complex quantity, varying directly as the amount of commerce and expenditure, and inversely as the velocity of circulation.

demand, it loses in its value. Just as an increased quantity of commodities lose in their value as compared with a given quantity of money; so an increased quantity of money loses in its value as compared with a given quantity of commodities.

A country which adopts the precious metals as its circulating medium, or, what is the same thing, a paper convertible into them at the will of the holder, can by no possibility ever have its circulating medium permanently increase beyond the demands of its commerce and expenditure; for the loss of value which immediately ensues upon its superabundance, causes it to be exported out of the country, to seek for a better market, as has been already stated in the first chapter. But a country which employs as a part of its circulating medium, a paper not convertible into the precious metals, possesses no such security against its accumulation; and if an over-issue of it by any means takes place, as the paper cannot leave the country, it must continue in circulation; and any given portion of it must suffer a loss of value nearly in the proportion that the entire amount of it has been increased.

Almost all the nations on the continent have depreciated their paper more or less by an excessive issue. The governments are there the issuers, and they have generally been tempted by their necessities.

The consequences have always been the same—a discount of the paper as compared with the precious metals, and a most unfavorable exchange of that paper, when compared with the circulating medium of other nations. France affords the most decisive example of the extent to which an excessive issue may depreciate the circulating medium. The progress of this depreciation is worthy of observation. In the commencement of the revolution, when these excessive issues took place, the specie first diminished, and then disappeared. The most violent cries of indignation were directed by popular prejudice against the emigrants for having carried the specie out of the country, though they were as innocent of the charge as the absentees of Ireland are of having drained that country of its gold. The true cause was, the quantity of paper in circulation in France, against which the precious metals could not afford to stand in competition. When the specie had all disappeared in France, as the amount * of the paper increased, so did its depreciation, that is, the price of all articles gradually rose; and as the depreciation increased, the rates of foreign exchanges became proportionably unfavorable to France ‡. It appears from Lord King's

* The total amount of paper issued in France during the Revolution was about three hundred millions sterling.

‡ This has been successfully urged by Lord King; it is, however, unfortunately necessary to repeat it.

tables, that the exchange in February 1789 was not quite 8 per cent. against Paris; it fell *gradually* until March 1793; and in the course of these four years it rose from 8 per cent. to rather more than cent. per cent.* in favor of England; that is, a hundred pounds sterling would exchange for a bill for more than double the sum of French money, which formerly was esteemed equivalent to one hundred pounds British at par. The exchange was still rising, when war put an end to the communication between the two countries. Had it been in the power of man to have counteracted the necessary consequences of this operation, the depreciation in France would have been arrested. The revolutionary rulers of the day, in the same spirit in which they appointed a maximum for the price of corn (a measure which here also, as well as the Bank restriction, has been strenuously recommended), condemned to death the unpatriotic citizen who should demand more for his goods in paper than in specie. Notwithstanding this sanguinary measure, one thousand livres soon became no uncommon price for a dinner in a tavern at Paris. When the French paper had at length been increased to such a degree as to become of no value at all, it disappeared, and the conse-

* The exchange with Paris is computed in the French crown of three livres, estimated at $29\frac{1}{4}$*d.* English money, which is the par between the two countries.—*Lord King*, page 151, second edition.

quences that ensued are not a little remarkable. First, the old specie, which the paper had driven out of circulation, again made its appearance, though the emigrants, who were accused of carrying it away, had not returned. The rates of exchange* once more were reduced to such as had been common before the excess of paper. In the same manner, though the Irish absentees should for ever continue in this country, we may venture to predict, that gold will once more appear in Ireland as specie did in France; and the exchange again become favorable, whenever such a diminution of the quantity of Ireland's circulating medium shall be effected, as will permit it: and until that takes place, we may be equally certain, that though every Irish proprietor should return to his country, and though the Irish debt payable in England were extinguished, the depreciation of Irish paper, and consequent scarcity of specie, and unfavorable rates of exchange, must still continue.

There is but one possible security which any country can possess against its circulating medium becoming excessive. When the circulating medium consists of the precious metals, it has

* The present exchange of London on Paris is about 25; that is, about 14 per cent. against Paris; according to the *computed par* of exchange.

already been sufficiently pointed out, that no accumulation of them beyond the demands of the country can possibly be effected. All that is superfluous will go abroad to seek a better market. The same security may be attained by a country which has adopted a paper circulation, provided that paper is convertible into the precious metals at the will of the holder. Such a paper can no more become abundant than the precious metals themselves; for all that is superfluous of it will immediately be converted into the precious metals, and go abroad. This appears to be the principal use of gold and silver in the circulating medium of a great commercial country;—merely to keep steady the '*measure of value*.' When Bank notes are made the measure of value, there seems no other certain mode of preventing those notes from representing sometimes a greater, sometimes a less value, than by a constant interchange of them with gold and silver; and even this can be effected only so far as gold and silver are constant in their value. The less gold and silver required for this purpose, the better for the nation. If the Bank restriction, which destroyed the interchange, had provided any other means of keeping the value of the pound sterling, a constant quantity, most of the objections that have been urged against it would have been obviated. It was this convertibility into gold which used to distinguish the English paper from the

paper of the continent, and secured to this country all the numerous advantages derived from a paper currency, while at the same time it was a guarantee against the equally great inconveniences that may attend it.

So long as the paper of the Bank of England was convertible into gold, so long the nation had a guarantee that the quantity of it in circulation never could exceed the proportion required by its demands. Whenever the Directors, through inadvertence, as it sometimes happened by the too great increase of their discounts or advances to government, augmented the circulating medium of the country to such a degree, that gold *began* to be here of less value than in other countries, their notes returning rapidly for payment, admonished them of their error; they restrained the amount, and the evil ceased; but now that the convertibility is taken away, the Directors themselves are deprived of their criterion by which to judge when their notes are excessive, and the nation of their guarantee against the evils which such excess must occasion. The notes once issued now, *vestigia nulla retrorsum*; they remain in circulation; and their amount being thus increased, the value of any given portion then becomes diminished. No blame is here imputed to the Directors; all that is contended for is, that since the measure of the restriction, their discretion is become the sole regulator of the amount of the circulating medium, and that, like all other men, they are liable to be mistaken.

An opinion, however, appears to be by some entertained, that the convertibility into gold was useless, at least as a criterion of the proper quantity of paper to be kept in circulation, for that the mode observed by the Directors made the case of over-issue absolutely impossible. The persons who are of this opinion ground it on two suppositions; first, that so long as the paper is issued solely on good security, it can suffer no loss in value. If this be true, it must be admitted the paper of Great Britain cannot be excessive or depreciated: but these persons do not consider that the value of the paper, though it must, no doubt, depend, in the first instance, on its security, is yet farther to be regulated by the amount of it in circulation, compared to the amount of the objects it is to circulate. Had they considered that gold and silver themselves are subject to this inevitable law, they would certainly not have exempted the paper representatives of those metals from its operation.

It is well known, that after the discovery of the mines of South America, the quantity of silver which they produced reduced its value to one fourth, that is, about 75 per cent.: yet surely not even the notes of the Bank of England can possess a greater *security* than the silver which was poured into circulation from America: the silver carried with it a security which paper never can, for its security was inseparable from it. The silver was value itself, and not merely the representative of it; so that if the most perfect *security* imaginable could have furnished an exemption from depreciation through excess, the discovery of America would not have lowered the value of silver. The Bank of England, exempted from the obligation of paying in cash, has the power of becoming to this country a *New Peru*, possessing mines of inexhaustible fertility, which enable it at its pleasure to augment in amount, and reduce in value, the circulating medium of this country in any conceivable *ratio*; and this it may effect without ever issuing its paper, except upon the most perfect security.

Another ground of the opinion which has been advanced, that the Bank issues *cannot* be excessive according to the present mode in which they are made, is, that the supply *follows*, and does not *precede* the demand; that the Bank, so far from overstocking the market, reject many and most pressing demands on them for discounts. To this it may be answered, in the first place, that the discounting of merchants' bills is not the only mode in which the notes of the Bank of England come into circulation; but supposing, as the most favorable supposition for this opinion, that the Bank issued its notes solely in the way of discount, still it will appear that they may never exceed, nor even satisfy the demand, and yet issue notes to any assignable amount.

If the supply of the circulating medium falling short of the demand for it, could prevent its depreciation, silver would not have lost its value in consequence of the discovery of Peru, since, abundant as the supply was, it certainly fell short of the demand of the Spaniards; and if the demand of the Spaniards had been the measure of the supply, perfect as the *security* of the silver would always have continued, its depreciation, through excess, would have been so great that a pound weight of silver could not now purchase a pound weight of bread. Circumstances in the legislative arrangement of this country tend to excite in persons, capable of giving the most perfect security, a demand for a quantity of Bank notes similar to that which the Spaniards felt for silver.

Without looking farther than the impolitic laws against usury, we may discover the source of a de-

mand on the Bank for discounts, which, if complied with, might at length reduce the value of their notes to that of the paper on which they are engraved, and yet without those notes ever being issued, except on perfect security. By law the Bank are obliged to discount at 5 per cent.; but during war it is almost always possible to make more than 5 per cent. of money. If a merchant, under such circumstances, could obtain discounts to the amount of the security he could give, the issues of notes would soon amount to all the security that could be given*; that is, to the value of the fee-simple of all the lands in the kingdom, to the purchase of all the personal property, including the amount of the national debt; nay, even to ten times this amount, as would easily appear, if it was worth while to pursue the ultimate consequences of a system which must ruin the country before it had proceeded to such lengths. It is by extreme cases that principles are to be judged; it is not possible to suppose the Bank would ever proceed to such lengths; it is only contended, that if their discounting according to demand, so long as security was given, could be productive of such utter ruin, that their discounts, granted to a much less extent, may still be productive of evil in proportion; and that though the Bank Directors have constantly shewn a desire to prevent

* The restriction is now supposed to continue.

their being in excess, still the question recurs, whether their desire has always been successful; and seeing that neither the security on which their issues are made, nor the eagerness of demand for discounts, are the criteria, what are the criteria by which the Bank Directors judge? and are they of that nature as to enable them to be certain that they have never been mistaken? Previous to the restriction, they sometimes perceived that their issues *were* excessive, and corrected their error; now that the restriction is imposed, how are they to know whether their issues are excessive, or how are their errors to be corrected?

But though the infallible test of over-issue which the convertibility into gold formerly afforded is now taken away, yet it may be supposed that the Bank have not left themselves without some means of determining whether their paper really is excessive. There are but two other criteria which the writers on these subjects have yet proposed, which can assist us in judging whether paper really is excessive: the first, the average market price of gold; and the second, the average rate of foreign exchanges. It must be, indeed, supposed that the Bank possess a third, for they entirely disregard these two*.

* Not only in practice, but in their reasonings, as will fully appear from the evidence in the Report of the Select Committee.

We suspect depreciation from the first, when we find that the Bank paper *constantly* exchanges in the market for a less quantity of gold than it professes to contain: if the gold so given for the paper is in guineas, the discount is open, and cannot be denied. Now it is difficult to see why, when it is given in bullion, it is not as *real* a discount as when given in guineas. 3*l.* 17*s.* 10½*d.* of Bank paper professes to represent an ounce of gold; yet an ounce of gold cannot be procured for less than 4*l.* 1*s.* of Bank paper. As no seignorage is paid in England for the coinage, the difference between 4*l.* 1*s.* and 3*l.* 17*s.* 10½*d.* seems to be the measure of the depreciation of English Bank paper, as compared with gold; that is, not quite 3*l.* per cent.

It may, indeed, be imagined, that a comparison with the excess of the market above the mint price of *silver* would afford a fairer criterion; but the result of this would be still more unfavorable to the Bank. Silver bullion is always an article of commerce; but the quantity of gold bullion in the English market is extremely small (*vide Evidence Rep. Sel. Com.* page 6), and only sufficient for the supply of the goldsmiths. If the Bank were to become extensive purchasers of gold now as formerly, the bullion-merchants would immediately enter into speculations to procure it; and it is impossible to foresee whether, in consequence of their efforts, it would be obtained at a higher or lower price than at present, though we may be almost certain, that the present is not the price at which it would continue. But now the bullion-merchants do not employ their capital in bringing into the English market a commodity which would be so entirely superfluous, since the Bank has shewn itself too wise to incur the unnecessary expense of purchasing gold, and the mint to take the still more unnecessary trouble of giving it a form, which they know it must instantly lay aside.

If this depreciation should however increase, if it should become 10 per cent. greater, it may be supposed by some, that the Bank Directors will then at least see their error, and suspect there is a discount on their paper. Far from it: whenever that arrives, they must, to be consistent, tell the people of England, as they have already told the people of Ireland (where paper is depreciated near 10 per cent. more than that of England), that this inconvenience arises from the balance of debt being against England, and that the discount on paper or exchange (for in this instance they mean the same thing) "is a symptom, and no unfavorable one, of their situation;" and should we doubt the fact of the balance being unfavorable, they will reply, "that the balance *must* be against us, *for that* the exchange proved it."

When we find it denied that the excess of the market price of bullion, above the mint price, that is, *the quantity of gold which can be procured by a Bank note being less than what that note professes to represent*, is any proof of the depreciation of that note, we naturally become curious to inquire to what this excess of market price is to be attributed, and we are told, that it is "the unfavorable state of foreign exchanges, which, by giving a bounty on the exportation of bullion, enhances it above its natural value in the country;" it certainly must be admitted, that an unfavorable exchange produces this effect: but when we see, as at present is the case with Great Britain, exchanges on the average favorable with all the world*, and the excess of the market price *permanently continue*; when the only cause assigned for this excess of the market price has been removed; when, on the contrary, a favorable exchange should encourage the importation, and consequent cheapness of bullion; and when we find, notwithstanding, the excess of the market price steadily continue, to what cause, except to the depreciation of the paper medium of purchase, can the excess of the market price be attributed‡?

* Such was the opinion of the gentlemen examined before the Select Committee.

‡ See Lord King's Thoughts, &c. page 35.

CONTENTS OF THE FOURTH CHAPTER.

CAUSES AND EFFECTS OF THE EXCHANGE BETWEEN GREAT BRITAIN AND IRELAND.

