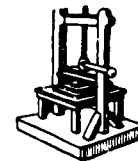


OBSERVATIONS
ON THE
PRINCIPLES WHICH REGULATE
THE
COURSE OF EXCHANGE;
AND ON THE
PRESENT DEPRECIATED STATE
OF THE
CURRENCY.

By WILLIAM BLAKE



BURT FRANKLIN
NEW YORK

ADVERTISEMENT.

THE first intention in writing the following pages, was to animadvert on some opinions relating to the principles of political economy, which had met with a very general circulation, through the medium of several well-written pamphlets on the depreciation of the currency.

It became irksome, however, and seemed but an invidious task, to select from works that possessed generally a very high degree of merit, a few particular passages, merely to dwell upon their errors; and the author therefore determined to arrange his own thoughts upon the subject, in an order that might admit of his incidentally commenting upon such opinions of other writers, as appeared to be in opposition to his own.

It will perhaps be but too apparent that these remarks upon the principles of exchange have been written and sent to the press, with more haste than is altogether consistent with the respect due to the public; and the author would willingly have delayed the publication till he had an opportunity of revising and correcting the style: but the circumstances of the present moment seem so peculiarly suited to a Treatise of this nature, that he has not been deterred by personal considerations, from communicating his opinions to the public, on a subject which has long occupied his attention.

In the execution of his plan, his endeavour has been, to

hold a middle course between such a conciseness as might be incompatible with perspicuity, and that degree of superfluous illustration which might appear to insult the understanding of his readers.

He is not without hopes that he may escape being classed with those "who, while they imagined that they themselves had made important discoveries, uniformly found that no discoveries had been made by their predecessors;" for the author neither pretends to discoveries himself, nor denies that merit to others. If the following observations have any claim upon the public attention, it can arise solely from the attempt to discriminate, more accurately than has hitherto been done, the operation of causes that have been long known, and frequently discussed; but which have not met with so distinct and detailed a consideration as the author deems essential to a due comprehension of the subject.

May 1810.

OBSERVATIONS,

&c. &c. &c.

INTRODUCTION.

THE principles which regulate the exchange will be investigated in the simplest manner, by an arrangement that may lead the mind gradually from the separate consideration of the individual causes by which it is influenced, to the more complicated results that arise from their combined operation.

The effects of the exchange are first practically felt, when the intercourse between foreign nations has rendered it necessary to make a remittance from one country to another.

The usual mode of making a remittance, either for the discharge of debts previously existing, or for the purpose of investing it in foreign produce, is to purchase and transmit, to the person to whom the remittance is to be made, a foreign bill of exchange.

A foreign bill of exchange is an order addressed to some person residing abroad, directing him to pay a determinate quantity of foreign currency to the person in whose favor it is drawn. The quantity, therefore, to be paid, is fixed by the sum specified in the bill; but the amount of British currency to be given here, for the purchase of the bill, is by no means fixed, but is continually varying, from causes which it is the object of this essay to explain.

When the market price of foreign bills is high, the exchange is said to be unfavorable, because a larger sum will be required for discharging a given amount of foreign payments. When the market price is low, the exchange is said to be favorable, because the discharge of the same amount of foreign payments will be effected by a smaller quantity of British currency. Whatever therefore affects the price of a foreign bill, will affect the state of the exchange.

Now the price of bills will depend, in the same manner as that of any other commodity, upon two causes:

First, on their abundance or scarcity in the market, compared with the demand for them; and secondly, on the value of the currency in which they are to be paid, compared with the value of that with which they are bought.

If there be a certain quantity of foreign bills in

the market, and at the same time a great demand for making foreign payments or investments, the holders of bills will soon feel the effect of the competition for their purchase, and will refuse to part with them, except an additional price be given as a premium. If, on the contrary, there be an abundant supply of bills in the market, and not much demand for foreign payment or investment, there will be more persons inclined to dispose of bills, than there are persons desirous of purchasing them; and the holders, who wish to convert them into cash, will not be able to sell, except at a discount; so that this variation in the market price might take place, though the value of the currency of the respective countries continued absolutely unchanged.

Supposing, however, the quantity of bills in the market sufficient exactly to supply the demand, and that there are no more persons wishing to sell than there are persons wanting to purchase them, so that any alteration in their price, from this cause, is precluded; yet as the currency of all countries is subject to continual fluctuations in its value, the quantity of British currency to be given for a determinate quantity of foreign currency, at any period of time, will depend upon the comparative value of each. An English guinea may be worth, sometimes, a certain number of guilders, florins,

or piastres, and at others a very different number, depending either upon alterations in the value of the guinea, or of the guilder, florin, or piastre. The moment that these alterations take place, the information is communicated from one part of the mercantile community to the other, and the price of foreign bills is regulated accordingly.

The rate of the *computed* exchange, then, will vary from two causes, totally distinct from each other. The first, arising from the abundance or scarcity of bills in the market, is the foundation of what may be called the *real* exchange, which depends upon the payments a country has to make, compared with those it has to receive, and has no reference to the state of the currency.

The second, arising from alterations in the value of the currency, is the foundation of what may be called the *nominal* exchange, which has no reference whatever to the state of debt and credit of the country. And as the effects, which the *real* and *nominal* exchange have upon the general dealings and commerce of the country, are as distinct as their causes, the natural mode of investigating the subject will be to follow the order which this division points out; and after tracing the operation of the *real* and *nominal* exchange independently of each other, to consider their combined effect, in treating upon the *computed* exchange.

OF THE REAL EXCHANGE.

IN order that the consideration of the *real* Exchange may be kept perfectly distinct from that of the *nominal*, let it be supposed, during the review of this subject, that the Coin of any two countries that have intercourse with each other is in a perfect state, as to purity and weight; and that the proportion which the quantity of currency bears to the commodities to be circulated by it in the respective countries, continues unchanged, so as to exclude any alteration in its value.

In the commercial dealings which take place between any two nations, the surplus produce of the one will be exchanged for the surplus produce of the other. When neither of them imports from the other to a greater amount than it exports to the same country, the debts and credits of each will balance; and there will be no difficulty in making remittances from one to the other, without the actual transfer of Bullion or money: for as the Bills drawn *by* the merchants exporting produce would exactly equal, in amount, the Bills drawn *on* the merchants importing produce, their mutual

debts and credits would be easily liquidated by the transfer of Bills of Exchange; and as the supply of Bills would be equal to the demand for them, they would neither bear a premium, nor be at a discount, and the *real* Exchange would be said to be at par.

At any particular period of time, however, it may happen that a nation may have imported to a greater amount than it has exported, and consequently have more payments to make than to receive. If at that time payment were demanded, the balance due from the debtor country could only be liquidated by the transfer of money or Bullion; and the merchant, rather than incur the expense of the freight insurance and commission attending its conveyance, will be induced to give more for a Bill of Exchange, than the sum for which it is drawn. A competition will be thereby created among the purchasers of Bills upon the creditor country, and they will bear a premium in proportion to the demand. In that country, on the contrary, there will be more persons holding, than there are persons wanting Bills, and the excess above the demand can only be converted into Coin or Bullion by sending them to the place upon which they are drawn. But this Bullion or Coin cannot be conveyed to the creditor, without his paying the expense of its transit; and the holder of a Bill in the creditor country,

if he be desirous of converting it into money, will be content to receive something less than its amount. There will therefore be in the creditor country a competition to sell, and Bills will be at a discount in proportion to the supply. The premium in one country will correspond with the discount in the other.

Whatever, therefore, affects the proportion between the payments to be made, and those to be received, will alter the state of the *real* Exchange.

This proportion varies principally from the following circumstances: first, from the effects of favorable or unfavorable seasons creating a difference in the customary supply of the annual produce of the land: secondly, from the alterations which take place in the amount of the foreign expenditure of a country, arising either from the expenses of foreign establishments and expeditions, subsidies to foreign powers, or remittances to absentee proprietors.

The population of the countries that have commercial intercourse with each other, though it may vary considerably in long periods of time, is not subject to any sudden changes from year to year; the wants, therefore, for annual consumption may be considered as nearly constant; but the supply of those wants depending principally on the annual produce of the land, will vary to a very great extent. If in any particular country there should

be a failure in a commodity which is also the common growth of the neighbouring countries, the deficiency will be supplied, in a greater or less degree, by an increased importation; and where the failure takes place in an article of the first necessity, as for instance, in corn, which forms the principal part of the food of the people, the importation will be augmented nearly in proportion to the extent of the deficiency. The average amount of annual imports will in these cases be exceeded, and the ordinary proportion of payments between the country and foreign nations proportionably affected; and though the effects of the failure of a corn crop, from its magnitude, and its being an article of the first necessity, are most apparent, an alteration similar in kind, but not in degree, will be induced by a failure in the produce of any commodity to the use of which a country has been long habituated. In an article of mere luxury, the deficiency of its produce, by occasioning an increase of its price, may contract the consumption, and thus cause the value of the quantity exported or imported to be in a certain degree uniform; yet it may be easily conceived that a combination of circumstances would, even in commodities of less necessity than corn, lead to an unusual export or import, and therefore materially affect the state of debt and credit of a country.

The second circumstance, which has been stated

as affecting the payments and receipts of a country, is the variation in the amount of its foreign expenditure, under which head may be included, the charge of maintaining its foreign establishments, civil and military, subsidies to foreign powers, and the remittances to absentee proprietors; the last of which it may be sufficient merely to mention, since they must bear so very small a proportion to the sum total of the foreign expenditure of a great nation, that any variations in their amount would scarcely have a perceptible effect upon the general state of its payments and receipts. On the contrary, the subsidies to foreign powers, and the expense of maintaining the civil and military establishments abroad, may vary, in times of war, to an enormous extent.

Now this expenditure may be supplied either by the export of Bullion or Specie; by purchasing foreign Bills in the home market, and sending them to the place where the money is wanted; or by authorising the agents abroad to draw Bills upon the government, and discount them at the place where they are drawn, upon the best terms that the Bill-market will allow.

By the export of Bullion or Specie the expenditure would be at once defrayed, without creating any debt against the country, and therefore without producing any effect upon the *real* Exchange; but there are various reasons why this mode has

not been generally adopted. In the first place, the quantity of Bullion or Specie in a country which has no mines of its own, is exceedingly limited, and the total amount that can be spared or procured for exportation will bear a very small proportion to the foreign expenditure arising from protracted warfare. In the next place, there must always be a certain expense of insurance and freight attending its transport; and whenever, therefore, foreign Bills can be procured at a less premium than the amount of that expense, or Bills on the government abroad can be negotiated at a less discount, the vehicle of Bills will necessarily be preferred to that of Specie or Bullion.

The foreign expenditure of this country, as appears by the account presented to the Committee of Secrecy by Mr. Long, in 1797, was principally paid by the draft of Bills from the Continent upon England. A debt is thus created against the country equal to the amount of the Bills drawn upon the government, which must exist, in a greater or less degree, till the whole of those Bills are liquidated by the remittance of value of some kind or other. Whatever, therefore, be the proportion between the payments to be made, and those to be received, at any period of time, arising from the ordinary commercial dealings; whatever be the quantity of Bills in the home or foreign market, which are, in fact, the evidences of that

proportion; the foreign expenditure of government must derange the natural state of the balance, and produce an alteration proportional to its amount*. If the Bills be drawn from abroad, they will increase the quantity of British Bills in the foreign Bill market, and lower their value from their abundance. If the foreign Bills be purchased at home for the purpose of remittance, the competition of government will immediately raise their price, and increase their scarcity. Whether the *real Exchange*, therefore, at the time of the expenditure taking place, be favorable or unfavorable, it will always be the less favorable, or the more unfavorable, in consequence of that expenditure.

We have hitherto been considering the demand for foreign Bills, as originating wholly in the necessity of liquidating balances arising from transactions that had already taken place; but there is another cause of demand, which springs from the desire of entering upon new commercial specula-

* See the examination of Mr. Huskisson before the Committee for enquiry into the policy and conduct of the Expedition to the Scheldt; where he states the difficulty of making the remittances to Austria without lowering the Exchange, which was already from 13 to 20 per cent. against this country.

See also Mr. Moore's Narrative of the Campaign in Spain, and the difficulty of negotiating Bills there, for the supply of the army in that country.

tions, whenever the relative prices in the home and foreign markets are such, as to afford the prospect of an adequate profit. If the current *real* prices abroad are low, compared with those in the home market, there will be an increased demand for foreign Bills, for the purpose of making foreign investments; and the extent of this demand will be in proportion to the probable amount of the profits to be derived, and the unemployed capital that will admit of being diverted into that channel. As soon as a foreign price-current is received, it is compared with the price-currents at home, and the conduct of the merchant is regulated accordingly. If commodities abroad be relatively cheap, there will be more purchasers than usual of foreign Bills; if they be relatively dear, there will be fewer purchasers than usual; and thus whatever be the *real* Exchange under any given balance of payment to be made, and payment to be received, the arrival of a foreign price-current, or an alteration in the home price-current, will have an instantaneous effect upon the foreign Bill market; and the weekly, and sometimes daily, fluctuations in the course of the *real* Exchange, are attributable principally to the variations in this species of demand.

It must not be inferred, however, that because the prices of commodities cause a fluctuation in the course of the *real* Exchange, that therefore the

real Exchange causes a fluctuation in the prices of commodities. The prices of commodities in the home market (upon the supposition to which we constantly adhere, that the value of the currencies throughout the mercantile republic remains unaltered) cannot depend upon the number of foreign Bills in the same market, but upon the abundance or scarcity of the commodities themselves, compared with the real demand for them, that is, the wants of consumers; and it is essential that this peculiar feature of the *real* Exchange should not escape the reader's attention, since it forms one of the leading distinctions between the *real*, and the *nominal* Exchange, and is the cause of the great difference of their effects upon the general exports and imports of the country.

It may, then, be stated generally, that, whenever there is a balance of debt against a country, arising, either from an excess of imports over exports, a large foreign expenditure of government, or the remittance of foreign subsidies; whenever, in short, there is a demand for foreign payment, or foreign investment, the price of foreign Bills will rise, and may bear a premium; and the price of Bills drawn on the country from abroad will fall, and be at a corresponding discount; and, on the contrary, when there is a balance of debt due to a country, and a diminution of demand for foreign payment or foreign investment, the price of Bills

drawn from abroad will increase, and may bear a premium; and the price of foreign Bills will fall in the home market, and may be at a discount.

What effects the *real* Exchange has upon the general exports and imports of the country, it will now be proper to enquire.

The merchant is regulated in the conduct of his business, by a comparison of the prices which commodities bear in the home, and foreign market; his attention is directed to the prices current, accounts of which are constantly published, and immediately communicated by his correspondents abroad. If he finds that the price of any commodity abroad is so much higher than the price of the same commodity in the home market, that its sale abroad will pay the expences of freight and insurance, and at the same time leave him an adequate profit for his trouble, he will immediately purchase and export the commodity in question. As soon as the bill of lading has been received by his correspondent to whom the goods are consigned, he will draw his Bill upon him for the amount; and if the *real* Exchange be at par, will have no difficulty in procuring money equal to the value specified in the Bill, by negotiating it in the market at home. But if the *real* Exchange should not be at par, it is evident that his calculation upon the profit he is likely to derive from the export, must include the premium, or discount,

which he will receive, or pay, in the disposal of his Bill. If the Exchange is unfavorable, or, in other words, if the payments to be made are greater than those to be received, foreign Bills will bear a premium; and consequently, the additional sum which he will receive on the disposal of his Bill, will enable him to export with profit, though the difference of prices of the commodity at home and abroad were such, as would not allow him to export, with the *real* Exchange at par. The more unfavorable the *real* Exchange, the less might be the difference of prices that would induce him to export; so that an unfavorable state of the *real* Exchange will operate as a bounty upon exportation, to the amount of the premium, which he will receive upon his foreign Bill.

The same calculation upon the state of the *real* Exchange will be necessary, if the difference of prices at home and abroad should lead him to import. But whatever be the state of the *real* Exchange, it will affect the importing merchant, and the exporting merchant, in a directly opposite manner: for the importing merchant must pay for the goods he imports, either by purchasing a foreign Bill to remit to his correspondent abroad, for which, if the *real* Exchange be unfavorable, he must pay a premium; or, if his correspondent abroad is authorised by the importing merchant to draw a Bill upon him for the payment of the goods

consigned, as that Bill cannot be converted into money without a loss, he must draw for such an additional sum above the invoice price of the goods, as will counterbalance the discount to be allowed in negotiating his Bill in the foreign market.--- This additional sum, therefore, paid by the importing merchant in the premium of the foreign Bill, or drawn for by the correspondent to make up the loss on the discount, will be so much deducted from his profit. Unless, then, the difference of prices at home and abroad be such as to admit of this deduction, the merchant must cease to import; so that an unfavorable *real* Exchange will operate as a duty upon importation, in proportion to the premium on a foreign Bill, or the corresponding discount on the Bill drawn from abroad; and in the same manner it is easy to see, that a favorable *real* Exchange will operate as a duty upon exportation, and will afford a bounty upon importation.