Proofs à posteriori of an excessive Issue of Paper having taken place in Ireland—Market Price of Bullion—Discount on Paper—Exchanges of Dublin on London, Belfast on London, and Dublin on Belfast—Disappearance of Silver Coin—Proof of the Depreciation of English Paper, from a Consideration of the Exchange of Dublin on London, and Belfast on Dublin—Rates of the Depreciation of English Paper resulting from this Calculation—Further corroborated by Facts—Proofs à priori of the excessive Issue of Paper in Ireland—Increase of Bank of Ireland Notes—Opinion of the Directors as to their Excess—Issues of the Dublin Bankers—Issues of Silver Note Bankers in the South of Ireland—Effects of the Depreciation of Paper—Who are the Losers—Who are the Gainers—Examination of the Nature of the Commerce in Exchange—Singular Principle on which it is founded—Estimate of the various Rates of Profit which attend it.

THE operation of an excessive issue of paper upon exchange, and the reasons for presuming that such excess is not only possible, but probable,

in the actual situation of these countries, have been examined in the preceding chapter; in the present, I shall attempt to prove, from authenticated facts, that an excessive issue has actually taken place in both, but more especially in Ireland.

The following appear to be the principal, if not all the symptoms of the depreciation of paper through excess, which it is possible for any country to exhibit.—*First*, a high and permanent excess of the market price above the mint price of bullion; *secondly*, an open discount upon paper, as compared with coin; *thirdly*, an exchange unfavorable to the country, when computed in Bank notes, yet possibly favorable when computed in specie; unfavorable to those parts of the country where the circulating medium is paper; yet possibly favorable, or at least much less unfavorable, to other parts, whose circulating medium is specie; and, *fourthly*, an exchange between the different parts of the same country, whose circulating media are different; *fifthly*, the entire disappearance of all the smaller coin, which had been in circulation along with specie, but which cannot continue in circulation along with any other circulating medium of less value: *and lastly, and above all*, we should be led to expect, that these different tests of depreciation nearly agreed with each

X The market price of Bullion exceeded the Mint price on an average of thirty Years from 1740 to 1770 — yet there was no restriction of the Bank payments. See considerations on Money, page 137 — V: 4.

other, that is, that the discount upon the paper, and the unfavorable rates of foreign exchanges, and the rates of the exchanges between the different parts of the same country, and the excess of the market above the mint price of bullion, should all be equal, or very nearly so, to each other: these are all the tests of depreciation*, which can be expected; and they are all exhibited by Ireland, on no trifling scale, not at a rate of 1 or 2 per cent, but of 8 or 10; not in a moment of difficulty, or arising on a sudden, but constant and permanent, and prevailing alike in peace and in war.

As to the first test of depreciation, the high market price of bullion; though there is no regular bullion market in Ireland, nothing can prove more effectually that it exists, than the rate at which the Bank are forced to issue their new dollars in order to keep them in circulation. Every excess of the market price above the mint price of bullion, operates as a bounty on the

* A general rise in the nominal price of all commodities would also ensue; but the prices of commodities are influenced by so many causes, as well as the intrinsic value of the medium of purchase, that it is difficult to draw conclusive inferences from such a fact, however certain. The general rise of prices throughout Ireland, within the last few years, and the fact of two prices existing in the North of Ireland, for all commodities, the gold price and the paper price, cannot be denied.—See Appendix to the Evidence, page 108.

melting of the coin; and the operation is so easy, that the coin inevitably disappears, unless protected by a seignorage, degradation, adulteration, or by being issued at a nominal value, greatly above its mint price. The new dollars are to be issued in Ireland at a nominal value of 6 Irish shillings, but their value, at the mint price, is only 4*s.* 8½*d.** Irish; they are issued therefore at a rate of 27 per cent. above their mint price:—this does not necessarily prove, that the paper of Ireland is depreciated to that extent; for the Bank may have had good reasons for issuing them at a rate rather higher than was sufficient for their present protection; it however proves indisputably, that bullion is far more valuable in Ireland, than the price at which it is issued in coin by the mint—that is, the price at which the Bank Directors *promise to pay* their notes.

Secondly, as to the discount upon paper, the reader is referred to the Appendix to the Evidence, page 44; where there is a Table of the Rates of Premiums given for guineas, since the beginning of the year 1799, and which has progressively advanced (along with the increase of Irish Bank notes) from ¼ to 10 per cent.

A distinction has been attempted by the advocates of the Bank, that it is not their paper

* See Evidence, page 84.

which has fallen, but the gold which has risen in its value. Perhaps this objection might have been passed over, had it not been for the confidence with which it has been urged. In reply, it may be observed, first, that as the Bank note is a promise to pay not a certain value, but a certain weight of gold, the moment that that weight of gold can no longer be obtained for it, it must be depreciated;—secondly, that though the value of gold, as well as of every thing else, is continually fluctuating throughout the world, yet its value can never be much greater in any one country than in those adjoining; and that if it was really 10 per cent. more valuable in the North of Ireland, than in Scotland or England, it would immediately flow into that country, where it was in such extraordinary demand, until its level of value was restored;—lastly, that if the Bank of Ireland note has continued of its original value, it must be contended, that Bank of England notes have risen in their value, as well as gold, since the Bank of Ireland note can no longer purchase the same quantity of English paper.

As to the third test of depreciation, the unfavorable rates of foreign exchanges, it is sufficient merely to refer to the Tables of Exchange in the Appendix to the Evidence, A 1 and A 2, pages 44, 45, 46, and 47. As the paper circulating medium

of Dublin has progressively increased *, the exchange has gradually risen to the height of 10 per cent. against it; though, during the same time, it has never been above 2 per cent. against Belfast, where the circulating medium was gold; that, on the contrary, it has generally been in its favor. And we have a still stronger example in Newry, where both paper and gold circulate (the paper at a current discount), there are two rates of exchange †, one when the bills are to be purchased or paid in paper, and the other where they are to be purchased or paid in gold: the difference of the rates is of course equal to the discount on the paper.

The *fourth* test of depreciation, an exchange between the different parts of the same country, whose circulating media are different, is also exhibited in Ireland. No table of the rates of exchange of Belfast on Dublin was submitted to the Committee; it is, however, sufficiently notorious that such an exchange has always existed since the exchange has become so unfavorable to Dublin, and that its rates nearly correspond with the premium for guineas paid in Dublin.

* See Appendix, No. VIII. where the amount of Bank of England notes is compared with the rates of exchange.

† See Appendix, No. II.

The *fifth* test of depreciation, the entire disappearance of the coin of the smaller denominations which used to circulate in company with gold, has also taken place in Ireland. The Committee have reported the astonishing and alarming fact, that *it does not appear that there is a single mint shilling or halfpenny circulating in any part of Ireland*, except in that district of the North where gold has still been retained as the medium of circulation.

It will not be necessary to dwell on the coincidence of these different tests of depreciation with each other. An inspection of the tables in the Appendix to the Evidence will evince, that though there has occasionally been a slight difference, it has never been of long duration, and that it may be affirmed generally that they rise and fall together. The apparent differences which have existed will be found, on examination to confirm this theory, and may deserve some attention, as possibly they demonstrate the depreciation, not merely of Irish, but of English Bank paper.

It is evident, that if the Bank of England notes have suffered no depreciation, and that the real exchange between England and Ireland is at par, the premium paid for guineas in Dublin must equal the unfavorableness of the nominal exchange.

But if the Bank of England notes are depreciated, and the real exchange is at par, the premium paid for guineas in Dublin must equal the unfavorableness of the nominal exchange,* *plus* the depreciation of English paper.

But if the Bank of England notes are depreciated, and the real exchange ‡ *in favor* of Ireland, the premium paid for guineas in Dublin must equal the depreciation of English paper *plus* the unfavorableness of the nominal exchange, *minus* the real exchange in favor of Ireland;—hence, by a simple equation§ it will appear, that if we add the premium to the real exchange, and subtract the nominal exchange from their amount, the remainder must be the depreciation of English paper. Let us apply this plain general truth to the rates of exchange and premiums for gold, as extracted from the different tables contained in the Appendix to the Evidence.

* It must be recollected, that the exchange against Dublin is not of Irish paper against gold, but of Irish paper against English paper.

‡ The reasons for presuming that the real exchange is in favor of Ireland have already been fully stated in the second chapter.

§ Premium = deprec. of E. paper + nominal exch. — real. ex.

∴ Prem. + real exch. = depreciation of E. paper + nominal exch.

∴ Prem. + real exch. — nominal exch. = deprecia. of E. paper.

	Premium paid for Gold in Dublin, per Cent.*	Nominal Exchange, i. e. of Irish Bank Notes against English Bank notes; i. e. Dublin on London against Ireland, per Cent. †	Exchange of English Bank Notes against Irish Gold, i. e. Exchange of Belfast on London‡.	
			In favor of Belfast§	In favor of London.
1803.				
January	3	$3\frac{5}{12}$	$\frac{7}{12}$	
February	3	$3\frac{2}{3}$	$\frac{5}{6}$	
March	$3\frac{3}{4}$	$4\frac{1}{6}$	$\frac{7}{12}$	
April	$4\frac{1}{4}$	$4\frac{2}{3}$	$\frac{7}{12}$	
May	$4\frac{1}{2}$	$5\frac{1}{6}$	—	$\frac{1}{2}$
June	$4\frac{3}{4}$	$4\frac{11}{12}$	—	$\frac{5}{12}$
July	6	$6\frac{5}{12}$	—	$\frac{5}{12}$
August	8	$8\frac{5}{12}$	$2\frac{7}{12}$§	
September	8	$6\frac{1}{6}$	$\frac{5}{6}$	
October	$7\frac{1}{2}$	$6\frac{1}{6}$	$2\frac{1}{3}$	
November	9	$7\frac{5}{12}$	$2\frac{5}{6}$	
December	9	$7\frac{11}{12}$	$3\frac{1}{12}$	
1804.				
January	$9\frac{1}{2}$	$7\frac{2}{3}$	$2\frac{1}{3}$	
February	10	$8\frac{19}{24}$	$\frac{7}{12}$	
March	9	$6\frac{2}{3}$	$2\frac{7}{12}$	

* Extracted from table L, Appendix to the Evidence, page 44.

† Extracted from ditto, by subtracting $8\frac{1}{3}$ from the average monthly rates of exchange, as given in that table.

‡ Extracted from the table M, in the Appendix to the Evidence, page 45, by subtracting the average monthly rates (taking the average of the rates at the middle of each month) from $8\frac{1}{3}$. It appears that this has been too hastily termed the real exchange; for it is to be recollected, that it is not an exchange of Irish gold against English gold, but against English Bank paper.

§ This appears to have been a sudden fluctuation, from which nothing can be concluded.

From this table it will appear that the depreciation of English Bank notes first produced a sensible effect upon the exchange about the month of September last; for adding the premium on gold to the real exchange, and subtracting the nominal exchange $8 + 1 - 6\frac{1}{6} = 2\frac{5}{6}$, the depreciation of English paper. If such a result had appeared only in that month, we might seek for some other cause of the sudden fluctuation; *but it has, on the contrary, continued permanent since that time*—and a permanent effect must be referred to a permanent cause. It appears then by this mode of calculation, that the depreciation of English paper has been as follows:

		Premium for Gold.		Real Exchange*.		Nominal Exchange.		Depreciation of English Paper.
1803.	Sept.	8	+	1	—	$6\frac{1}{6}$	=	$2\frac{5}{6}$
	Oct.	$7\frac{1}{2}$	+	1	—	$6\frac{1}{6}$	=	$2\frac{1}{3}$
	Nov.	9	+	1	—	$7\frac{5}{12}$	=	$2\frac{7}{12}$
	Dec.	9	+	1	—	$7\frac{11}{12}$	=	$2\frac{1}{12}$
	Jan.	$9\frac{1}{2}$	+	1	—	$7\frac{2}{3}$	=	$2\frac{5}{6}$
	Feb.	10	+	1	—	$8\frac{19}{24}$	=	$2\frac{5}{24}$
	March	9	+	1	—	$6\frac{2}{3}$	=	$3\frac{1}{3}$

It is remarkable, that the result of this calculation agrees with *the fact* mentioned by Mr.

* This column is the real exchange, which is here assumed to be in favor of Ireland. For the reasons already assigned, its amount cannot be much less or greater than 1 per cent.

Burrowes*, that $2\frac{1}{2}$ per cent. is now paid to procure gold in London. It agrees also with the excess of the market above the mint price of gold, which gives a depreciation of somewhat less than 3 per cent. See page 115, antea.

Thus also it will be easy to account for the exchange having been of late so much in favor of Belfast, sometimes even 3 per cent.; for this was an exchange of gold against Bank of England paper; and the reader will observe, that in October 1803 (that is, the month after the depreciation of English paper first appears to have been sensibly felt), the exchange became suddenly $2\frac{1}{3}$ per cent. in favor of Belfast; and it is remarkable that it has since continued in favor of Belfast‡, nearly to the same amount that the English paper appears to have been depreciated.

But even without entering into minute calculations, it seems that a bare inspection of these tables might afford a demonstration to any reasoning person that depreciation has taken place, at least in one country, if not in both; for on considering the exchange 3 per cent. in favor of Bel-

* Page 14, Evidence.

‡ With the exception of the month of February, when it experienced a sudden fall to $\frac{7}{12}$, but rose again to $2\frac{7}{12}$ in the following month.

fast, if it is denied that the Bank of England paper is depreciated, it must be contended that Ireland is the creditor country, in order to account for the exchange in favor of Belfast*: but the moment that this is conceded, the depreciation of Irish paper becomes a necessary supposition in order to account for the exchange against Dublin.

But it is not merely from the consideration of these certain symptoms of depreciation that we are obliged to infer the fact of its having actually taken place. The evidence contained in the Report of the Committee discloses practices in Ireland, which lead us so naturally to conclude *à priori*, that an excessive issue must have been their consequence, that our astonishment might have been excited, if the symptoms of an excessive issue were not exhibited. The proofs *à priori* and *à posteriori* mutually corroborate each other: first, we find all the causes which could produce an excessive issue; next, all the effects which an excessive issue could produce.