An unfavorable *real* Exchange will, therefore, have the effect of forcing the exports of a country; because, during its unfavorable state, the merchant can afford to sell at a lower price to the foreign consumer, and this diminution of price will naturally lead to an increased consumption. It will contract imports, because the importing merchant must sell foreign produce at a higher rate to the home consumer, to draw back the duty imposed

upon him by the unfavorable state of the *real* Exchange, and consequently the high price will diminish the home consumption.

It is evident that during an unfavorable state of the *real* Exchange, the bounty received by the exporting merchant does not depend upon the nature of the commodity he exports. Whatever kind of goods he sends abroad, it gives him the power of drawing upon the person to whom he consigns them, to the amount of their value; and upon this Bill he receives the premium that the market affords. He will of course select those commodities for exportation, which, besides the premium afforded by his Bill, will give him the greatest profit, by the difference of price abroad and at home. Of all the commodities, which are the objects of request among trading nations, there is none perhaps that is subject to so little variation in its *real* price, as Bullion. The annual quantity produced from the mines is very nearly constant,---its distribution, from the facility with which it is transported, is exceedingly uniform,---and its value, and consequently its real price, throughout Europe at least, must be considered as nearly the same. Unless, then, the bounty afforded by the unfavorable state of the *real* Exchange, were greater than the expenses attending the transit of Bullion, it would be of all others the

commodity * least likely to be selected by the exporting merchant: but that same uniformity of value and of price, which would prevent its being exported before the premium on a foreign Bill exceeded the expenses of the transit of Bullion, would be the very cause, why, as soon as the premium had reached that point, it would immediately be chosen as one of the most eligible for exportation.

The export and import of Bullion are generally conducted by a class of the community remarkable for their shrewdness, and the small profits upon which they transact their business; and as soon as the premium on a foreign Bill exceeds, by a very small amount, the expenses of the transit of Bullion, the certainty of the profit compensates in some degree for its smallness, and the opportunity, when it occurs, is seldom neglected. The adverse debt will then begin to be paid, by the Bullion merchants exporting to take advantage of the premium; and the competition will be such, that the *real* exchange will be very rapidly brought down,

* Mr. Thornton, apparently from not being aware of the mode in which the export of ordinary produce was increased by an unfavorable *real* Exchange, seems to imagine that the greater part of the adverse balance must necessarily be paid in Bullion. (pp. 131 to 134.)

so as no longer to afford a profit upon the export of this article. The exporters of consumable produce will during this period co-operate with the Bullion merchants; and when the latter have ceased to derive a profit, the former will still continue their operations, till the unfavorable Exchange is reduced to par, or, in other words, till the exports have been such, as to counterbalance the adverse debt, and render the quantity of foreign Bills in the market equal to the demand.

From this statement it is obvious, that the natural limit to the amount of the *real* Exchange is the expense of the transit of Bullion; and long before it has arrived at that point, the export of ordinary produce will be forced, and its import restrained; so that the *real* Exchange can scarcely begin to deviate from par, without calling into action a principle that will correct its deviation. It may oscillate a little on the one side, or the other, from its point of rest, but can hardly admit of remaining either permanently favorable, or permanently unfavorable, to a nation, in the ordinary course of its transactions *.

* This observation must be understood to apply to the general balance that subsists between any one nation, and the whole of those with which it has commercial intercourse; it being evi-

It must not be inferred, however, because the expense of the transit of Bullion is the limit of the *real* Exchange, that it is therefore a fixed limit, and capable of being estimated at a certain percentage on the price of a foreign Bill: for when the *real* Exchange has caused a transit of Bullion to any considerable degree, it will at length create a difference in the market price of Bullion itself. This article will become scarce in the country from which it is sent, and abundant in that into which it is flowing. Its price will rise in the former, and fall in the latter. The exporter, therefore, will then have to calculate the difference of prices in the home and foreign market; and if in the first instance the profit were out just sufficient to induce him to export, it is clear that after the change has taken place, the exportation of Bullion, under the same rate of Exchange, will cease.

Mr. Boyd, in his evidence before the Secret Committee of the House of Lords, in 1797, respecting the mode of remitting the Imperial loan to Vienna, states, "that he thought the remittances by Bills of Exchange were not quite so favorable as those in Bullion; but, if he had

dent that where a nation trades with more than one country, the *real* Exchange may be constantly favorable with one, provided it be constantly unfavorable with another.

"stuck exclusively to Bullion, the price of this article would have risen so high here, and probably sunk so low at Hambro', that instead of a good, it would have become a bad remittance." The limit therefore of the *real* Exchange can only be fixed at a certain rate, upon the supposition that the price of Bullion is the same in the home and the foreign market; for when the *real* price of Bullion abroad is less than it is at home, the transit of Bullion will not take place, unless the rate of Exchange be sufficiently high, not only to pay the expenses of transit, but also to compensate for the loss attending the difference of home and foreign prices. When, on the contrary, the price of Bullion abroad is higher than in the home market, it is equally evident that Bullion will be exported, when the *real* Exchange is less than the expenses of the transit of Bullion.

And thus it is that a very small part of the payment of an unfavorable balance is effected by the transit of Bullion, since its transit can scarcely begin to take place, without rendering it a more unprofitable article of export than ordinary consumable commodities. For the former cannot, generally speaking, be considered as a commodity the consumption of which will be augmented by a diminished price, its use being confined to the wealthy few, who are not likely to encrease the

quantity of their plate, or indulge themselves more freely in the purchase of ornamental manufactures, from the temporary variations in the market price of Bullion: but it is not so with ordinary produce. The great mass of mankind will always endeavour to purchase their comforts at the lowest possible rate. If by means of an unfavorable Exchange our merchants can supply the nations of the Continent with British manufactures, cheaper than when the Exchange is at par, our manufactures will be bought and consumed; and in proportion to the degree in which the Exchange is unfavorable, in the same proportion, shall we be enabled to enter more easily into a competition with the manufacturers abroad, even in their own market.

A possible case may, nevertheless, be supposed, where the government may, from political causes, be induced to continue a scale of warfare, demanding a larger foreign expenditure than can be supplied by a proportional excess of exports over imports; and, consequently, if the quantity of Bullion in the country were extremely limited, the *real* Exchange might, notwithstanding the usual causes that check and prevent its fluctuations, deviate so much from par, and create so great a drain of Bullion, as to raise its market price above its mint price.

It is certain that the Bullion merchants would in that case, rather than pay the advanced market

price, endeavour to collect the current Coin for the purpose of exportation. A pound of gold at the English mint is coined into forty-four guineas and a half, or 46*l.* 14*s.* 6*d.* * By exchanging, then, bank-notes at the Bank, for coin, they can always procure a pound of gold for 46*l.* 14*s.* 6*d.* in notes; and so long as they have this power of purchasing gold at the mint price, at the Bank, they will not give a higher market price elsewhere. If the paper, therefore, be convertible into Coin at the option of the holder, the Bullion merchants will be constantly pouring in their notes upon the Bank, to be exchanged for Coin, which will be exported † as fast as it can be procured; and thus a drain upon the Bank will be

* Throughout this pamphlet, the Author, in speaking of Bullion, has confined his observations to Gold Bullion only; first, because the Gold Coin is now the only one in which a legal payment can be made for debts above 25*l.* in amount; and, secondly, because he has derived considerable assistance from, and had frequent occasion to refer to, Mr. Musher's valuable Tables of the Exchange between London and Hambro', since the year 1760, in which the price of Gold Bullion only is noted.

† It is true the laws have affixed most severe penalties to the melting or exporting the current Coin of the realm; but these penalties have always been found insufficient for its protection, the Coin having uniformly disappeared, whenever either of the above practices has been attended with an adequate profit.

established, to a greater or less extent, in proportion to the amount of foreign payment that must be discharged; before the *real* Exchange is sufficiently elevated to prevent any profit upon the export of Bullion. As long as this drain continues, the Bank will be compelled to purchase Bullion, and to coin, for the purpose of supplying the demand occasioned by the return of its notes; and as the purchase must be made at the then market price, it is evident that in whatever degree that shall exceed the mint price, the Bank must sustain a loss proportional to the difference; and that a continuance of the drain, under such circumstances, might eventually lead to its ruin.