Of these facts, which might lead us *à priori* to infer, that an excess of the paper circulation of Ireland must be their necessary consequence, the

* Yet even this supposition would not account for the exchange being *so much* in favor of Belfast.

most prominent, though not the most conclusive, is the extraordinary increase in the amount of the notes issued by the Bank of Ireland, which is now nearly five times* as great as when the restriction was imposed. The issues of the Bank of England have not been quite doubled in the same time. It is impossible to suppose either that the commerce of England has been doubled, or that of Ireland become five times as great as it was in 1797. We should therefore at first sight expect to find that the paper of England had become excessive, and the paper of Ireland excessive to a much greater degree. Farther consideration, however, will lead us to abate much of the severity of the inference which would follow. First, it is to be recollected, that an issue of small notes was rendered necessary to fill the void left by the gold, which the Bank restriction had "diminished even to banishment ‡." This in Dublin may be estimated at the amount of their small notes in circulation; that is, about 1,200,000*l.* Secondly, the alarm which prevails in Ireland from political causes, by rendering

* See the Appendix, No. VIII.

‡ It appears probable, that the entire loss of gold in Ireland, in consequence of the restriction, was 3,000,000*l.*; but that part which was withdrawn from circulation in the country was of course supplied by the notes of country bankers.

circulation slower*, renders a greater amount of circulating medium necessary. Lastly, something, though not much, may be allowed for the increase of commerce and expenditure in Ireland. Thus of five equal parts ‡ into which the actual amount of Bank of Ireland notes may be divided, one is necessary, as having existed before the restriction; and two more, as supplying the place of the gold which the restriction expelled from circulation. It is impossible to suppose that the remaining two have been rendered necessary by increased expenditure and domestic alarm.

But it appears from the evidence of the Directors themselves that their issues are excessive.—"We are informed by Mr. Colville §, that *it was* "*impossible for the Bank to make as large dis-* "*counts* during the rebellion, and *before the re-* "*striction bill took place, as they have been enabled*

* This has been fully demonstrated by Mr. Thornton: much of his reasoning, however, would not apply to Ireland, since few hoard Bank *notes* in that country with a view to have them in store against a day of rebellion or invasion: we must therefore be permitted to doubt whether the circulation of *paper* in Ireland is *much* slower now than in a period of greater prosperity.

‡ See Report of the Committee, page 9.

§ Deputed by the Bank of Ireland to attend the Committee. See Evidence, page 99.

to do since, and which the necessities of the country made absolutely necessary."

Now while we entirely agree with Mr. Colville as to the fact, that the Bank has been enabled to discount or issue more notes than it could have done if the restriction had not taken place, we must be permitted to deny the inference that he makes of the necessity of such increase.

In treating of the remedy of exchanges, it shall be made to appear that the quantity of circulating medium which could be maintained in circulation, were there no restriction, is in all cases that which the true interest of the country requires; and that if the Bank, *protected by a restriction*, undertake to lend their gracious assistance to the country, in what they conceive to be the hour of its necessity, and increase their issues by way of enabling it to pay the debts which it either actually does owe, or which they are pleased to attribute to it; that in either case such interference is to the last degree pernicious, and, if persisted in, must end in ruin. But even if it should be admitted that the issues of the Bank of Ireland are not excessive*, still it

* In order to ascertain this point, it would be necessary previously to determine what is the proportion which the notes of the Bank of Ireland ought to bear to all the other banks of the kingdom.

will not follow that the whole circulating paper of Ireland is not greater than its occasions require. Unfortunately, the Bank of Ireland does not possess the same control over the country banks as is possessed by the Bank of England in this country: even in Dublin the private bankers are by many supposed equally to divide the market with it†. The Bank of Ireland is indeed as much favored by regulation as the banks in this country: every private banker must pay in Bank of Ireland notes, *if called on*; but unfortunately the holders at present have little inducement to wish to change the note of a respectable private banker for a note of the Bank of Ireland. Whether the Bank of Ireland could not, by a very simple operation, give them an inducement, and thus possess themselves of such control, will be considered in its proper place*.

We must therefore direct our attention to the private bankers.

And first in Dublin, we learn from the Evidence‡ and from the Report, that the weekly issues from the Treasury to the yeomanry agent, for the payment of the yeomanry, were from 20,000*l.* to 30,000*l.* a week, and that the monthly issues to the army agents were from 150,000*l.* to 200,000*l.*; but that some of the army agents and the yeomanry

* See sixth chapter. ‡ See page 75.

agent depositing the Bank of Ireland notes with private bankers, paid the army and yeomanry with private paper; that (subsequent to the appointment of the Committee) the Lords of the Treasury in Ireland, understanding that this practice prevailed "*to an extent which demanded their official interference*, by order, called for the attendance of the agents for the army and yeomanry, and gave positive directions that the whole of such military expenditure should be remitted or paid in Bank of Ireland notes." It is scarcely necessary to observe what a prodigious extension of private paper this practice must have given rise to, or how strongly it indicates the exertions of the private bankers to force as much as possible of their paper into circulation. A Dublin banker becoming possessed of 20,000*l.* worth of Irish Bank paper in this manner, was enabled to increase his issues, not merely to the extent of the sum deposited, but of all such farther sums as a banker can issue upon a deposit; with this additional advantage, that he was enabled to send his paper, for example, to Cork, there to supplant the notes of the Cork bankers, or into the most distant villages of Ireland, from whence its return to his counter must be necessarily slow. We are informed also, that the bankers of Dublin have adopted a practice of discounting bills at a very long date, and to such an extent that an individual was enabled to increase his imports from 10,000*l.*

to 80,000*l.* It is obvious, that every bill which is discounted has a two-fold operation; that it increases not merely the capital of the merchant who draws it, but also the amount of circulating medium of the country. The merchant feels the beneficial effects which accrue to his private fortune from extensive discounts. The public mischief that ensues forms no part of his calculations *.

But whatever exertions the private bankers in Dublin may have made, the private bankers in the country have far outstripped them in the race. As the measure of restriction had driven gold out of circulation, so the depreciation of the Irish paper expelled silver; and as the banishment of the gold had operated such a prodigious increase of profit, and opened such new opportunities in the banking system, so the annihilation of silver gave birth to a new race of bankers, with new principles and with new gains. Degraded as the silver currency of England is, such counters as pass for shillings here could not afford to circulate in Ireland; if sent into Ireland, they must instantly return; they obtain a better price when exchanged for the pounds of England than for the depreciated pounds of Ireland: like every other commodity, therefore, they seek the best market; they leave Ireland, and return to England.

* See also the sixth chapter.

The coiners, from their competition with each other, are reduced to more moderate gains than is generally supposed, and they cannot afford to provide as good counters for the depreciated pounds of Ireland as for those of England, which are not depreciated to so great a degree: so that even if the shillings in England were not worth one penny each, such would still be too good to exist in Irish circulation; for, however bad the English shilling can be, the Irish must be worse. I speak of those shillings which are to be exchanged for Irish paper; for in the North of Ireland, where gold continues in circulation, the silver is at least as good as in England. The same principle of competition which exists between the English and Irish coiners takes place to a still greater degree among the Irish coiners themselves: having first expelled their English brethren out of the market, they next tried their strength upon each other; and the impunity they enjoyed soon made their competition so great, that it appears thirty-five of their shillings were sometimes given in change for a guinea note*. Paper shillings were at length resorted to, perhaps as a substance cheaper than base metal; and it is not impossible that paper itself might in its turn be obliged to disappear, if any substitute cheaper than paper should be discovered.

* See the Evidence, page 83.

In Dublin, where, from the extent of retail business, paper shillings were inadmissible, the base metal continued as the medium of circulation until its currency was annihilated by an hasty order of the Irish Treasury*. Dublin then presented the phenomenon of a great city literally deprived of all circulating medium of less denomination than one pound, and the distress that has ensued may be more easily conceived than described.

In the country it was deemed more eligible to substitute paper shillings than to continue to receive the base metal: it accordingly disappeared, and promissory notes for all sums, so low as sixpence, took place. Banking on a small scale soon became not only one of the most lucrative, but one of the most common trades. When once it was discovered that coining was no longer illegal, provided it was executed on paper, many, as may naturally be supposed, applied themselves to so profitable a business. The towns and villages of Ireland swarmed with bankers, issuing their promissory notes for crowns, half-crowns, shillings, and sixpences, promising to pay the same in Bank of Ireland notes whenever a sufficient sum should be tendered. Let us now suppose a village supplied by ten bankers, and containing one thousand inhabitants; each of these may possess nine-

* See the Evidence, page 77.

teen shillings of each of the ten bankers; and yet, though 95,000*l.* may be thus sent into circulation in that single village, it will not be possible to call on any one banker for payment. This is certainly an extreme case; but it is put merely to illustrate this principle,—that where a district is supplied with silver notes by *many* bankers, they are secure of being able to issue a much greater quantity than they can be called upon to pay: so that the fabrication of silver notes seems to form an exception to the general rule of Adam Smith, that in every branch of manufacture it is the interest of the dealer to narrow the competition: besides, these bankers are sufficiently ingenious to issue notes of such amounts that it is very difficult to combine them into pounds; and finally, if pressed for payment, notwithstanding all these defences, the resource of bankruptcy is still left to them; and it is melancholy to hear how many have resorted to it *.

The inquiries of the Committee proved very unsatisfactory as to the number of private bankers in Ireland, the returns made to them being very incomplete: it would appear, however, from what they did collect, that, according to the system pursued in Ireland, the number of banks issuing notes ought to be in every place inversely as the extent of its commerce. London is supplied by one,

* See Evidence, page 85.

Dublin by four; but less than *twelve* *, it seems, are insufficient for Skibbereen; and *twenty-three* are required to satisfy the demands of Youghal, a town in which it may well be doubted whether there are twenty-three persons who follow any other trade. So extensive indeed seems the demand for labourers in this department, that female bankers appear to be not uncommon ‡. It would be easy to dilate upon this system, but it is unnecessary to pursue the disgusting topic. When we see so many channels opened to inundate Ireland with paper, it is needless to seek farther for the causes of its depreciation, and in vain to suggest the candid doubt, "whether it may not be gold which has risen in its value."

Such seem to have been the consequences of the Bank restriction on the circulating medium of Ireland; having driven successively gold and silver, and at length even plated brass, out of circulation, as all too expensive for its purposes, it has substituted in their place a paper excessive in its amount, and doubtful in its security, not regulated by a bank responsible to the nation, nor by any principle but the boldness of its issuers.

A detailed inquiry into the various abuses, commercial and financial, which have originated from

* See page 48, Appendix to the Evidence.

‡ See the names of the bankers of Youghal, Middleton, and Tallow, pages 50 and 51, Appendix to the Evidence.

this system, would be a speculation of considerable curiosity, and which might be of some use; it is one, however, of which the review here taken must be very superficial.

We have heard it asked, who are the losers and who are the gainers by the exchange?

If the principles contained in the preceding chapters are admitted, this becomes a question of easy solution.

Every annuitant in Ireland, every possessor of property in the funds, every landlord who has let his land for a time certain, all persons deriving their subsistence from a fixed income, are reduced in circumstances, in the ratio of the depreciation of Irish paper, that is, about eight or ten per cent.

All persons engaged in foreign trade, in order to ensure themselves from the immense losses which they might incur, in consequence of the frequent fluctuations of exchange, must charge an extra profit on their transactions, falling on the consumer, in the import trade, and tending to exclude Ireland from the foreign market in the export.

All retail dealers, manufacturers, labourers, and all the lower classes, are reduced to difficulties,

which it is impossible to describe, by the depreciated and uncertain value of silver notes in most parts of Ireland, or by the absolute annihilation of all circulating medium less than one pound, which has ensued in others; both which evils have been the necessary consequence of this system.

All persons, who are forced to pay in gold and to receive payment in paper, a grievance too common in the North of Ireland, are sufferers.

All persons who are holders of the numerous forged notes, which arise from the universal system of banking pursued in Ireland, suffer by the system which encourages those forgers to carry on their operations: and all persons who are holders of the silver notes of the petty bankers in the villages of Ireland, lose when the issuers become bankrupt.

All persons who had in their possession the base coin, which passed current in Dublin and other parts of Ireland, were losers when that coin was cried down. Some master manufacturers who had in their possession great quantities (often so much as 500*l.* worth), incurred a loss of from fifty to eighty per cent. on that amount.

All manufacturers who are thrown out of employment, from the impossibility their masters find of procuring any circulating medium for their payment; all persons who will not work because they cannot sell—lose by this system.

These are the losers. It remains to consider who are the gainers, since loss and gain must ever be reciprocal.

The first, whom we shall consider as gainers, are of a class which certainly has been the least suspected of having profited by the exchange, the Irish absentees: it is, however, demonstratively true, that they have *lost less* than if they had continued in Ireland *; for the rents paid in paper to their agents in Ireland, purchase bills in Dublin, which, when remitted to London, produce a quantity of gold greater than what they would have exchanged for in Dublin. This arises from the real exchange; that is, the exchange calculated on gold being in favor of Ireland. This has been generally true since the year 1800. The absentee is therefore so far a gainer by his emigration, that, had he continued in Ireland, his rents, paid in Bank notes, would have been convertible

* This was stated by Mr. Marshall, to whose evidence the reader is referred, pages 117 and 118, Evidence before the Select Committee.

into a smaller quantity of gold, than he can purchase in London by the bills of exchange which are procured by those notes.

The next class of gainers are the proprietors of Bank of Ireland stock: the greater the amount of notes issued, the greater of course their gains; and accordingly we observe, that the Directors of the Bank of Ireland have increased their dividends from $6\frac{1}{2}$ to $7\frac{1}{2}$ per cent. and added to that a bonus of 5 per cent. last year, making in the whole $12\frac{1}{2}$ per cent. interest, which their stock produced.

The merchants who obtain such extensive discounts from the bankers are also gainers by the system, that allows those discounts to be extended to an amount which the Directors themselves confess* could not exist were the restriction taken off. It is greatly to be lamented that the interest of the country and of the merchants is in this point irreconcilable.

The government also are gainers, in a manner which no subject, however loyal, can approve of, if the Bank restriction has permitted the Directors to make to them advances, which, were there no restriction, would be incompatible with the safety of their institution.

* See the Evidence, page 99.

How far the private bankers of Dublin are gainers, the evidence laid before the Committee furnishes no data to determine; but if it is allowed that their gains are in proportion to their issues, we may conclude that they are not without their share of profit.

But the gains of the silver note bankers of Skibbereen and Youghal, and other places in the South of Ireland, are not so ambiguous. They are mere coiners, with this advantage over all who had formerly followed that pursuit, that their materials cost them nothing, not even the expense of stamps, of which they have hitherto defrauded the revenue.