It was upon this ground that the Directors of the Bank, in the year 1795, remonstrated in so urgent a manner against any further loans to the Emperor; lest the drains, which those loans occasioned, should prove fatal to that establishment. In a letter from the Directors to Mr. Pitt, dated October 8, 1795, after observing upon the continual drain that the loan to the Emperor had occasioned; they proceed to state, “ that the present price of gold being from 4*l.* 3*s.* to 4*l.* 4*s.* per ounce, and our guineas being to be purchased at 3*l.* 17*s.* 10*d.*, clearly demonstrates the grounds of our fears, it being only necessary to state these facts to the Chancellor of the Ex-

“ chequer*.” Now those very facts ought to have led Mr. Pitt to suspect, that the drain upon the Bank, at that time, arose from some other cause than the loans to the Emperor; for it has been already shewn how impossible it is, that the Bullion merchant should for any length of time continue the export of Bullion, without increasing the quantity abroad, and lowering its price so much, that it would no longer afford a profitable speculation. Mr. Pitt should have recollected, that for the last twenty-one years from 1774, when the reformation in the gold Coin took place, though the *computed* Exchange between Hambro’ and London had frequently been so unfavorable to London, as far to exceed the expenses of the transit of Bullion, the quantity required for export had been so easily supplied, either from the spare Bullion, or from the export of the Coin, that the market price of bullion had never exceeded the mint price, except only for about six months, at the time of the peace of Versailles, in the year 1783; and then only by about 3*s.* 2½*d.* in 100*l.*, not much more than $\frac{1}{100}$ th part. Now as during a great part of that period, the country was engaged in active warfare, which would cause, from the variations in the amount of the foreign expenditure, occasional demands for large foreign pay-

* P. 152, Secret Committee of the House of Lords, 1797.

ments, one would have expected, that such an excessive increase of the market price above the mint price, as was asserted by the Bank Directors to have taken place, amounting to *7l. 4s. 5½d.* per cent. being forty-five times greater than any variation that had occurred in the former war, would have led him to receive their remonstrances with considerable suspicion.

If, in addition to this, he had called to mind that the excess of the market price above the mint price, could be accounted for, and might have taken place, though no loan to the Emperor had been in a course of remittance; that the excess of the market price of Bullion over the mint price had existed to a very great extent, attended with a drain upon the Bank, prior to the year 1774, when the gold currency was degraded below its standard weight; that the drain, under such circumstances, would have equally existed, though there had been no demand for the exportation of Bullion, (as will be fully explained, in the Section upon the Nominal Exchange;) it seems unaccountable that he should so easily have yielded to the representations of the Directors; and it is the more to be lamented, since the impressions he then received, seem to have had considerable influence in producing the fatal measure of permanent restriction on Bank payments, which began in the year 1797, only fourteen months after this period.

But assuming it to be the fact, that the foreign expenditure at that period was greater than on any former occasion, and that the real cause of the drain was that assigned by the Bank Directors, still they had the means of prevention within their own power; for it will be shewn, in the next Section, on the *nominal* Exchange, that when the currency of a country consists partly of Paper, and partly of Coin, and that the former bears a large proportion to the latter, the Bank can at all times contract the issue of its notes, and produce a considerable diminution in the total amount of the currency. By this means the *nominal* prices of commodities, and amongst the rest, that of Bullion, will be lowered. As soon, therefore, as a reduction has thus been effected in the price of Bullion below its mint price, the drain upon the Bank will at once be stopped; since it will no longer be the interest of the Bullion merchant to purchase gold at the mint price, by exchanging notes at the Bank, when he can procure it at a cheaper rate in the market. The Bank Directors were so well aware of this mode of counteracting the effects of a drain upon them, that they had recourse to it at the very period of making their remonstrances; and the market price of Bullion, which had been *9s. 7d.* per cent. below its mint price, in the beginning of the year 1795, and which probably might never have been raised, had not the Bank, at this period, ex-

tended its paper from 11 to 13½ millions, was, by the subsequent contraction of it to 9½ millions, again reduced, before the middle of the year 1796, to 9s. 7d. below the mint price. Unfortunately too for the country, this same counteracting principle was resorted to, when the drain took place in the beginning of the year 1797, arising, not from a demand for bullion for the purpose of exportation, nor from an excess in its market price above the mint price, neither of which existed at the time*; but solely from the alarm occasioned by the fears of invasion;---a drain that will always occur under similar circumstances, and which will be aggravated, rather than relieved, by a contraction of paper.

It should be carefully remembered, that the profit from the export of Bullion in consequence of an unfavorable *real* Exchange, does not arise from Bullion selling for a higher price in the foreign than in the home market, nor from any scarcity of Bullion abroad occasioning an extraordinary demand for it; but solely from the demand for

* In January 1797, the *computed* Exchange between Hambro' and London was 5l. 4s. per cent. in favour of London, and during the year rose to 13 per cent; it never being, at any part of the year, less than 3l. 2s. in favour of London. The market price of Bullion, at the same period, was never above its mint price.

foreign bills, for the purpose of making foreign payments, being so great, that the premium upon them exceeds the expenses of the transit of bullion; and, consequently, the transit will take place and afford a profit to the exporter, though the price of bullion be precisely the same abroad as it is at home.

When such a quantity of bullion has been exported as to raise its market price above the mint price, the coin being obtainable at the mint price, will be exported in preference to bullion; not in consequence of any depreciation in the value of the coin, for it will purchase the same quantity of ordinary produce after the rise of the price of bullion as before; nor because it is more valuable abroad than it is here, for it will not purchase more in the foreign than the home market; but it will be exported, for the same reason that the bullion is exported, to take advantage of the premium on foreign bills, and will be sent, though the price of bullion be precisely the same in the continental market as the English mint price.

After what has been stated, it will be sufficiently apparent, upon what a false foundation the old notions respecting the advantages of a favorable balance of trade are built, and how futile all attempts must be to procure and detain bullion, beyond the quantity that is actually wanted for consumption. The transit of bullion from a high or

low *real* exchange is an unnatural transit, not arising from the wants of the country into which it flows, but depending solely on the profits which a temporary pressure for foreign payments affords to the bullion merchants on the sale of foreign bills; and as soon as the cause that has produced the temporary influx subsides, (an event that will sooner or later necessarily take place, by the import of such ordinary produce as is wanted for the purposes of consumption, and increased enjoyment of the people,) the superfluous and unused quantity of bullion that has been accumulated, will flow back from the country where its abundance has rendered its real price low, to those nations from which it had been unnaturally sent, and where its scarcity will have rendered its real price high.

Much of the confusion that attends this question would have been avoided, had the dealers in bills of exchange, and the dealers in bullion, (that is, the persons who export or import bullion for the supply of consumers,) been two distinct classes of merchants. It would then have been seen that the profits of the dealer in bills of exchange flowed through very different channels from those of the dealer in bullion. If at any time the course of exchange were such as to afford a profit to the bill merchant by the sale of foreign bills, he would export that bullion which had been imported for the use of the manufacturer, and would continue

to export till it no longer afforded a profit. The bullion dealer would then begin to re-import, in consequence of the difference of prices in the home and foreign markets, the bullion that the bill merchant had sent away, in consequence of the high premium on foreign bills. Whatever derangement the bill merchants might occasion in the quantity of bullion that would be otherwise naturally distributed among the different countries according to their wants, would be remedied by the operations of the bullion merchants, who would find their advantage in restoring the equilibrium that the bill merchants had destroyed.

The dealer in bills of exchange would have employment, when there was the least difference between the prices of bullion in the home and foreign market, and the *real* exchange at the greatest deviation from par.

The bullion dealer would be most engaged, when there was the greatest difference in these prices, and the *real* exchange at its least deviation from par.

Had this distinction been attended to by Lord King, he would never have entertained such erroneous opinions respecting the exports of silver from this country to India, nor have considered them as indications of an exchange constantly in favor of England against the Continent; for he would have seen, that the export of bullion is not regulated

merely by the speculations of the dealers in bills of exchange, but is effected, like that of any other commodity, when there is such a difference in its real prices at any two places, as will afford a profit on its transit; an occurrence that will frequently take place, even with an exchange at par.

OF THE NOMINAL EXCHANGE.

THE market price of a foreign bill has been stated to depend upon two circumstances:—first, on the scarcity of bills in the market compared with the demand for them; and secondly, on the value of the coin or currency in which they are to be paid, compared with the value of the coin or currency with which they are bought.