The numerous forgers of notes on the different bankers, which the number of those bankers encourages, are also among the gainers by this system.

All agents in the North of Ireland, possessing sufficient influence to force the tenants of the absentee proprietor to pay in gold, and who pays them the next day in paper, gain eight or ten per cent. at the expense of the tenants; and if those agents remit the rents, paid in gold, through Dublin and not through Belfast, they then become gainers of eight or ten per cent. at the expense of the landlords.

But the most singular of all the gains which originate from the system of supplying two parts of the same united kingdom with circulating medium in such a manner, that its value shall be different in each, is the profit of the dealers in exchange: however familiar this may be to men of business, it is perhaps still little known to the public. They who conceive that the profits of such dealings arise from remitting capital at a high exchange, in order to draw it back again when low, have formed a very inadequate idea of the subject: such a speculation would be mere gambling, and might be productive of loss, as probably as of gain; but the commerce in exchange is founded not on the probable variation of exchanges at different times, but on its actual variation at the same time in different places.

When the rates of exchange are low, both in London and Dublin, the difference between them will afford rather a greater profit to the dealer, than he could obtain from the same difference existing between higher rates*. It must not however be concluded, that the dealer prefers low to high rates; he finds from experience, that the difference of exchange is generally greater, when the rates

* See Evidence, page 24.

are high than when they are low; and therefore, although he would prefer a difference of 2½ or 3 per cent. on a low rate of exchange, yet as such a difference does not occur, except when the exchange is high, he prefers the high rate; the gain resulting from the greatness of the difference being infinitely more important than the loss occasioned by the height of the rate. The following calculations are founded on the supposition of high rates, and of course state the gains of the dealers as still less than they would have appeared on the supposition of the rates being low.

It will be necessary to consider this subject rather in detail, especially as they who have not given it their particular attention, little suspect what a prodigious increase of profit ensues to the dealer, on a very small increase in the difference of exchange.

Let us first suppose, for the sake of illustration, that exchange in London is 117, and in Dublin 115; this gives a difference of 2 per cent.*, which very frequently occurs. The dealer in London

* Compare the exchange of London on Dublin, and of Dublin on London, for the last year.—See A 1 and A 2 in the Appendix to the Evidence, also No. I. in the Appendix to this work.

invests 1000*l.* British in the purchase of a bill on Dublin, at twenty-one days date, of the amount of 1170*l.* Irish: he makes this purchase, let us suppose, on Monday morning, and sends the bill to Dublin for payment in that night's mail; it arrives there on Thursday morning, and is discounted on that day.

There will then be to be deducted from - - - - (Irish)		£.1170 0 0
Discount at 5 per cent. 21 days, 3 days grace	£.3 16 11¼	
Expense of postage	0 2 2	
Total to be deducted *		3 19 1¼
He receives therefore on Thursday morning - - - (Irish)		1166 0 10¾

With this he purchases the next day, Friday, a bill on London, of twenty-one days date, which, at an exchange of fifteen per cent. produces (British) 1013*l.* 18*s.* 4*d.* This bill leaves Dublin on Saturday, and may arrive in London on Tuesday morning; but let us suppose the wind has been contrary for two days, in order to allow for all supposable delays; and let us say it has at length returned to London on Thursday morning, that is, on the tenth day after the 1000*l.*

* No brokerage is charged in Dublin, nor any commission in a transaction of this nature, which is between correspondents having a joint account.

had left London in the shape of a bill on Ireland. The dealer offers it that day to be discounted;

There will then be to be deducted from - - (British)		£.1013 18 4
Discount at 5 per cent. 21 days date, 3 days grace	£.3 6 8	
Brokerage at 1*s*. 10*d*. per cent. - - - -	1 0 3	
Postage - - -	0 2 0	4 8 11
		1009 9 5
There remains above all expenses -		£. 9 9 5

This 9*l*. 9*s*. 5*d*. is all profit, which the 1000*l*. has cleared by its journey to Dublin; and 9*l*. 9*s*. 5*d*. on 1000*l*. is at the rate of 18*s*. 11½*d*. per cent. for ten days. Such pay is too great to allow the 1000*l*. to remain long idle, and it instantly sets out once more for Dublin, to return again in ten days, equally improved by its travels. It may thus return thirty-six times to the owner in the course of a year, without making any extraordinary expedition, and each time (supposing the difference of exchange to continue two per cent.) return 9*l*. 9*s*. 5*d*.; that is, in the course of a year, 341*l*. which is a profit of 34*l*. 2*s*. per cent. per annum. But let it be supposed that the exchange-dealer is so remiss, or so unfortunate, that he cannot make his 1000*l*.

return to him once in ten days, but only once in fourteen days; this will give twenty-five returns in the year, and this is certainly the smallest possible number that can be supposed. In this case the profits of his capital so employed will be at the rate of 23*l*. 13*s*. 6½*d*. per cent. per annum.

This sum of 341*l*. in case of thirty-six returns, or 236*l*. 15*s*. 5*d*. in case of only twenty-five, may be considered as the pay and reward of 1000*l*. for having performed a course, in one year, to the extent of 24,120 miles in the first instance, and of 16,750 in the second. Of which 24,120 miles, 19,800 have been performed in the mail-coach between London and Holyhead, and the remaining 4,320 in the packet-boat between Holyhead and Dublin.

Mobilitate viget, viresque acquirit EUNDO.

One thousand pounds, thus employed, may therefore produce above thirty-four per cent. in the course of one year; and, what is still more surprising, without having once served as the medium of exchange for any other commodity than paper during the whole of that time.

It will, however, be necessary to examine the nature of this profit still farther, for as yet we have not ascertained its extent. It has hitherto been supposed that the bills in which the 1000*l.* has been invested, have been drawn by merchants and bankers; but if they are drawn by persons not in trade, for example, by the absentee proprietors, the profits become much greater. Let us now suppose, that all the thirty-six bills drawn in London, have been drawn by absentees. This is certainly an improbable supposition; but it is just as improbable that they should all have been drawn by merchants; and therefore, as we have seen the profits which would arise where the bills have been drawn solely by persons in trade, let us now examine what they would amount to if drawn solely by persons not in trade; and as we may be certain that the actual profits are not as great as would result from this latter supposition, so we may pronounce, with equal certainty, that they are greater than we should conclude from the former. When exchange in London is seventeen, and in Dublin fifteen, the person not in trade, for 100*l.* English, paid to him by his banker, gives his bill on Dublin, at twenty-one days sight, for 118*l.* that is, one per cent. more than the current rate.

Let us examine the profits of exchange on such a transaction.

1000*l.* British, at exchange 118, produces a bill on Dublin for Irish				£.1180	0	0
Discount 24 days	£.3	17	7¼			
Postage - - - -	0	2	2			
Total to be deducted - - - -				3	19	9¼
Total received in Dublin (Irish)				1176	0	2¾
1176*l.* Irish, at exchange 115, purchases a bill on London for British				1022	12	2
Discount 24 days	£.3	6	2			
Brokerage - - -	1	0	6			
Postage - - - -	0	2	0			
Total to be deducted - - - -				4	8	8
Total to be received in London				£.1018	3	6

The 1000*l.* British will therefore have cleared 18*l.* 3*s.* 6*d.* by its journey; so that travelling at the rate of twenty-five returns in the year, it will clear 45*l.* 8*s.* 5*d.* per cent.; but if at the rate of thirty-six, 64*l.* 16*s.*

It is, however, impossible to attempt to state the actual profits of stock employed in this trade. The gain is composed of different parts arising from different causes, and these for ever varying: it depends principally on the difference of exchange, which is perpetually shifting; much on the skill, and something on the luck of the dealer, who is to avail himself of these changes; it depends also on the velocity with which his capital travels. From twenty-five to thirty-six returns in the year seem to be the limits of its activity. It depends also very considerably on the proportion which the bills drawn by persons out of trade bear to those drawn by persons in trade.

Nothing but the books of the exchange-dealer, nor even those without much investigation, could furnish the necessary *data* to determine the proportion which these component parts of the exchange-dealer's profit bear to each other when united.

In the annexed note are stated the various profits* which would result under each of the principal circumstances singly by which it can be in-

* I. *When the exchange is London on Dublin* 116
Dublin on London 115,

	Produces a Profit at the Rate of per Cent. per Annum. £.	s.	d.
1. A capital travelling at the rate of 25 returns in the year - - - - -	2	0	3
2. But if the drawers in London are none of them in trade - - - - -	23	13	6½
3. A capital travelling at the rate of 36 returns in the year - - - - -	2	17	11
4. If the drawers are not in trade - - - -	34	2	0

fluenced. For determining in what probable proportion these different circumstances are combined

II. *If the exchange of London on Dublin is* 116½
Dublin on London 115,

	Produces a Profit at the Rate of per Cent. per Annum. £.	s.	d.
1. A capital travelling at the rate of 25 returns in the year - - - - -	12	17	6
2. If the drawers in London are not in trade -	34	10	1
3. A capital travelling at the rate of 36 returns in the year - - - - -	18	10	9
4. If the drawers in London are not in trade -	44	13	9

III. *If the exchange of London on Dublin is* 117 2 3 *
Dublin on London 115 8 7.

1. A capital travelling at the rate of 25 returns in the year - - - - -	16	15	1½
2. If the drawers in London are not in trade -	38	5	10
3. A capital at the rate of 36 returns - -	24	2	7
4. If the drawers are not in trade - - -	55	2	9½

IV. *If the exchange of London on Dublin is* 117, *and*
Dublin on London 115.

1. A capital travelling at the rate of 20 returns in the year - - - -	23	13	6½
2. If the drawers in London are not in trade -	45	8	4
3. A capital travelling at the rate of 86 returns in the year - - - - -	34	2	0
4. If the drawers in London are not in trade - -	64	16	0

* These rates are inserted as having actually been the average for three months together.—See Appendix to the Evidence, pages 14 and 30.

in practice, a table in the Appendix*, No. I, shewing the differences of exchange between London and Dublin for the last quarter of the last year, will give great assistance.

High as these profits may appear, they are as fair as in any other commercial speculation. Nothing can be more illiberal than the reflections which have sometimes been thrown out against the dealers in exchange. So long as the system of communication between two parts of the same united kingdom shall allow them to make above 30 per cent. by so innocent a transaction as sending bills from one to the other, it would be in vain to expect that they should not avail themselves of such extraordinary good fortune; but wherever there is profit, there must be correspondent loss; and though the gainers may be perfectly satisfied with such a system, the losers must be permitted to inquire into the expedience of its continuance.

* The actual differences which have prevailed for six months may be seen by a reference to the Appendix, No. I. and more at large in the Appendix to the Evidence A. 1. and A. 2. By those tables it will appear that the average difference for three months together was $1l.$ $13s.$ $8d.$; from the 2d of October 1803 till the 10th the difference was 3 per cent.; from the 10th till the 22d it was $2\frac{1}{2}$; it then fell to $1\frac{1}{2}$; from the 14th of November till the 22d there was a difference of 2 per cent.; from the 13th to the 31st of December the difference was $2\frac{1}{4}$ and 2.

If the money communications between London and Liverpool were shackled with such a heavy tax, it is impossible to doubt, that not only the communications between the two places, but their respective monied capitals, would be diminished; but if Liverpool owed a great debt, for which it was obliged to pay interest in London; if the principal citizens of Liverpool spent their lives in the metropolis, and carried on their business at home by factors and agents; and if Liverpool was thereby *compelled to support a monied communication with London*; the loss to Liverpool in this case would be the more vexatious, and the gain of the dealers in exchange the more certain, and the call on the Legislature, to put an end to both, the more imperious.

CONTENTS OF THE FIFTH CHAPTER.

GENERAL REMEDY FOR UNFAVORABLE EXCHANGES.

If the preceding examination has been successful in the investigation of the causes of unfavorable

exchanges in general, and more particularly of that which prevails against Ireland, it will not be difficult to discover the remedy of the evil.

It has, indeed, been surmised, that every unfavorable exchange carries within itself the principle of its own destruction. It has been pronounced, that the present exchange against Ireland operates as a bounty of 10 per cent. on Ireland's exports, and as a duty of 10 per cent. on Ireland's imports; that the consequence must be an augmentation of Ireland's exports, and a diminution of her imports, until at length the sum to be remitted to Ireland, in payment of the balance of trade, shall be equal to her foreign expenditure. It was on these grounds that we have been informed that there were "no grounds for the apprehension that a high exchange could ever be injurious to Ireland," and "that it was a symptom, and no unfavorable one, of her situation."

It is not a little unfortunate for the persons who maintain this theory, that the fact has hitherto been diametrically opposite to what they would lead us to expect. Ireland has now had some years experience of the benefits of a high exchange, and even of an exchange continually rising in its rate; yet, so far from its having augmented her exports, her exports have remained nearly stationary*; so far from diminishing her imports, her imports have continually increased.

When we see that an exchange so permanently and greatly against Ireland has failed to produce these effects, which have been held forth as its inevitable consequence; and this, although it has been allowed to operate for such a length of time; the question naturally arises, "When may it be expected to fulfil the splendid promises which have been made for it?" It may be confidently answered, Never. Of all the delusions which have been propagated on this subject, this is, perhaps, the greatest. The present exchange offers no encouragement to export, no discouragement to import.

It has been said, that as 100*l.* British can now exchange for 118*l.* Irish instead of 108*l.* as formerly, it is a temptation of 10 per cent. to the British merchant to become a purchaser in Ireland; but if 118*l.* Irish can now purchase no more commodities in Ireland than 108*l.* formerly, what becomes of this temptation? It is the cheapness of *Irish commodities* alone which could tempt the British merchant; but in this instance he finds nothing cheap but *Irish Bank notes.* The value

* See Appendix, No. III.

of the commodities, as purchased in British money, is not in the least affected.

If the circulating medium of Ireland has lost 10 per cent. as compared with gold, cattle, linen, and English Bank notes, it will require 110*l.* Irish to purchase the same quantity of any of these that 100*l.* Irish did before; but the gold, cattle, linen, and English Bank notes, will retain the same relative value to each other as if the Irish paper had suffered no depreciation. An example will make this very clear.