The first of these, as connected with the *real* exchange, formed the subject of the foregoing Section; we shall now proceed to examine the nature and effects of the second, on which depend the alterations of the *nominal* exchange; and as in treating of the *real* exchange we endeavoured to

keep the subject as distinct as possible from the question of the *nominal* exchange, by supposing no alteration to take place in the value of the currencies in the respective countries; so in tracing the effects of the *nominal* exchange, we shall suppose the state of the *real* exchange to remain unaltered; or the mutual dealings and intercourse between the nations composing the great mercantile republic to be such, that the price of foreign bills is not affected by any variation in their abundance or scarcity, but that the supply of them is constantly sufficient to answer the *real* demand.

In this case the variations in their price can arise only from changes in the comparative value of the currencies in which they are paid, and those with which they are bought.

It will not be necessary, therefore, to enter into any enquiry respecting those changes which have taken place from the discovery of the American mines, or which have arisen from any cause that would affect all currencies in an equal degree; since the object is not to compare the value of currencies now, with what they were at any former period, but to estimate the local alterations that have taken place in the currency of one country, without a corresponding alteration in that of others.

The currency of every nation is subject to con-

tinual fluctuations in its value, principally from three circumstances.

First, An alteration in the quality and standard purity of the metal of which the coin is formed.

Secondly, An alteration in the quantity of the metal contained in coin of the same denomination.

Thirdly, An alteration in the total amount of the currency of a country, without a corresponding alteration in the commodities to be circulated by it.

The first of these is now seldom resorted to in a civilized country, even under the most pressing necessities of the government.

The second has been frequently adopted by princes and sovereign states, who through a mistaken policy have imagined that they derived a benefit from diminishing the quantity of metal contained in their coins. The English pound contained, in the time of Edward the First, a pound of silver. The French livre contained a pound weight of silver, in the time of Charlemagne. The English pound contains, at present, only one third, and the French one 66th part of their original value*; but I believe, except in Turkey, there is no instance of this practice being countenanced by any of the modern governments. The

* Smith's Wealth of Nations, vol, i. p.39.

metallic currencies, however, of most nations, even where the governments have been desirous of maintaining them in a state of the utmost possible perfection, have been much diminished in value by being worn from use, and clipt or otherwise degraded by the illicit practices of the people. To avoid the confusion that would follow from the constant fluctuations in the value of currencies, merchants have adopted a mode by which they endeavour to estimate the extent of these fluctuations; and for this purpose, have ascertained with tolerable accuracy, in what quantities of coin of the mint standard in different countries, an equal weight of gold or silver of the same standard fineness is contained. Thus it has been determined, that a pound sterling of the English mint contains the same weight of silver, of a certain fineness, as 33 schillings 8 grotes* of the Hambro' banco-

* From the evidence before the Secret Committee of the House of Lords, in the year 1797, it appears that there is a difference in the mode of estimating the par of Exchange with Hambro'; the house of Goldsmid considering 33. 8. and Mr. Boyd's 34. 8. as the par of Exchange. The difference seems to have arisen, from the former estimating the par according to the standard of Hambro' banco money; the latter, according to the actual currency of Hambro' which appears to be more than 3 per cent. below the standard of the banco money. Upon this supposition there is less difficulty in reconciling the apparent contradiction, that 3 schillings above the par, has the same

money; and in speaking of the exchange with Hambro', 33. 8. is in the technical language of merchants said to be the par of exchange. In the same manner the par of exchange with France is fixed at 24, because 24 livres of the mint standard of France contain the same weight of silver, of a certain fineness, as the pound sterling of the English mint.

By means of this rule, the merchants of one country would never be at a loss to estimate what quantity of their own money would be equivalent to a specific sum of foreign money, so far as regarded the weight of metal, provided the coins of the respective countries contained the due weight of their respective mints. But in some countries the coins are more, in others less worn, and clipt or otherwise degraded below the mint standard. When these alterations have taken place, it would be necessary either to establish a new par of exchange,

effect, one way, upon the transit of gold, that 4 grotes below par has the other; a fact that was stated by Mr. Goldsmid's partner, but which he was unable satisfactorily to explain.

If the Hambro' currency were so much degraded below the banco money, that 35 schillings 4 grotes currency were worth no more than 33 schillings 8 grotes banco money, there would be a *nominal* Exchange of 1 schilling 8 grotes against Hambro', for every pound sterling; and if the par is estimated at 33. 8; 4 grotes below that sum, and 3 schillings above it, would be equally distant from the *real* par of 35 schillings 4 grotes.

to guide merchants in their money transactions, or, as is now the general usage, not to alter the par of exchange, but to mark the fluctuation of the currency, by considering it as so much above or below the established par. In King William's time, before the reformation of the silver coin, (silver being then the metal in which the payments of the country were legally made,) the current coin was rather more than 25 per cent. below its standard value. The established par, however, was not altered, but the exchange was said to be 25 per cent. against England*. Before the reformation of our gold coin in 1774, the guinea contained so much less than its standard weight, that it was degraded 2 or 3 per cent. when compared with the French coin at the same period; and the exchange between England and France was then computed to be 2 or 3 per cent. against this country;---upon the reformation of the gold coin, the exchange rose to par. The Turkish government, in the course of the last forty years, has made three great alterations in its coin. Before these frauds were committed, the Turkish piastre contained nearly as much silver as the English half crown; and in exchange, the par was estimated at 8 piastres to the pound sterling. The consequence of these

* Smith's Wealth of Nations, vol. ii. p. 216.

repeated adulterations has been, the reduction of the silver in the piastre to one half, and a fall in the exchange of 100 per cent., bills on London having been bought in Turkey, in 1803, at the rate of 16 piastres for every pound sterling*. Now though it is not absolutely conclusive, that these alterations in the *computed* exchange were entirely owing to the fluctuations in the value of coin, because the *real* exchange at the time might not be constant; yet the correspondence of the difference of exchange, with the acknowledged degradation of the coin, renders it more than probable, that the fall of the *computed* exchange arose from an alteration in the *nominal* exchange only.

It is unnecessary to enter further into the detail of the consequences that arise from the degradation of the coin below its mint standard. As soon as that degradation (which never can remain long concealed) is discovered, the inconveniencies that would otherwise attend the commercial intercourse are obviated by a corresponding alteration in the *computed* exchange; and though during the continuance of the degradation, the *nominal* exchange will remain permanently unfavorable to the country in which it prevails, it will be immediately restored to par, by a reformation of the circulating

* Foster, on Commercial Exchange, p. 93.

medium. We will therefore, in the remaining part of this enquiry into the nature and effects of the *nominal* exchange, suppose, that the currencies are not degraded below their mint standards, and confine our observations to the third cause, which has been stated to affect the value of currencies, viz. the ratio, which the total amount of the currency in one country bears to the commodities to be circulated by it, compared with the ratio that the currencies of other countries bear to the commodities which they are respectively employed to circulate. It is the fluctuation from this cause, which at present principally affects the *nominal* exchange.

Had the currencies of commercial states been confined to the precious metals only, it is scarcely possible that any increase of currency, more than was demanded by the wants of increasing wealth, could have taken place in countries that had no mines of their own. As the metals of which the coin was composed must have been purchased at their value, no possible motive can be conceived, that would induce the holder of bullion to convert it into coin, unless there was a real demand for it. The circulating medium of modern times no longer consists of the metals only, almost all nations having adopted, on a greater or less scale, the use of paper currency, issued, generally, under the sanction of government, by corporate bodies or banks,

who are responsible for the payment of it in specie on demand. As the profits of these corporate bodies or banks are in proportion to the quantity of the paper they can permanently keep in circulation, there can be no doubt, that every effort consistent with prudence, will be made to augment that quantity. But it is impossible that such an increase can take place in the quantity of any commodity that is given in exchange for others, whose quantity is not augmented in the same proportion, without affecting their comparative value. If the currency of a country is increased, while the commodities to be circulated by it remain the same, the currency will be diminished in value with respect to the commodities, and it will require a larger proportion of the former to purchase a given quantity of the latter; or, in other words, prices will rise. If we were in the habit of considering money as purchased by commodities, instead of commodities being purchased by money, the diminution in the value of money from its abundance, would be immediately apparent. “ Mr. Thornton admits, in the most explicit manner, “ that if the quantity of circulating medium is “ permanently augmented, without a corresponding augmentation of internal trade, a rise will “ unavoidably take place in the price of exchangeable articles. Indeed this is a principle “ upon which all the writers on Commerce, both

“ practical and speculative, are agreed : they have “ thought it so undeniable as to require no particular illustration, and have rather assumed “ it as an obvious truth, than as a proposition “ that depended on inference. Upon this idea is “ founded Mr. Hume’s well-known argument “ against banks, and it is equally implied in Dr. “ Smith’s confutation of that objection; it forms “ the foundation of those presumptions from which “ Mr. Boyd has lately inferred an improper increase of Bank of England paper; and it is implicitly admitted, likewise, by Mr. Thornton, “ one great object of whose book is to persuade the “ public that there has been no such increase*.” Without entering, therefore, into an unnecessary argument, I shall, for the present, assume as admitted, that the increase of currency, while the commodities to be circulated remain the same, will be attended with an increase of nominal prices, and a correspondent depreciation in the value of money.

Now it is impossible, when the currency of a country has been thus depreciated, that the same amount of it should purchase the same sum of foreign money as before its depreciation. A foreign bill, or an order for payment of a

* Edinb. Review, v. i. p. 178.

given sum of foreign money abroad, will not be sold, unless for such an increased amount of the depreciated currency, as will counterbalance the diminution of its value. Foreign bills will, therefore, bear a premium, in proportion to the depreciation.

In the same manner a bill on the country where the currency is depreciated will be bought abroad, where money retains its value, for a much less *nominal* sum than the amount for which it is drawn; or, in other words, will be at a discount. Suppose, for instance, that the coins being in the utmost state of perfection in England and France, and the *real* exchange at par, the augmentation of the total amount of the currency in England were such as to raise prices here, to double their former amount, it would require, in that case, twice the sum to purchase the same commodity in England that would be required in France. The same *nominal* sum would, therefore, be only of half the value:---24 livres in France would purchase an order for the payment of 2*l.* sterling in England, and the *nominal* exchange, would be 100 per cent. against England.

An augmentation of currency that affects prices, cannot take place without a corresponding alteration in the *nominal* exchange. Merchants, from the average sale of the produce which they receive and remit, and from the uninterrupted cor-

respondence which they hold with each other, expressly for the communication of the prices current, have not much difficulty in distinguishing those fluctuations which are owing to the partial abundance or scarcity of a few articles, from that general increase of price which denotes a depreciation of currency;---or should they, from want of experience, be tempted to engage in commercial speculations, from a difference of prices not depending upon the *real* demand, but arising merely from an over-issue or contraction of currency, the loss upon their returns would infallibly teach them more caution in future.

After the par of exchange, therefore, has been established, an alteration in the value of currency, whether it arises from a debasement of the coin below its standard, a diminution of weight below the mint regulation, or depreciation of its value from relative over-issue, will alike affect the price of a foreign bill, and be made evident by an unfavorable *nominal* exchange.

It now remains to trace the operation of the *nominal* exchange on the several exports and imports of the country.

When foreign bills bear a premium from an unfavorable *nominal* exchange, it appears advantageous, upon a superficial view of the subject, to export produce, in consequence of the profit arising from the sale of the bill, which the merchant

would be authorised to draw upon his correspondent abroad. But a very little consideration will shew that there is, in this respect a striking difference between the *real* and the *nominal* exchange.

It is true that the merchant will obtain a premium upon his bill, but it is this premium which alone enables him to export. The same cause that has given rise to this premium, has increased the *nominal* prices of the articles, which he buys, for the purpose of exportation, in the home market; whatever he gains upon the bill, he loses in the purchase of his goods. The merchant, therefore, must calculate what is the difference at home and abroad, in the real prices of commodities, by which I mean the prices at which those commodities would be bought and sold, if no depreciation of currency existed. If those prices are such, as to admit of a profit, the merchant will continue to export, whether the *nominal* exchange be favorable or unfavorable;---that circumstance can make no difference whatever in his transactions.

Suppose, for instance, the currencies of Hambro' and London being in their due proportions, and therefore the *nominal* exchange at par, that sugar, which from its abundance in London sold at 50*l.* per hogshead, from its scarcity at Hambro' would sell at 100*l.* The merchant, in this case, would immediately export. Upon the sale of his

sugar, he would draw a bill upon his correspondent abroad for 100*l.* which he could at once convert into cash, by selling it in the bill-market at home, deriving from this transaction a profit of 50*l.*, from which he would have to deduct the expenses of freight, insurance, commission, &c. Now suppose no alteration in the scarcity or abundance of sugar in London and Hambro', and that the same transaction were to take place, after the currency in England had been so much increased that the prices were doubled, and consequently, the *nominal* exchange 100 per cent. in favor of Hambro'. The hogshead of sugar would then cost 100*l.* leaving, apparently, no profit whatever to the exporter. He would, however, as before, draw his bill on his correspondent for 100*l.*; and as foreign bills would bear a premium of 100*l.* per cent. he would sell this bill in the English market for 200*l.* and thus derive a profit from the transaction amounting to 100 depreciated pounds, or 50*l.* estimated in undepreciated currency; deducting, as in the former instance, the expenses of freight, insurance, commission, &c.*.

* The reader will observe how much the nominal income and apparent profits, of the merchant are increased by the depreciation of the currency.

The case would be precisely similar, *mutatis mutandis*, with the importing merchant. The unfavorable *nominal* exchange would appear to occasion a loss amounting to the premium on a foreign bill, which he must give in order to pay his correspondent abroad. But if the difference of *real* prices in the home and foreign markets were such as to admit of a profit upon the importation of produce, the merchant would continue to import, notwithstanding the premium; for that would be repaid to him in the advanced *nominal* price at which the imported produce would be sold in the home market.

Suppose, for instance, the currencies of Hambro' and London being in their due proportions, and therefore the *nominal* exchange at par, that linen which can be bought at Hambro' for 50*l.* will sell here at 100*l.* The importer immediately orders his correspondent abroad to send the linen, for the payment of which he purchases at 50*l.* a foreign bill in the English market, and on the sale of the consignment for 100*l.* he will derive a profit amounting to the difference between 50*l.* and the expenses attending the import.

Now, suppose the same transaction to take place, without any alteration in the scarcity or abundance of linen at Hambro' and London, but that the currency of England has been so augmented, as to be depreciated to half its value. The *no-*

nominal exchange will then be 100 per cent. against England, and the importer will not be able to purchase a 50*l.* foreign bill for less than 100*l.* But as the prices of commodities here will have risen in the same proportion as the money has been depreciated, he will sell his linen to the English consumer for 200*l.* and will, as before, derive a profit amounting to the difference between 100*l.* depreciated money, or 50*l.* estimated in undepreciated money, and the expenses attending the import.

The same instances might be put in the case of a favorable exchange; and it would be seen in the same manner, that *nominal* prices and the *nominal* exchange being alike dependent upon the depreciation of currency, whatever apparent advantage might be derived from the former, would be counterbalanced by a loss on the latter, and *vice versa*.

For the very same reasons that the *nominal* exchange produces no alteration in the imports or the exports of ordinary produce, it can have no effect on the export or import of bullion. Nothing can be more evident, than that bullion must be subject to the same variation in its prices from an alteration in the value of currency as any other commodity. If the value of currency is diminished, the prices of all commodities must advance,

and that of bullion among the rest*. How then is the profit of the merchant, from the export of bullion, to arise? Is it not evident that upon an unfavorable *nominal* exchange, whatever premium he may gain upon his bill, as much will be lost in the advanced price which he must pay for the bullion?---Yet all writers upon the subject of political œconomy, that I have met with, seem to be persuaded, that when the rate of exchange has deviated from par beyond the expenses of the transit of bullion, bullion will immediately pass; and the error has arisen, from not sufficiently distinguishing the effects of a *real*, and a *nominal* exchange. This false opinion seems to have been strongly impressed upon all the merchants and Bank Directors who were examined before the Secret Committee of the Houses of Lords and Commons, in the year 1797; nor does Mr. Pitt himself appear to have been exempt from its influence. Mr. Bosanquet expressly declares his opinion “ that the “ favorable state of the exchange afforded a pros-

* “ Bullion is a commodity, and nothing but a commodity, “ and it rises and falls on the same principle as all other commodities. It becomes, like them, dear in proportion as the “ circulating medium for which it is exchanged is rendered “ cheap; and cheap in proportion as the circulating medium “ is rendered dear.”---(Thornton, Paper Credit, p. 202.)

pect of purchasing foreign gold, and setting the “ mint at work,” (p. 32. Com. H. of Lords, & passim.) Now it is absolutely impossible that an exchange, arising from depreciation of currency, can have any effect upon the export or import of bullion. For supposing the *nominal* exchange at par, and the *real* prices of bullion in London and Hambro’ precisely the same, it is clear there could be no motive to export bullion, but that, on the contrary, it would be attended with the certain loss of the expenses of transit. Every thing else, then, remaining the same, let the currency in England be augmented so that the prices of commodities shall rise 4 per cent. and bullion of course among the rest; the depreciation of the currency will immediately be indicated by an unfavorable *nominal* exchange of 4 per cent. Is it possible that the bullion merchant can be deluded with the idea, that he can derive any benefit from a premium of 4 per cent. upon his bill, when he purchases bullion here at an advanced price, and sells it at Hambro’ 4 per cent. lower? Does he not lose as much from the difference of prices, occasioned by the depreciation, as he gains by the premium on his bill, occasioned by the same depreciation; and consequently subject himself to all the expenses attending the transit, in the same manner as when the *nominal* exchange is at par?