Suppose that 108*l.* 6*s.* 8*d.* Irish were equal in value to 1200 yards of Irish linen, and that exchange is at par, 100*l.* English will be able to purchase 1200 yards of Irish linen. Now if the Irish medium loses one tenth of its value, 100*l.* British will, indeed, exchange for 118*l.* Irish; but it will still exchange only for 1200 yards of Irish linen, because the linen will then be no longer purchasable for 108*l.* 6*s.* 8*d.* Irish, nor for less than 118*l.* Irish.

The fallacy originates from assuming that the Irish medium has retained its value, as compared with every commodity, except gold, silver, copper, and English Bank paper; whereas it is *because* it has lost its value, as compared with every other commodity, that it also loses its value, as compared with these.

But if any feel it difficult to conceive how an high exchange can fail to operate as a bounty, it may be allowed to them, provided they recollect that the *cause of that exchange* has previously operated as a duty to the same extent. If the exchange makes Irish commodities 10 per cent. cheaper to the English consumer, the depreciation of the Irish medium had first made them 10 per cent. dearer; so that the bounty *only countervails* the duty; the price therefore remains exactly what it would have been, had neither depreciation nor exchange taken place.

It has already been admitted, that an unfavorable exchange, when real, that is, an exchange computed in the value of the precious metals, operates as a bounty on exports, though never to a greater extent than the expense of carriage of the precious metals to the creditor country: but for the reasons already stated, it is in vain to expect such an effect from a nominal exchange; that is, an exchange computed according to the nominal value of the circulating medium of the country, as distinguished from the quantity of the precious metals which it really contains or represents.

It will be in vain, therefore, to continue any longer in expectation of what never can arrive, and to submit to an increasing grievance in the unfounded hope of its tending to redress itself. The necessity of seeking farther for a remedy must be apparent, and a remedy, not founded on a system of expedients*, which can only tend to aggravate the evil.

As all the difficulties in which Ireland is engaged have evidently flowed from the restriction, we must naturally look forward to its removal as the final remedy: but it will be necessary also to take into consideration, that the effects which the restriction has produced have the remarkable property of rendering its continuance a measure of necessity; it is necessary therefore to take into consideration the probability of its removal being speedily effected, as well as the desirable consequences which would ensue on that event.

But as that consummation, however devoutly to be wished for, may be still far distant, it certainly should become a subject of inquiry, whether, during the continuance of the restriction, it is absolutely

* The reader will find in the 5th and 15th pages of the Evidence, a remarkable instance of the fate of an expedient adopted on a similar occasion.

necessary that it should continue the parent of so much mischief? whether it is impossible to curb its operations? at least, whether a system different from that which is pursued might not prevent the depreciation of paper through excess?

It has already been observed, that so long as there was no restriction the circulating medium could not be permanently excessive; but it does not follow that its excess must be the necessary consequence of the restriction; the restriction permits excess, but does not compel it; and it is difficult to conceive any obligation which it imposes upon the Directors to issue a greater quantity of paper than would circulate if no restriction was imposed.

Previous to the restriction the Directors considered the run on them for gold as the criterion of the proper quantity of paper which they should keep in circulation; that is, when the demand on them for gold was great, they considered it as a proof that the quantity of their notes in circulation ought to be reduced; and they never failed immediately to contract their issues, and consequently to diminish the amount of the circulating medium of the country.

This demand on them for gold they attributed to various causes; sometimes to the quantity of their paper being too great, sometimes to political alarm, but generally to the unfavorable state of foreign exchanges; and so much attention did they pay to this last cause of demand, that in all cases of unfavorable exchange, conceiving that the gold must be flowing out of the country, they lessened their issues as a measure of precaution. That such *was* the practice of the Banks previous to the restriction is so well known, that it is scarcely necessary to adduce particular proofs of it. The reader will find it continually avowed in the examinations of the English Directors before the Secret Committees of the Lords and Commons in 1797, and still more distinctly by Mr. Colville*, an Irish Bank Director, in his recent examination. It is further assumed in the Report of the Select Committee.

"Such has been the natural practice of banks "previous to the restriction. Mr. Colville states "it in very clear and forcible terms as to the Bank "of Ireland. *Prior to 1797 they limited the* "*amount of their issues as exchange rose.* If pru-"dence has not dictated such a course, necessity

* Page 100, Evidence before Select Committee.

"would have compelled a diminution of their "issues, by diminishing the stock of specie, which "could only be replaced at a loss proportionate to "the existing rate of exchange; and your Com- "mittee observe, that, in fact as well as in theory, "the effect of such practice always was and must "be the redress of the unfavorable exchange *."

The general proposition which the Bank Directors seem formerly with so much justice to have admitted, is, *that in every commercial country the limitation of the circulating medium is the efficient remedy for redressing its unfavorable exchanges.* In pursuing the line of conduct which this principle suggested, the Directors acted for the benefit of the country as much as for the safety of their establishment; the effect of their measures having been most powerfully to second the operation of the balance of debt in producing the means for its discharge.

As the first effect of an unfavorable exchange, arising from a balance of debt, is to create a demand for circulating medium in the debtor country, and in many instances actually to export it, it is evident that it tended *to limit the amount* of the circulating medium, by creating a demand for that

* Report of the Select Committee, page 4.

medium which could not be supplied. The effects of this scarcity have already been fully examined *; it is sufficient now to observe, that, were there no bank, the principle by which the balance of debt, and consequent unfavorable exchange, are removed, is by the limitation of the circulating medium which they occasion.

But it is obvious that a bank may entirely counteract this tendency *by increasing the circulating medium of the country in proportion as it is demanded*; and it is so natural that they should be called upon to do it, that whenever it were possible we should not be surprised if such were constantly their conduct; but fortunately for the nation, before the restriction, their interest, as a private corporation, most remarkably coincided with that of the nation at large; which, so far from allowing them to increase their issues at such a time, compelled them most remarkably to diminish them, and create a scarcity or limitation of circulating medium much greater than the balance of debt, or unfavorable exchange, could otherwise have occasioned. The interests of the nation and of the Bank, though requiring the adoption of the same measure, that is, the limitation

* In the first chapter.

of the circulating medium, were founded on different motives; it was the interest of the nation that the circulating medium should be scarce, in order to encourage and compel an increase of exports in lieu of money to discharge the balance; it was the interest of the Bank that their outstanding notes should be few, in order to diminish the run upon them for gold; so far therefore from there being any danger of the Bank counteracting the efficacy of the balance of debt, the public were secure that the Bank would facilitate its operations; for the balance of debt, if left to produce its own effect, could limit the circulating medium only in the amount of the debt to be paid: but the operations of the Bank limited it much more, perhaps to double that amount; and by the superior scarcity, that is, value of circulating medium which they thus created, they redressed the exchange in a still shorter time.

Previous to the restriction, when an unfavorable exchange produced a demand for the exportation of gold, the Bank were called upon to furnish it in payment of their notes. The Bank immediately were compelled in prudence to diminish the amount of their notes in circulation, and this diminution they usually effected by not re-issuing in place of those paid in.

It was fully admitted in the evidence *, that in the event of a run on the Bank for gold their notes would be reduced to at least *double* the amount of the gold they were called upon to pay; first, to the amount of the gold paid; and secondly, to an equal amount by the diminution of their loans or discounts which their prudence suggested to them to make. Thus there "was a two-fold cause of "the limitation of the Bank paper, where the exchange was unfavorable; the one, which took "place through the cancelling the notes brought "in for cash which was demanded and exported; the "other, the limitation of paper produced through "the reduction of the loans of the Bank of Ireland *."

* Vide page 100 and 101.

This is also distinctly stated in the Report of the Select Committee:

"When exchange is so unfavorable to a country as to draw "gold out of it, it is obvious, that for every guinea drawn out "of the Bank an equal amount of paper must be drawn out of "circulation to be paid for the guineas. The re-issue of paper "to that amount must be prevented by the decrease of the "stock of specie: the same cause will most probably induce "the Directors to diminish their discounts; *so that the quantity of paper becomes diminished in a still greater amount* "than the gold drawn out of the Bank in consequence of the "unfavorable exchange."

Report of the Select Committee, page 8.

The farther investigation of the connexion that exists between the rates of foreign exchange and the amount of circulating medium is become of more importance; since the Banks, at least the Bank of Ireland, now that the restriction is in force, appear to reject this principle in theory and practice as decidedly as they used to assert it in both before the adoption of that measure.

What was the *practice* of the Bank before the restriction, in case of an unfavorable exchange, has been already seen; they immediately reduced the amount of their notes in circulation. That the *practice* of the Bank of Ireland is now the reverse will not be disputed, when it is recollected, that although the exchange was 10 per cent. against Ireland, they augmented their notes to five times their amount at the time of the restriction. But this practice we find is entirely sanctioned by the theory which they lately have adopted. We are informed by one of their Directors ‡, that antecedently to the restriction the Directors were accustomed to limit their paper as a means of lessening the drain of guineas occasioned by an unfavorable exchange; but that "as far as the guineas so drawn out went to pay "the balance against the country, so far they "operated to the reduction of the exchange against "the country, by paying off so much of its debt, "and *so far only*." It appears then that they entirely exclude from consideration *the value which such reduction added to the circulating medium which remained*, and either hold that this addition of value did not take place, or had no operation upon exchange. Entirely consistent with this theory are the opinions which one of the Directors * afterwards expressed, "that it is a great error, in "judging of this difficult subject, to think that the "extension of paper in Ireland has been a cause of "raising the exchange;" but that his "opinion is "directly the reverse, inasmuch, that as far as the "circulation of paper has supplied the circulating "medium, *it enabled the gold, which before stood "in its place, to be exported out of the country, "and, as far as it went in weight and measure, so "far* it was a clear and decided cause of prevent-"ing the exchange from getting to a higher pitch "than it has hitherto attained; and that *so far* as "the Bank extends its notes, *it further enables "a greater drain of specie to take place*, and con-"sequently to strengthen the cause which keeps "down the rate of exchange."

* Vide page 101, in a question to the Evidence.

‡ Evidence, page 101.

* Evidence, page 102.

How far this exportation of specie is beneficial to a country, has been already sufficiently discussed in the first chapter*. It is satisfactory, however, to perceive, that the Directors are sensible that the extension of their notes has had that effect. It appears that doubts are entertained, whether the issue of this paper preceded or followed the exportation of the gold; yet this seems perfectly immaterial. If (as is most probable) it preceded, the consequence was to send the specie into exile; if it was subsequent, the operation was to prevent its return: but on one point no doubt can be entertained. When the rapid extension of the Bank of Ireland paper first took place, the exchange was rather favorable to Ireland. In proportion as the Bank has lent this species of assistance, the exchange has become unfavorable, until at length, when the extension of their notes was greatest, that is, when, according to their present theory, they had fully "*strengthened the cause which keeps* "*down the rate of exchange*," it became above 10 per cent. against Ireland.

As there appears much reason to apprehend that these new principles of banking, suggested by the restriction, if continued to be acted on, may end in the ruin of the country, a more particular examination of them becomes necessary.

* Page 54.

Let us then consider both in theory and practice this important principle, that *the limitation of the circulating medium is the remedy for an unfavorable exchange; and this equally whether the exchange is real, proceeding from a balance of debt, or nominal, arising from depreciation of paper through excess.*

If the depreciation of paper through excess be the cause of the exchange, it is so clear, that a reduction of that paper must be the remedy, that it is unnecessary to endeavour to make it clearer by illustration. But it may not be quite so obvious why a similar limitation must be the remedy, where the exchange arises from a balance of debt. Perhaps the most correct view that could be taken of this subject would be, to consider exchange generally as the comparison of value between two circulating media, and that when the circumstances* attending a balance of debt had added a superiority of relative value to the circulating medium of the creditor country, the limitation of the circulating medium of the debtor country, making it also more valuable in proportion as it made it more scarce, removed its relative depreciation. Or, to put it in another light, when the superior demand for bills on the creditor country has added to its circulating me-

* Arising from the practice of making the payments by bills of exchange.

dium an artificial value, the limitation of the circulating medium of the debtor country, by increasing the demand for it as well as for the other, operates a similar artificial increase of its value until it finally becomes as valuable as the other; that is, until exchange is reduced to par.

The manner in which a scarcity of circulating medium, by *adding to its value*, encourages or rather forces the productions of the industry of a country, has been already stated at length in the first chapter, and it is therefore unnecessary here to repeat it. It was there also observed, that it is no refutation of this proposition, that when, by artificial and violent means, the remedy is applied in excess, it produces the opposite effects. The commercial history of these countries affords some remarkable instances of the successful application of this principle in practice.

We are informed by the evidence of Mr. Mansfield, a banker of Edinburgh, that soon after the peace of Versailles, and until the year 1770, the exchange between London and Edinburgh was five or six per cent. against Edinburgh; that, at this time, "*the currency of Scotland was principally paper,* "*and that to a greater extent than the natural* "*trade of the country required.* The chartered "banks of Scotland, finding that they had given

"imprudent credit to bankers and their agents, "who issued notes, *they curtailed them very* "*much*: that the over-issue of paper *was prior to* "*the unfavorable state of the exchange*, and that "it was the cause of the system being altered; "and he certainly thinks, *that the over-issue of* "*paper was the cause of the high exchange*;" that the chartered banks, finding it proceeded from artificial means, determined to put an end to it: that, for this reason, "they began to think of "collecting *as much funds* as they could bring to "London *of their own*; those funds they lodged "partly with the Bank of England, and partly with "their own bankers;" and the banks then began to reduce the rate of exchange, by giving bills on London at a rate of half per cent. or one per cent. under that of the day: that in the course of years they reduced it to half per cent. against Edinburgh, at which rate it has continued invariably ever since*; and that it never fluctuated even in the convulsion which credit experienced in 1793, nor at the time of the restriction in 1797: *that the demand for bills on London, though great at first, gradually decreased as the exchange was reduced*: that this change of system was adopted in consequence of there being more paper in circulation than the situation of the country required, and

* The custom is to give bills on London, at forty days date, or sight, which is about half per cent.

that it had *the effect of diminishing the quantity of paper circulation*; and "that no inconvenience of "any kind has resulted from it, except the *tempo-* "*rary* one of the banks having to provide funds "in London at the commencement of it; that, "on the contrary, it has been productive of the "greatest good."

Mr. Mansfield adds, that he thinks there is a balance of trade and remittances against Scotland with England; but "that he apprehends that a "mutual communication of trade may exist be- "tween the two countries, without creating any "exchange at all."