For the same reason, there would be no advan-

tage derived from the import of bullion if the *nominal* exchange were favorable. Suppose it were 4 per cent. in favor of this country;---it is evident that money here would be 4 per cent. more valuable than at Hambro'; prices, therefore, would be 4 per cent. lower, and foreign bills in the English market would be at 4 per cent. discount. Under those circumstances, if foreign bills were purchased to be invested in bullion at Hambro', and the bullion were sent here, would it not be sold in the English market at 4 per cent. less than was given for it at Hambro'? thus destroying every advantage derived from the *nominal* exchange, and subjecting the importer to the same loss, as in the former instances. Is it then to be wondered at, that with such opinions as the Bank Directors seem to have entertained, they should be so totally at a loss to reconcile the facts with their false theory respecting the export and import of bullion? During the course of the year 1796, for eleven months previous to the Bank restriction, the exchange had been, with only two exceptions, favorable; and at the end of February 1797, was so high as considerably to exceed the expenses of the transit of bullion; yet when Mr. Raikes, on the 13th March, was examined before the Secret Committee of the House of Com-

* Secret Committee of the House of Commons, p. 23

mons, he acknowledged, that measures had been taken by the Bank to procure a supply of bullion, but without effect, as it could not be imported except at a considerable loss. On the 14th, Mr. Bosanquet stated to the same Committee, that the influx of bullion is occasioned by a favorable exchange; that the exchange had not been unfavorable for many months; and, when asked whether the importation had been such as it ought to have been, considering the state of the exchange, replied*, "I am not able to answer these kind of questions." The fact is, that the *nominal* exchange might for years continue in favour of a country, and not cause a single ounce of bullion to flow into it, or have any effect upon the general state of exports and imports, which would proceed in their usual course, regulated only by the wants of consumers, and the supply of commodities †.

It is in vain therefore to look for any remedy for a high *nominal* exchange from any alteration in the

* Secret Committee of the House of Commons, p. 28.

† It is not to be inferred, that because the *nominal* exchange has no effect on the general exports and imports, that therefore the country sustains no injury; the contrary of which will be shewn, in treating of the foreign expenditure of government, and the unequal pressure that the depreciation occasions on the different classes of the community.

exports and imports of a country. When it arises from a degraded state of the coin, a new coinage immediately restores it to par;--when it arises from the augmentation or contraction of currency, the restoration of the currency to a due proportion with the commodities to be circulated by it, will be the true and only remedy.

In what manner this restoration of the currency to its level is effected, it will now be proper to enquire.

In all countries the weight of bullion contained in any specific quantity of coin issued at the mint is determined by law. At the English mint, a pound weight of gold is coined into 44½ guineas, which, at 21s. the guinea, is equal to 46*l.* 14*s.* 6*d.* or 3*l.* 17*s.* 10½*d.* per ounce. This is said to be the mint price of gold in England, or the quantity of coin which the mint returns for standard gold bullion. An ounce of gold, therefore, so long as it remains in the shape of coin, can never be worth more than 3*l.* 17*s.* 10½*d.* because while it retains that form, it cannot be legally tendered in payment for more than that sum. As soon therefore as an over-issue of currency has raised the prices of all commodities, and that of bullion among the rest, the weight of gold contained in any specific quantity of coin will sell for a higher *nominal* value in bullion, than it will pass for in the form of coin, or, as it is usually expressed, the market price

of bullion will exceed the mint price, and there will be a profit attending the conversion of coin into bullion proportionate to the difference of the *nominal* value. Accordingly, the conversion immediately takes place, requiring very little greater excess of the market price above the mint price, than will pay for the fire that is to melt the coin. The operation is so simple, and requires so little apparatus, that it may be performed with the utmost secrecy, and no penalties of the law, or vigilance of the officers of the Mint or Bank, have ever been found adequate to its prevention.

To account for this, there is no necessity for supposing a demand for bullion abroad. It is the conversion, that prevents the currency from ever exceeding the due proportion that is wanted for the purposes of circulation: for it can* never exceed that proportion, without augmenting the *nominal* price of bullion, and affording, as long as there is a superfluous quantity, a profit to the melter.

It is true that the same conversion may take

* The reader will apply the proper limitation to this general assertion, which is not meant to convey the idea that the effect will be instantaneous, or that it may not be counteracted by other causes, but that the over-issue of currency will have this tendency, and that ultimately the *nominal* price of bullion will be raised above its natural price, in proportion to the over-issue.

place, by exporting the coin to any foreign country, where it will be estimated according to its weight in bullion, and pass for its intrinsic value; and probably this circumstance has led so many writers to assign the capability of the transit of coin, as the reason why currency convertible into coin can never be depreciated by excess. But it is evident that, of the two modes of conversion, that by melting will be preferred, since it will be unattended by any expenses of transit. If the market price of bullion in London were 4 per cent. above its mint price, in consequence of the depreciation of currency, while at Hambro' there was no depreciation whatever, 100 guineas conveyed to the latter place would purchase the same value in commodities that 104 guineas would do in London; but as the expense of sending them would amount to 3 per cent. *, there would be a profit to the exporter of one guinea only; whereas the 100 guineas, melted in London, would immediately sell in the market for 109*l.* 4*s.*, leaving a clear profit of four guineas by the operation. It is absurd, then, to suppose that any man would expose himself to the penalties of the law, by exporting coin for a profit of 1 per cent., when with-

* The expense, as stated by Mr. Eliason, is 3*l.* 12*s.* 11*d.* per cent.---Evidence Secret Committee House of Lords, 1797, p. 96.

out subjecting himself to severer penalties, he might, by melting it, secure a profit of 4 per cent.

It is the melting, therefore, in consequence of the high market price at home, and not the export in consequence of a high *nominal* exchange, that will cause the disappearance of the coin. It is true, that after the melting has proceeded for some length of time, (unless indeed the melted coin be purchased for the purpose of being re-coined,) there will be a gradual accumulation of bullion beyond what may be wanted for consumption; and this abundance may render the commodity so cheap, that the bullion merchant may find his advantage in exporting it, in consequence of the difference of the *real* prices in the home and foreign markets. But this exportation is the effect of the melting, and not the cause of it. It is not a demand for the exportation of bullion that has caused the melting of the coin; but the coin being melted, to take advantage of the high *nominal* price of bullion, has lowered its real price so much, as to afford a profit upon its exportation. It is by no means necessary, however, that the bullion produced by the melting should be exported, since there may be a greater demand for bullion at home, for the purposes of manufacture, than there is abroad. The melter will always derive his profit by selling the melted coin at the high market price, which the bullion merchant

will be equally ready to give, whether he sell to the home manufacturer, or the foreign--whether, at the time, he be effecting the import or the export of bullion.

A want of attention to this distinction, so essentially necessary towards a just conception of the principle, which regulates the quantity of currency and the increase of prices, has led to some very erroneous opinions respecting what is called the universal level of currency: for it has been maintained by many writers upon political economy, and implied by almost all, that specie leaves the country where it is depreciated in consequence of the inferiority of its value to the currency of other countries*; that if the currencies of

* This error pervades Mr. Wheatley's Work on the Theory of Money and Principles of Commerce. He was well aware of the fact, that specie is frequently exported in consequence of an unfavorable exchange; but as he does not admit of any alteration in the exchange, from the abundance or scarcity of foreign bills, (which is the real cause of the export of specie, when it does take place,) he attributed the effect, to the difference in the value of currencies; and thence inferred, that the export of coin was the remedy for its depreciation--a principle, that leads at once to the conclusion, that prices might be indefinitely augmented, if the currencies of all nations were proportionally increased.