But it is not necessary to resort to Scotland for a precedent of that conduct which ought to be pursued in Ireland. Ireland may find in her own history a still more remarkable instance of the practical effects of increasing and contracting her circulating medium.

We are informed by Mr. Colville, an Irish Bank Director, deputed from the Bank to the Committee, that he "remembers perfectly well, "that, in 1753, *the circulation of paper in Dublin* "*from the private bankers was so general and ex-* "*tensive*, that in receiving 1000*l.* there was not "10*l.* in gold at that time. I remember that

"*exchange was near three per cent. above par*; "the consequence was, that the bankers of Dub- "lin, of whom there were as many as at present, "if not more, were in competition with one ano- "ther to send their specie over to London, and to "get back bills at four per cent. above par, bring- "ing in a clear profit to that extent. The conse- "quence of this shewed itself in the succeeding "year: all the banks failed except Messrs. La- "touche's house, and Sir W. Newcomen's; and "these two banks paid off their entire paper. "*There followed a total annihilation of Bank* "*paper in Ireland at that time*; and I remem- "ber it was said with triumph, that Ulster, "the great seat of our linen manufacture, was "safe, because she had no such thing as Bank "paper in that province. But see how this bears "on the question asked me: the consequences "were, *that exchange fell two or three per cent.* "*under par, and the whole circulation of Ireland* "*was turned from paper into gold*; but the result "was, that multitudes of people were ruined: "the convulsion was exceedingly severe; many "tenants threw up their lands, and there was no "person connected with the three southern pro- "vinces of Ireland that did not suffer severely."

It is unnecessary to point out to the reader the entire confirmation which this theory receives from the above important statement. When the circulating medium was rendered too general and extensive by the over-issue of paper, exchange was three per cent. against Ireland; but when the circulating medium was almost annihilated, the exchange became two or three per cent. in favor of Ireland. The sudden reduction thus appears to have reduced the rate of exchange above five per cent. So long as the circulating medium of Ireland consisted of a greater number of pounds than her commerce could employ, at the same value as formerly, so long their value, as compared with English pounds, was diminished, that is, the exchange was against Ireland; but as soon as great part of the Irish pounds were annihilated, *the remainder becoming valuable in proportion to their scarcity*, not only recovered their value, as compared with English pounds, but had much the advantage in the comparison, so that the exchange became as much in favor of Ireland as it had before been against it *. As the limitation of the circulating medium of Ireland was unfortunately sudden and violent,

* It is obvious, that all who admit the accuracy of this important statement, for which we have acknowledged our obligations to Mr. Colville, but who, nevertheless, continue of opinion, that the balance of debt exclusively regulates the rates of exchange, must contend, that the failure of the Irish banks discharged a balance of debt which existed against the country, and, what would be still more extraordinary, created a balance in its favor.

great individual calamity appears to have ensued; but it must be confessed, that *at least the unfavorable exchange was completely redressed*; and had that limitation been gradual, and the effect of a judicious arrangement, the exchange would equally have been remedied, while the attending inconveniencies would not have been occasioned. It is also worthy of remark, that, notwithstanding the misery of the country, gold poured into it: the reader will recollect the theory of the first chapter, and observe how much it is confirmed by this fact. It was there observed that gold would flow into every country, in proportion to the demand for it, as certainly as it would leave any country in which it could be dispensed with. It was for this reason, it was asserted, that the removal of the restriction would cause the gold requisite for circulation to flow into the country; and it was for this reason, it was contended, that the balance of debt could never be permanently favorable or unfavorable to any country.

It seems unnecessary to endeavour farther to illustrate the principle, that *the limitation of the circulating medium is the specific remedy for an unfavorable exchange*; or to dwell on the necessity of the Directors of the Bank of Ireland *resuming those principles of conduct, by which they were guided before the restriction, but which they have* *abandoned since the adoption of that measure; and to which, by their own confession*, they must again resort whenever that act shall be discontinued.*

* Pages 99 and 101.

CONTENTS OF THE SIXTH CHAPTER.

APPLICATION OF THE REMEDY IN IRELAND.

ing these new Powers according to their present Principles.

In the last chapter it has been attempted to establish the necessity of the Directors of the Bank of Ireland resuming those principles of conduct, which they used to pursue previous to the restriction; but which they have abandoned since the adoption of that measure.

The Select Committee, fully convinced of this necessity, have expressed their opinion in terms as decided as language can afford. "*Your Committee do, in express terms, declare their clear opinion, that it is incumbent on the Directors of the Bank of Ireland, and their indispensable duty, to limit their paper, at all times, of an unfavorable exchange, during the continuance of the restriction, exactly on the same principle as they would and must have done in case the restriction did not exist; and that all the evils of an high and fluctuating exchange must be imputable to them if they fail to do so* *."

It appears, however, that some peculiar difficulties occur in considering how this necessary limitation can at present be practically carried into effect in Ireland. If the limitation of the circulating medium of England should be thought expedient, the Bank of England, by the control it possesses, could easily effect it; but it is not ascertained that the Bank of Ireland at present possess any such power; and even though that Company were now to resume its former principles of conduct, yet, if unaided by farther regulations, some doubt may be entertained whether the complete limitation of the circulating medium of Ireland would be the effect of such measures. Ireland is at present inundated with circulating medium, from three distinct sources almost unconnected with each other—the Bank of Ireland, the private bankers, and the loans from England.

* Report of the Select Committee, page 19.

An important difference must, however, be observed between the effects that they produce. The loans supply a circulating medium, which can obtain value in another country *; the medium issued by the Irish banks must stay at home. The first, therefore, goes forth in exchange for imports, the other becomes depreciated in proportion to its excess. The first produces the same effects as have been attributed to a surplus quantity of the precious metals poured into a country, diminishing its industry and swelling its imports ‡. The second, operating a nominal in-

* In whatever shape the loan is remitted from England, it must be able to obtain value there.

‡ See page 100 and 101, antea.

crease of the quantity of circulating medium, produces a corresponding diminution in the value of any given portion of it; so that Ireland appears to have the rare ill fortune of uniting in her present system the various and opposite mischiefs which ensue in Spain, on the importations from the mines *, and which were experienced in France from the emission of assignats.

The reason that the Bank of Ireland does not possess a control over the circulating medium of the country is, that, at present, the holder of the note of a respectable private banker has no sufficient inducement to call upon him to exchange it for a note of the bank of Ireland; the one is to him just as good as the other; and, therefore, there appears some reason to apprehend, that if the Bank of Ireland were at present greatly to diminish their issues, the consequence might be a proportionate extension of private paper, to fill up the void. In order, therefore, to possess themselves of the same salutary control as the Bank of England exercises in this country, the Directors of the Bank of Ireland *must create a sufficient inducement* to tempt the public to prefer their paper to that of private bankers. It will be found that the present situation of Ireland affords them an opportunity of creating such an inducement, with perfect safety and great advantage to their institution, and at the same time with the greatest benefit to the public.

* Vide page 101, antea. Mr. Hume has endeavoured to refute the opinion, that the poverty of Spain and Portugal is attributable to their importation of gold and silver. He has endeavoured to account for it by the folly of their political and religious establishments; but this does not prove that the unnatural influx of gold and silver has not also its operation.

It is obvious, that if the Bank of Ireland were to pay their notes in Bank of England notes, or, which is the same thing, in bills on England at par, when the exchange is eighteen, such an operation would immediately add ten per cent. to the value of their notes in circulation; that is, *their notes would become ten per cent. more valuable than those of the private bankers.* The inevitable consequence must be a universal call on the private bankers, for payment in Bank of Ireland notes. Any person possessed of a private banker's note for 100*l.* which would then be equivalent in value to about 91*l.* of Bank of Ireland notes, would immediately call upon the private banker to pay him 100*l.* in Bank of Ireland notes, because he would perceive that he should gain 9*l.* by making the demand. This call on the private bankers would be made not merely by those who wanted to remit to England, but universally. The same cause that formerly produced a run upon the banks for gold, whenever the paper of the country was excessive, would now create a similar demand for payment in Bank of England, or, which would then be the same thing, in Bank of Ireland notes. In the present circumstances of Ireland, the convertibility of her paper into Bank of England notes, would operate in the same manner as formerly the convertibility into gold; that is, produce a demand for the conversion, so long as the circulating medium continued excessive: and as, formerly, in consequence of the demand, the bankers were forced to contract their issues to provide for their safety; so, in this instance, the private bankers possessing no means of commanding Bank of Ireland notes, in proportion to their excessive issues, must instantly contract their paper, in order to avoid inevitable bankruptcy. The Bank of Ireland, by this simple operation, would at once become possessed of such indisputable superiority, that they might control the circulating medium of Ireland, without a rival.

It was first proposed by Lord King in the House of Lords, that a clause should be introduced into the Bank Restriction Bill, obliging the Bank of Ireland to pay their paper in notes of the Bank of England.

This measure, founded in the strictest justice, has since been fully adopted in principle by the

Select Committee: in one respect, however, it appears that its consequences would be materially different from those which were originally expected from it. Instead of compelling the Irish Directors to diminish their issues, it might enable them eventually considerably to augment them; and it seems not to be the least of its recommendations, that it would convey to the national Bank that control which it ought to possess, but which it does not. The Bank of Ireland, at present, is one of the many competitors for the supply of the Irish market; and although their issues to the amount of three millions may, in their present situation, be more than fall to their share, yet it does not follow, that, if their competitors were destroyed, three millions would then be too great a proportion. The Bank of Ireland is by many supposed to supply but one half of the Dublin market: if those bankers, who at present supply the rest, were, like the bankers of London, to find it impossible to issue notes in competition with the national bank, the Directors of the Bank of Ireland would find not only an opportunity, but a necessity, greatly to augment their issues, for the demands of Dublin alone.

It is much to be regretted, that the peculiar principles which the Directors of the Bank of Ireland appear to have adopted, in judging of this question, should lead them to consider this measure in a different light. So far from admitting the advantages that would result, either to the public or to their establishment, they appear decided in opinion, that the consequences of such a measure would be equally efficacious "in de-"stroying the exchange and the Bank together."

They have formed this conclusion on the unfounded assumption, that an enormous balance of debt exists against Ireland *; that the present unprecedented exchange is the necessary consequence of this balance; and that the effects of the proposed measure would be to compel the Bank of Ireland to pay out of their own funds, both now and hereafter, the amount of the exchange on all sums to be remitted to England; an expense to which they with reason consider their funds as inadequate; a remedy which must be temporary if adopted, and which, when at last the Legislature, convinced of their mistakes, should relieve the unfortunate Bank, sinking under its hardships, would permit the exchange to return with aggravated severity, more violent by having been unnaturally repressed. This reasoning resting solely upon the fact of an enormous balance of debt existing against Ireland, a supposition which has been most fully disproved; it seems unnecessary more minutely to

* Even if this were the case, the Directors would not be left without a remedy. See Chap. V.

reply to it. It must be confessed, however, that it is very natural that the Directors should cling to their conclusion, even after the destruction of the premises from which it is deduced, since, if no balance of debt exists against Ireland, the depreciation of their notes can no longer be disputed.

Another objection on which the Directors appear to lay no small stress, is the difficulty of creating the necessary fund in London on which to draw, and the injustice of calling on them to be at what they represent as so enormous an expense. Have the Directors then so soon ceased to consider it as a favor to be released from the fulfilment of their engagements? and do they already consider the non-performance of their promises as among the privileges of their charter? Where are those funds which formerly used to defray the "*great expense and inconvenience*" of supplying them with gold*? and why should it be more expensive now to procure credit in London than formerly to procure guineas?

* Anno 1794, the expense of purchasing bullion amounted to - - - - - £.422,012
Anno 1795, to 214,389
Anno 1796, to 230,081
Anno 1798, to 23,170
Page 62, Appendix to the Evidence.

Query, the present application of those funds which formerly were employed for the purchase of bullion?

The Select Committee in their Report see none of those difficulties which appear to excite the alarms of the Directors; on the contrary, they declare*, that "the objection which has been "made to this proposal is the difficulty and ex-"pense to the Bank of Ireland, which would attend "the procuring a fund in London on which to "draw. On this your Committee observe gene-"rally, that neither the difficulty nor the expense "attendant on this measure would be so great as "that to which the Bank, by its constitution, *is* "*necessarily subject at all times, when not protected* "*by a restriction, from performing its engage-*"*ments; and that whatever funds the Bank for-*"*merly applied, or intend again to apply, on the* "*removal of the restriction, to provide for the dif-*"*ficulty and expense of providing a supply of gold,* "*might in the interim be applied to the procuring of* "*English Bank notes.* The evidence of Mr. "Winthrop points out the practicability of obtain-"ing a sufficient supply of Bank of England notes "with such a fund; his expression is, 'that the "Bank of Ireland, or any person, may procure "Bank notes to any extent, if they will pay for "them.'"

But the expense of providing this fund would be neither great nor permanent; at first, no doubt,

* Pages 15 and 16, Report of the Select Committee.

there would be a great demand on the Bank for bills on England; but as soon as the circulating medium of Ireland had been reduced within proper bounds the demand would cease; and the Bank of Ireland note becoming as valuable as the English bill, no calls for payment would be made on speculations of the profit of making remittances to England; and it is probable, that those who had occasion really to remit would do it through the medium of bills purchased on 'Change, and not through the agency of the Bank, since it is obvious that the bills on 'Change would necessarily be sold at a price rather less than that demanded by the Bank; for if such a regulation was adopted, it could not be expected that the Bank would give bills exactly at par, but reserve a small percentage to themselves as commission. In short, when the rates of exchange should be once reduced, the regulation would cease to be attended with loss, and might be made even productive of profit. That such would be the consequence, is fully proved in the example of Scotland. The regulation proposed is exactly similar to that adopted in that country, and referred to by Mr. Mansfield in his valuable evidence. The Bank of Ireland are called on to act on no new theory. The Bank of Scotland have already, at their own hazard, tried the experiment, and found, as they deserved, the expense trifling, and the success complete.

If the Bank of Ireland were to adopt a similar measure, it would be attended with this farther advantage, that it would afford them a criterion similar to that which they formerly possessed, by which to judge when the circulating medium of the country was sufficiently extended. The demand for bills on England, so far as the notes of the Bank of England were not depreciated, would admonish them to contract their issues in the same manner as formerly a run on them for gold.

The demand on them for discounts, even under such circumstances, would probably become more pressing than ever; but they would then once more become sensible, that the demand for discounts is not the criterion by which they should regulate their issues. It has already been observed, that the interests of the persons obtaining discounts, and of the public, are irreconcilable. The greater the amount to which a merchant can obtain discounts, the more his trade is extended, and his wealth augmented; but the discount has a twofold operation: after having added to the capital of the merchant, as soon as it is by him sent into circulation, it increases the amount of the circulating medium of the country; and if already there is a sufficient quantity, that is, if specie is equally valuable there as in other countries, any addition to it must produce excess and consequent

depreciation*. Before the restriction the banking system seems to have acted as a third power to balance these opposite interests of the merchants and of the public. The bankers granted discounts to the merchants, let us suppose, according to their demand; but the moment their facility became prejudicial to the public, the run upon them for gold which ensued, compelled them to contract their issues, and consult the interest of the public as much as they had before considered the advantage of the merchants.

The public had thus a remedy in their own hands, by which they were secure that the interest of the merchants never should prevail.

This system has been subverted by the Bank restriction, and the equilibrium entirely destroyed. By taking away the possibility of a demand for gold, it has deprived the public of their defence, and committed them to the care of the bankers: it has at the same time changed the interest of the bankers, and rendered it the same as that of the merchants. The interest of the bankers formerly was to preserve the equilibrium between the two par-

* It is admitted that the public receives a benefit as well as an injury; the wealth of one of its members is increased; but the injury is so infinitely greater than the benefit, that it is unnecessary to take the latter into calculation.

ties; it is now their interest, if not their policy, to unite with one to oppress the other. Such then have been the effects of an act to suspend the performance of engagements. Having deprived the public of the defence they possessed, it has committed their interests to the protection of a guardian, and then tempted him to betray them.

But supposing the Directors were to regulate their issues, not by the demand for discounts, but by that for bills on England, would they have done their duty when they had contracted them until the demand ceased? Certainly not. If they perceived that the Directors of the Bank of England had permitted their paper to depreciate *, they should contract their issues till the exchange was favorable to Ireland, in a rate equal to the depreciation of English paper: the Irish Directors would then by their conduct exhibit a more convincing argument against the consolidation of the two Banks than they have yet been able to adduce.

It is admitted that this regulation was attended with loss in the first instance. In Scotland it cost about 10,000*l.*; in Ireland, if it were to cost ten times that sum, it would be a small sacrifice for the

* See page 127, antea.

Bank to make to a public to which they are so much indebted: the Bank should consider its past gains, as well as its future loss, and place their increased dividends and bonus in the scale against the expense to be incurred.

The Committee, fully adopting the principle that the limitation of Ireland's circulating medium is the remedy for her difficulties, and that the most eligible manner of carrying this into effect at present, is by making the Bank of Ireland notes convertible into those of the Bank of England, have proposed a mode of putting it into practice, which obviates every objection of the Bank of Ireland, removes from their establishment all hazard and expense, and demands from it nothing but its trouble, and for that it is to be well paid.

The Committee have proposed, that whatever may be the expense of providing the fund in London, it should be thrown upon the revenue. This may to some appear too generous to the Bank: it certainly is a sacrifice, as well as an indulgence; but the expense will be trifling and temporary, and among all the sacrifices which the public has made for the Bank need scarcely be esteemed an additional favor. A considerable part of the loan still remains to be transmitted to Ireland; it is proposed* to lodge this in the Bank of England to the credit of the Bank of Ireland, and that the Bank of Ireland should give to the Treasury of Ireland a credit for the amount at an exchange little higher than par. Here then is a fund for them on which to draw, and which, by proper management, must reduce the exchange to par; above which if it were to rise again, the blame must be solely imputable to the Bank of Ireland.

Yet, it must be confessed that this remedy, though its success appears certain, if the fund is properly managed, is liable to one objection, from which the measure of making the Bank of Ireland provide the fund at their own expense is exempted.

The latter would necessarily compel the Directors to diminish their notes, and along with them the circulating medium of Ireland: the former, though it gives them every opportunity of doing it, does not make the measure a matter of necessity; so that if the Directors should continue to supply Ireland with an increase of circulating medium to discharge an ideal balance of debt, or to relieve what they conceive to be her distresses, such a conduct would not only defeat the purpose of the

* See the Report of the Committee, page 17.

measure, but add even new difficulties to Ireland's situation. It is probable that the Legislature, should they adopt the suggestions of the Committee, will take some measure of precaution to prevent the possibility of such a misapplication of their bounty. The most obvious security seems to be, that, after having in the first instance paid the expense of providing the fund out of the revenue, the Bank should be obliged to continue it at their own: it is obvious that, with proper management, they need never incur the slightest expense on that account.

It may not be improper, however, to consider what would be the consequence of the *possible* conduct of the Bank being in possession of this fund, and following the suggestions of the Committee, so far as paying their notes by bills on England at par, yet permitting the circulating medium of Ireland to continue at its present excessive height. The exchange would certainly be kept down to par; for as long as the Bank gave bills on England, it could not rise, but other mischiefs would ensue; in comparison to which those of the exchange are trifling. The first and most obvious effect of such a proceeding would be to confer on the paper circulating medium of Ireland a power of procuring value out of that country; and as all the excess of circulating medium in every country has an irresistible tendency to flow out of it *if possible**; all that proportion of Ireland's circulating medium which is excessive would be exchanged at the Bank of Ireland for bills on England, and go to England in exchange for articles of import; *the imports of Ireland would therefore be increased, in the first instance, to the amount of that excess*: but the increase of imports would not stop here; for as we are at present supposing that the Bank of Ireland continues to permit the circulating medium to maintain its present height, every Irish note (whether Bank of Ireland or private banker's is perfectly immaterial†) that was exchanged for bills on England would have its place immediately supplied by a new

* Where the circulating medium is of the precious metals, on the first excess of circulating medium, they leave the country; but where it has been of Bank paper, we know from experience, as well as reason, that it has hitherto been obliged to stay at home; and it would be the extraordinary and novel operation of the system here supposed to *create a possibility* of that Bank paper going abroad.

† The demand for bills on England becoming universal, the holders of Bank of Ireland notes would apply them to that purpose, and even the holders of the notes of private bankers would find the same facility; for to suppose that the private bankers should experience any difficulty, would be to suppose that the Bank of Ireland were exerting themselves to check the amount of circulating medium. The happy effects of such a system on the profits, both of the Bank of Ireland and of the private bankers, would be inconceivable; but the ruin of the country would be the fatal purchase of their gains.

one, which would follow in the track of its predecessor, like it to be converted into bills on England, that is, into increased imports into Ireland. *The increase of imports would thus become literally indefinite*; and if we should suppose it possible that such a system could be permitted to continue, its consequences must be such as to baffle all calculation. The increase of imports could then be checked only by one of two circumstances, either by the failure of the fund in London, or by the Bank renouncing those principles on which they have lately acted; but there might be reason to fear that such would not be the consequence; for, according to the theory which their Directors avow, fully sensible of the mischiefs of these increased imports, they would attribute them to another cause; and so far from suspecting that their own conduct was the sole cause of such destructive extravagance, they would continue to increase their issues, by way of enabling Ireland to discharge the immense debts which they must suppose she was contracting; thus applying as a remedy the aggravated cause of the disorder.

The *effects* of endowing the paper of Ireland with a power of exchanging for articles of import,*

* An opinion has been expressed, that the present excessive circulation of Ireland increases her imports; but surely a little consideration must shew, that whatever value it may

would ultimately fall upon the industry of the country. The *profits* of the operation of adding ten per cent. to its value would accrue exclusively to the issuers; the immense *expense* of it would be defrayed by the revenue.

Among all the errors of the mercantile system, that of granting, intentionally, a bounty upon imports can certainly no where be discovered; yet that theory never proposed nor even conceived a bounty upon exports so efficacious as would be the operations of this measure upon the imports. Ireland would then present the new phenomenon of a nation burdening herself with taxes, and even borrowing millions from another country, for the purpose not of augmenting her revenue, but of squandering it in bounties upon extravagance and profusion.

If the expense of supplying the treasure sufficient for such powerful destruction was to be defrayed at the expense of the destroyers, nothing need be apprehended from their measures. If the Bank of Ireland should be obliged, at its own expense, to defray the expense of supplying the demand for bills on England, they will contract the circulating medium until the demand shall cease. The Com-

possess within the country, it can procure none without: if sent into any other, it *might indeed* increase Ireland's *exports*, but by no possibility her *imports*.

mittee propose that the nation shall pay the first expense, whatever it may be. If any future expense ensues, it must be the fault of the Bank of Ireland; and if they are to pay for their errors, there is no danger of their omitting to correct them *.

* It would swell this work too much to enter into a detailed refutation of various other remedies which have been proposed for the exchange against Ireland. I shall briefly notice the three following:

1st. A tax upon the absentees, sufficient to send them all home to their country.—Not to dwell on the impolicy as well as injustice of such a measure, if the principles of this Essay are admitted, it will be evident that *it could have no effect upon the exchange*, for the exports of Ireland would be diminished by the amount of their rents; but even if such were not to be the result, still their return could by no possibility add to the amount of silver represented by the too numerous bank notes of Ireland; and consequently could not convey to them a power to procure either more linen, more gold, or more English notes than at present.

2dly. It has been proposed to remit the loans to Ireland in English notes, to be paid at par by the public offices in their various disbursements.—Ireland would then possess two circulating media, equal in nominal, but different in intrinsic value; and the consequence must be the same as that which ever has ensued in such circumstances—the less valuable would expel the other. A nation whose currency is in a degraded coin, if it issue a new coinage, without calling in the old, will find the good coin instantly disappear: so must English Bank notes issued at par in Ireland, so long as her circulating medium is excessive. The issue of a new coinage cannot add gold to light and worn guineas. For the same reason, the issue of

English notes at par in Ireland could not add to the gold represented by Irish Bank notes, depreciated through excess. Such a regulation, therefore, would produce gain to the fortunate persons who were paid in English notes; *but could have no effect upon the exchange.*

3dly. It has been proposed to consolidate the Banks of England and Ireland.—This would indeed destroy the exchange; but who can foresee its other effects? It is, however, scarcely worth consideration, as the evidence fully proves that it is totally impracticable; neither party will consent. It appears, however, to be equally ineligible: it is a permanent measure for a temporary evil. If the Bank of England find it expedient to limit their discounts, will not the English merchants obtain them from the Irish branch, through the medium of their correspondents? Or is it to be laid down as a general rule, that whenever the discounts must be limited in England, so must they also in Ireland? How is the gold to be apportioned between the English Bank and its branch in Ireland? In case of a run for gold in England, similar to that in 1797, is it to be expected that a guinea would be left in the Irish branch?

APPENDIX.

APPENDIX.

No. I.

A Table * of the Rates of Exchanges of London on Dublin, and Dublin on London, for six Months, ending March 1804.

Month	London on Dublin.	Month	Dublin on London.
October 1803.	1. — 17	October 1803.	3. — 17
	4. — 18		5. — 15
	6. — 18		7. — 15
	8. — 18		10. — 14½
	11. — 17		12. — 14½
	13. — 17		14. — 14
	15. — 17		17. — 13½
	18. — 16		21. — 13½
	20. — 16		24. — 14
	22. — 16		26. — 14
	25. — 15½		28. — 14½
	27. — 15½		31. — 15
	29. — 15½		
	31. — 15½		
November 1803.	3. — 16	November 1803.	2. — 16
	5. — 15½		7. — 16
	8. — 17½		9. — 16
	10. — 17½		11. — 16
	12. — 17½		14. — 15½
	14. — 17½		16. — 15½
	17. — 17½		18. — 15½
	19. — 17½		21. — 15½
	22. — 17½		23. — 15½
	24. — 17		25. — 15¾
	26. — 17		28. — 15½
	29. — 17		30. — 15¾
December 1803.	1. — 17	December 1803.	2. — 15¾
	3. — 17		5. — 16
	6. — 17		9. — 16¾
	8. — 17		12. — 16½
	10. — 17½		14. — 16¼
	13. — 18		16. — 16
	15. — 18		19. — 16
	17. — 18		21. — 16
	20. — 18		23. — 15¾
	22. — 18		26. — 16
	24. — 18		28. — 15¾
	27. — 18		30. — 15¾
	29. — 18		
	31. — 18		
	Aver. 17*l.* 2*s.* 3*d.*		Aver. 15*l.* 8*s.* 7*d.*

Month	London on Dublin.	Month	Dublin on London.
January 1804.	3. — 17½	January 1804.	2. — 15½
	5. — 17½		4. — 15½
	7. — 17½		6. — 15¾
	10. — 17½		9. — 15
	12. — 17		11. — 15
	14. — 17		13. — 15
	17. — 16¾		16. — 15
	19. — 16		18. — 16
	21. — 16		20. — 17½
	24. — 18		23. — 18
	26. — 19		25. — 18
	28. — 18¾		27. — 18
	31. — 18½		30. — 17
February 1804.	2. — 18½	February 1804.	1. — 17
	4. — 18		3. — 16½
	7. — 17½		6. — 16½
	9. — 17½		8. — 16½
	11. — 17½		10. — 16¾
	14. — 18		13. — 17
	16. — 18		15. — 17½
	18. — 18¼		17. — 17½
	21. — 18½		20. — 17
	23. — 18½		22. — 17
	25. — 18¼		24. — 17
	28. — 18¼		27. — 17½
			29. — 17½
March 1804.	1. — 18¼	March 1804.	2. — 17
	3. — 18½		7. — 15
	6. — 18½		9. — 15
	8. — 17½		12. — 14
	10. — 17		14. — 14
	13. — 16½		16. — 14
	15. — 16½		19. — 14½
	17. — 16½		21. — 16
	20. — 16½		23 — 16
	22. — 16½		26. — 16½
	24. — 16½		28 — 16½
	27. — 17½		
	29. — 17½		
	31. — 18⅛		
	Aver. 17*l.* 12*s.* 0*d.*		Aver. 16*l.* 3*s.* 7*d.*

* Extracted from the Appendix to the Evidence, pages 14 and 30.

No. II.

A Table of the Rates of Exchanges of Belfast on London, and of Newry on London, for six Months, ending March 1804.

Rates of Exchange of Belfast on London*.

		Beginning of the Month.	Middle of the Month.
1803	October	6	6
	November	5¾	5½
	December	5¼	5¼
1804	January	6¼	6
	February	6¾	7¾
	March	7½	6¾

Rates of Exchange of Newry on London, distinguishing the Rates when the Bills were purchased in Specie, and when in Bank Notes ‡.

		Rates when the Bills were purchased with Specie.		Rates when the Bills were purchased with Bank Notes.	
		Beginning of the Month.	Middle of the Month.	Beginning of the Month.	Middle of the Month.
1803	October	6	5½	15½	15
	November	6½	5½	16	15
	December	5¾	6½	15¼	16½
1804	January	6	6½	15¼	16
	February	8	7¾	17½	17¼
	March	5¼	7	14¾	16½

* Extracted from the Appendix to the Evidence, page 46.

‡ Extracted from ditto, page 47.

No. III.*

An Account of the official Value of Imports and Exports of Ireland, for fifteen Years, to 5th January 1803:— Distinguishing the Excess of one over the other; and each Year.

		Years.	Imports. £.	s.	d.	Exports. £.	s.	d.	Excess of Imports above Exports. £.	s.	d.	Excess of Exports above Imports. £.	s.	d.	
Year ending 25th March.	Five Years preceding the first Loan made in GreatBritain for Ireland ‡.	1790	3,829,914	2	1¾	4,855,299	8	3	—	—	—	1,025,385	6	1¼	Annual Average Excess of Exports 1,195,810*l.* 5*s.* 9*d.*
		1791	4,071,794	4	2½	4,942,600	19	6¼	—	—	—	870,806	15	3¾	
		1792	4,338,012	4	7	5,387,760	5	9¾	—	—	—	1,049,748	1	2¾	
		1793	4,085,149	17	9½	5,047,593	10	8¼	—	—	—	962,443	12	10¾	
		1794	3,216,405	8	2¾	4,665,162	18	8¼	—	—	—	1,448,757	10	5½	
	Five Years succeeding the first Loan made in GreatBritain for Ireland.	1795	4,143,296	12	2	4,751,334	16	2¼	—	—	—	608,038	4	0¼	Annual Average Excess of Exports 466,466*l.* 12*s.* 0*d.*
		1796	4,656,608	5	3½	5,064,333	3	6¾	—	—	—	407,724	18	3¼	
		1797	4,436,943	0	7½	4,570,765	5	1¾	—	—	—	133,822	4	6¼	
		1798	3,396,880	15	6¼	4,378,734	2	5¼	—	—	—	981,853	6	11	
		1799	4,393,015	1	3¼	4,593,915	8	5¼	—	—	—	200,900	7	2	
Year ending 5 Jan.	Five last Years	1800	6,183,457	0	5¼	4,079,271	10	9½	2,104,185	9	7¾	—	—	—	Annual Average Excess of Imports 1,071,428*l.*
		1801	5,584,596	10	5	3,819,062	8	0¼	1,765,534	2	4¾	—	—	—	
		1802	5,006,457	8	6½	4,403,247	1	0	603,210	7	6½	—	—	—	
		1803	6,087,253	15	4	5,090,395	6	7¾	996,858	8	8¼	—	—	—	
		1804	5,275,650	1	0	4,770,388	0	3	505,262	0	9	—	—	—	

* Extracted from page 56 of the Appendix to the Evidence.

‡ See the Appendix to the Evidence, page 52; by which it appears that the Year 1795 was the first Year of raising the Irish Loan in England, when 107,000*l.* was remitted in Bills to Ireland, and 858,250*l.* in Gold.

No. IV.*

An Account of the current Value, from Time to Time, of Imports and Exports of Ireland, for the following Years, to 5th January 1803:— Distinguishing the Excess of one over the other; and each Year.

		Imports.	Exports.	Excess of Imports over Exports.	Excess of Exports over Imports.
		£.	£.	£.	£.
Years ended 25th March	1796	6,418,375	6,894,167	- - - -	475,792
	1797	6,219,767	6,285,748	- - - -	65,981
	1798	4,761,796	6,133,177	- - - -	1,371,381
	1799	6,162,391	6,380,456	- - - -	218,065
	1800	8,152,500	5,881,329	2,271,171	- - - -
	1801	7,774,779	5,281,881	2,492,898	- - - -
Year ended 5th January	1803	7,654,113	8,571,412	- - - -	917,299

The current value was not estimated for any other years than those above mentioned.

No. V. ‡

An Account of all Sums remitted to Ireland, for Loans, Repayments, Profits on Lotteries, or for any public Purpose, since January 1, 1797.

	British Currency.			Exchange.	Irish Currency.			Produce by Exchange above Par.			Amount received in the Exchequer.		
	£.	s.	d.		£.	s.	d.	£.	s.	d.	£.	s.	d.
Year 1797	1,477,765	6	5	8⅓	1,600,912	9	6¾	- -	-	-	1,600,912	9	6¾
1798	1,375,843	1	9½	—	2,032,162	16	9	2,073	8	4½	2,034,236	5	1½
1799	1,455,172	3	1¾	—	1,576,436	9	9½	30,276	4	5¼	1,606,712	14	2¾
1800	1,028,366	4	10	—	1,114,063	8	6	19,700	11	7	1,133,764	0	1
1801	1,688,679	18	6½	—	1,829,403	4	6¼	62,065	2	11¾	1,891,468	7	6
1802	1,315,209	0	6	—	1,424,810	4	11¾	34,780	13	9¼	1,459,590	18	9
1803	1,003,353	14	11½	—	1,086,966	11	3	58,145	1	11	1,145,111	13	2
Total - -	9,844,389	10	2¼	—	10,664,755	5	4¼	207,041	3	0¾	10,871,796	8	5

* Taken from page 57 of the Appendix to the Evidence.

‡ Taken from page 92 of ditto.

No. VI.

DAILY LIST OF GOODS IMPORTED AND EXPORTED.—DUBLIN, WEDNESDAY, APRIL 11, 1804.

IMPORTS.

			Duties. £	s.	d.
St. Petersburgh	Laurence Crowe	21 dozen lb bristles	1	10	10
Rotterdam	Fyan and Kavanagh	4 half-chests sach. saturni, 11 bales red and 4 ditto white clover seed, 4 casks powder blues, and 6 half-chests liquorice ball	24	19	1
	John Donnelly	4 casks crop madder, 20 ditto pearl barley, and 1 hamper Seltzer	10	0	7
Bordeaux	Wm. Gibbon	4 hhds. French wine	70	6	1
Solou and Guernsey	C. and J. Ferrall	20 pipes and 10 hhds Spanish wine	538	10	8
London	Fyan and Kavanagh	10 half-serons fine flora indigo and 813 deer-skins in the hair	13	13	6
	Edward Hay	29 sacks clover and trefoil seed, and 50 barrels vetches			
	John Graham	7 sacks red clover, 14 ditto trefoil seed, 1 box painter's colours and brushes			
Bristol	John Donnelly	30 sheets milled lead			
	Henry Higginson	2 bales old drapery	23	10	8
	Wm. Wentworth	3 ditto	41	7	8
	Stanhope Gresham	23 casks brimstone and 7 bottles aqua-fortis	4	16	4
	Thomas Oxley	3 bales old drapery	27	15	8
	Moore and Doyle	6 sacks trefoil seed			
Liverpool	Nicholas Mahon	5 bales old drapery, cords, velveteens, pillows, nankeens, &c.	80	7	6
	Lyndon, Bolton, & Co.	4 trusses new drapery, velveteens, quilting and cords, and 1 case hosiery	56	0	3
	Frederic Rhames	4 cases musical instruments and 40 lb books	0	9	2
	Laurence M'Dermott	1 bale raw silk	39	6	1
	T. and J. Pim	17 bales cot. twist, nankeenets, cords, new drapery, dimity, linen and cotton handkerchiefs, jeans, &c.	292	7	0
	Williamson & Pim	31 pockets hops	26	15	11
	Henry Higginson	2 bales old drapery	20	4	10
	Thomas Read	60 pigs lead and 7 sheets ditto			
	Else and Co.	2 casks hardware and 2 packs scythes	31	5	3
	Peter Wilkinson	4 bales raw silk	101	7	10
	Wm. Forbes	1 bale new drapery	13	1	5
	Thomas Oxley	1 ditto	3	1	2
	Richardson & Nolan	1 ditto carpeting			
	Nicholas Mahon	3 ditto old drapery	62	11	3
	Thomas Burnside	1 parcel books	0	10	10
	R. Jackson	6 cases plate glass	25	19	5
	A. B. King	1 parcel paper, &c.	0	11	0
	Thomas Dixon	1 case hosiery	35	3	1
	James D. Vechio	1 box tin foil	7	18	9
	Cartan & Hawthorn	1 cask hardware	23	5	2
	Laurence Crowe	5 bundles steel, and 1 cask and 1 box hardware	7	2	10
	Wm. Wilkes	1 cask hard and plated ware	9	4	5
	Sayers, Gordon, & Co.	37 pockets hops	29	11	10
	Corry, Fowler, & Co.	5 bales raw silk and 20 bags candle-wicks	131	4	6
	Joseph Litton	2 cases hats	9	12	8
	George Ness	6 bales raw silk	150	1	2
	John Pope	2 creats and 2 half-creats earthen-ware	1	6	6
	Wm. Tillard & Co.	1 case hosiery	13	9	4
	Bambrick and Ball	7 creats and 1 half-creat earthen-ware	3	2	6
	John M'Kenny	6 bales blanketing			
	Wm. Carter	2 hhds. 8 creats, and 1 half-creat earthen-ware	12	16	6
	James Ball	11 creats and 1 half-creat ditto	4	14	6
	Peter Wilson	1 cask ironmongery	5	19	2
	A. Willis	10,000 dollars			
	J. Browne	800 oz. bullion			
	John Plunkett	1 bale old drapery	21	2	6
	James Egan	6 casks and 1 box hardware	66	14	11
Ayre	Pat. Reilly	50 tons pig iron			
Kirkcudbright	Sayers, Gordon, & Co.	400 barrels barley	3	4	8
Saltcoats	Pat. Carroll	100 barrels rye-grass and hay-seed			
Chepstow	Henry Hutton	590 barrels bark and 5000 hoops			
Cardiff	Robert Smyth	43 tons and 10 cwt. iron			
Lynn	F. Geale and Co.	1250 barrels barley	9	16	0
Carnarvon	Francis Joy	126,000 slates			

EXPORTS.

Saltcoats Novascotia	Wm. Dykes	1 cask Irish spiri

No. VII.

A Calculation to shew why the Exchange should be about 1 per Cent. higher in London than in Dublin, and why the Exchange in Dublin should be considered as the true Exchange.

		£.
A. purchases a bill in Dublin on London for £.100 British, for which he pays Ex. £.14 per cent.		114
This bill has 30 days to run before it becomes due, being drawn at 21 days sight, or 30 date, which are deemed equivalent.—A. pays ready money for the bill, and he does not receive payment for it for a month, making a loss of interest which A. sustains of about - - - - - -	10s.	1
When the bill becomes due, B. the agent of A. purchases a bill in London at £.115, and remits it to A. who does not receive the money for another month, by which he loses a month's interest - -	10s.	
The sum which A. is obliged to pay for the bill in Irish money - - - - - -		£.115 per cent.

		£.
Suppose B. in London purchases a bill on Dublin for Irish - - - - - - - -		115
He pays £.100 British, ready money; the bill has 30 days to run, and of course he loses a month's interest - - - - -	10s.	1
His agent in Dublin buys a bill on London, and remits it to him as a return, at the Ex. of 14; ready money is paid for the bill, and he does not get it paid for a month, making a month's loss of interest - -	10s.	
The real value of the bill in Dublin in Irish money		£.114 per cent.

No. VIII.*

Amount of Bank of Ireland Notes in Circulation since the Restriction.

		£.	s.	d.	Average Rates of Exchange; Dublin on London.
1797	1st January -	621,917	0	0	7
	April - -	737,268	13	$11\frac{1}{2}$	$6\frac{1}{2}$
	June - -	853,612	2	5	$6\frac{1}{4}$
	September	959,999	10	6	$5\frac{3}{4}$
1798 - -	January -	1,214,740	4	4	$8\frac{1}{4}$
	April - -	1,225,525	16	$10\frac{1}{2}$	$8\frac{3}{4}$
	June - -	1,155,566	5	1	$9\frac{1}{4}$
	September	1,298,667	7	$6\frac{1}{2}$	$8\frac{1}{4}$
1799 - -	January -	1,451,732	3	$11\frac{1}{2}$	$9\frac{1}{8}$
	April - -	1,737,879	1	$6\frac{1}{2}$	$9\frac{7}{8}$
	June - -	1,704,023	2	$5\frac{1}{2}$	$10\frac{5}{8}$
	September	1,627,374	19	2	$10\frac{7}{8}$
1800 - -	January -	2,193,019	7	$5\frac{1}{2}$	$12\frac{1}{2}$
	April - -	2,482,162	13	9	$10\frac{5}{8}$
	June - -	2,584,085	0	8	$9\frac{3}{4}$
	September	1,987,877	2	0	$10\frac{1}{4}$
1801 - -	January -	2,258,815	11	2	12
	April - -	2,266,471	6	3	$12\frac{3}{4}$
	June - -	2,350,012	3	$4\frac{1}{2}$	$13\frac{3}{4}$
	September	2,466,884	12	0	$12\frac{3}{4}$
1802 - -	January -	2,473,317	3	$6\frac{1}{2}$	12
	April - -	2,816,669	12	$7\frac{1}{2}$	$12\frac{1}{4}$
	June - -	2,678,980	3	7	$11\frac{1}{2}$
	September	2,589,346	8	7	$10\frac{3}{4}$
1803 - -	January -	2,623,752	16	1	$11\frac{3}{4}$
	April - -	2,659,950	6	$6\frac{1}{2}$	13
	June - -	2,555,632	7	$7\frac{1}{2}$	$13\frac{1}{4}$
	September	2,874,528	1	4	$14\frac{1}{2}$
1804 - -	January -	2,986,999	6	$5\frac{1}{2}$	$16\frac{1}{4}$

* The amount from January 1797, taken from a return to an order of the House of Lords; the amount at the other periods from the Appendix to the Evidence, pages 44 and 66. The rates of exchange to January 1799, from pages 5, 6, and 7, of the Appendix to the Evidence; the rates at other periods from page 44.

THE END.

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