Mr. Ricardo and Mr. Mueset have fallen into the same error, respecting the export of specie, and do not seem to be aware, that the alteration in prices, from over-issue or contraction of

other nations were depreciated in an equal proportion, there would be no advantage attending the export; and that upon the supposition of the currency being proportionally increased throughout the world, prices might be universally and indefinitely augmented; whereas the export has no relation whatever to the value of currencies in other countries, but arises entirely from the relative value of gold in the form of coin, and in the form of bullion.

The coin of this country, when sent abroad, passes only for its intrinsic value, according to its weight, and it will not be sent abroad from an unfavorable *nominal* exchange, unless its value in the shape of bullion is greater than its value in the form of coin. But the real value of bullion on the Continent is no more affected by the depreciation of the currency there, than it is here. If there be a profit upon the export of coin from this country at a time when the currency is depreciated here, and is not depreciated upon the Continent, there would be the same profit, if the currency of the Continent were depreciated also; for the market

currency, has no effect upon the exports and imports of ordinary produce; since they uniformly describe commodities as flowing from the nominally cheap, to the nominally dear market, without adverting to the counteracting effects of the *nominal* exchange.

price of bullion, at which our exported coin would then be sold abroad, would be so much higher in proportion to the depreciation of the foreign currency. Suppose that the currency at London and Hambro' being in their due proportions, and the *nominal* exchange at par, the *real* price of bullion corresponds in both places with the English mint price. Let the currency at London be depreciated by over-issue 4 per cent. ; the market price of bullion at London would then exceed the mint price 4 per cent., and the *nominal* exchange would be unfavorable to the same amount. Under those circumstances, a merchant exporting 100*l.*'s worth of specie to Hambro', and drawing a bill upon his correspondent, would gain 1 per cent. by the transaction : for the specie, on its arrival at Hambro' where the market price of bullion, according to the hypothesis, corresponds with the English mint price, would sell in the bullion market for 100*l.* The English merchant would therefore draw for 100*l.* ; and, foreign bills bearing a premium, would sell his bill in the English bill market for 104*l.*, which, after deducting 3 per cent. for the expenses of transit, would leave him a profit of 1*l.* per cent. Now suppose the currency at Hambro' to be also depreciated to the amount of 4 per cent. ; the *nominal* exchange will then be at par, but the market price of bullion at Hambro' will exceed the English mint price 4 per cent. The 100*l.*'s worth of

specie will sell at Hambro' for 104*l.* ; the merchant will therefore draw upon his correspondent for 104*l.*, and the exchange being at par, will procure 104*l.* for his bill in the English bill market ; and deducting 3 per cent. for the expenses of transit, he will obtain a profit of 1*l.* per cent. as before.

It has been already demonstrated that bullion will not be exported under an unfavorable *nominal* exchange, merely in consequence of that exchange ; and the reason why specie is exported under the same circumstances, is, that the coin, while it remains here, passes for less than its worth, and that abroad it passes for its real value ;---in this country it forms a part of the currency, and partakes of the depreciation,---abroad, it passes as bullion, and is relieved from the depreciation. But it is quite clear that even in the export of specie, there would be no profit whatever, unless its depreciation were greater than the expenses attending its export ; and therefore were there no other remedy for a depreciated currency than the export of specie, the *nominal* exchange might for any length of time continue unfavorable, to an extent somewhat less than the expenses of the transit of bullion. But the fact is, that no such continuance of an unfavorable exchange, even to that extent, can take place, so long as the currency is capable of being converted into bullion ; for as soon as the

depreciation is evinced by an elevation of the market price of bullion above the mint price, that moment the conversion of the superfluous currency commences; and it depends upon the comparative demand for bullion, in this country, and the demand upon the continent, whether the melted specie be exported or not.

It must be admitted, that, as soon as the depreciation has exceeded the expenses of the transit of specie, and thus afforded an option as to the mode of converting it into bullion, the foreign merchant, by buying abroad the bills upon England, which will necessarily be at a discount, and ordering his correspondent to whom he sends the bills, to invest them in English specie, will be enabled to procure bullion at the English mint price. So that as long as he can dispose of the bullion at that price abroad, he will derive a profit equal to the excess of the discount at which he has bought the English bills, above the expenses of the transit of specie. But it having been already shewn, that the profit on melting always exceeds the profit on exporting, by the amount of the expenses attending the export, it can never be believed that a merchant would collect the current coin, and by exporting it, subject himself to the penalties of the law, for the sake of obliging his foreign correspondent, and enabling him to acquire a profit of 1 per cent., when by melting the same coin, he

might himself, with less risk, obtain a profit of 4 per cent.

Again, if the *nominal* exchange were rendered favorable, 4 per cent. by a forced contraction of the currency, and the price of bullion were lowered with that of other commodities, so as to be 4 per cent. below the mint price; would any merchant purchase foreign bills at a discount of 4 per cent., and send them to Hambro' to be invested in foreign coin, for the sake of gaining 1 per cent. upon its import, when, by employing the same capital in the purchase of bullion in the home market, and converting it into coin at the mint, he would derive a profit of 4 per cent.?

The only case in which a superior advantage would be obtained from the export of specie, rather than from the conversion of coin into bullion, or from the import of specie rather than the conversion of bullion into coin, would be, when the over-issue or contraction of the currency had created a premium or discount of 4 per cent. on foreign bills, without producing an alteration of 1 per cent. in the market price of bullion. But it has been already shewn, that the nominal price of bullion is raised or lowered in the same manner as that of other commodities, to which it would otherwise no longer bear its natural relative value. Such an occurrence, therefore, if possible, can be but temporary, and does not affect the general argument.

Where the currency consists partly of coin, and partly of paper convertible at option into coin, it is for the same reason absolutely impossible that it can continue permanently in a state of depreciation: for should the Bank be so imprudent as to issue notes beyond the demands of increasing wealth, as soon as the augmentation of prices, and a consequent unfavorable *nominal* exchange, denoted the depreciation of the currency, the market price of bullion would exceed its mint price, and all that portion of the circulating medium which could be converted into bullion would begin to disappear: The paper of the Bank would be returned to be exchanged for coin, which would be immediately melted, and sold in the form of bullion, for notes, at the advanced nominal price. These, in their turn, would be sent to the Bank to be in the same manner exchanged for coin, which would be melted and sold as soon as procured.

Now this process might be going forward, and continue to drain the Bank of its gold, without the slightest demand for bullion abroad, or without any demand for foreign payments. It would equally take place, though the country were receiving payments instead of making them---though it were importing bullion instead of exporting it. Should the Bank persist in its over-issue, and still endeavour to throw the same quantity of notes into circulation, the Directors would be compelled to

purchase bullion, and coin it into guineas, in order to supply the drain occasioned by the return of their notes; and as Mr. Thornton states, "they will have to do this at the very moment when many are privately melting what is coined. The one party might be melting and selling, while the other is buying and coining; and each of these two contending businesses will be carried on, not on account of an actual exportation of each melted guinea to Hambro'; but the operation, or at least a great part of it, will be confined to London---the coiners and melters living on the same spot, and giving constant employment to each other*."

Mr. Winthorp, in the evidence he gave before the Secret Committee of the House of Commons in 1797, (p. 46 and 47,) concluded that because there was a drain upon the Bank, there must necessarily be a drain upon the country; and stated "his belief that the coffers of the Bank generally shew whether money is coming into or going out of the country." I should hope it would be unnecessary, after what has been already

* Thornton on Paper Credit, p. 125.

Mr. Thornton admits that the melting is not always connected with the export of bullion; but as the object of his Book was to shew that the currency was not depreciated, it was impossible for him to give even a plausible explanation of this part of his subject, without attributing the effect to an unfavorable *real* exchange.

observed, to offer any thing further in reformation of such opinions. The drain upon the Bank will begin under any circumstances, whenever the depreciation of currency from over-issue has raised the market price of bullion above its mint price; and it will continue, till the loss which the Bank must suffer by the purchase of bullion to supply the drain, shall compel the Directors to diminish the number of their notes, so as to bring back the currency to its natural level. The price of bullion will then fall to its mint price, and no longer afford a profit on being melted; the *nominal* exchange will invariably mark the amount of the depreciation during its continuance; and when the depreciation ceases, the *nominal* exchange will rise to par.

The adoption of a paper currency, therefore, can never be injurious to a country, so long as it is convertible at option into specie. The temptation to its over-issue will always be sufficiently checked by the principle that has been just explained; and, independently of the convenience of making the larger payments, it will certainly be advantageous to carry on the circulation of a country by a cheap, rather than a costly, machinery.

It is obvious, that as the nominal prices of commodities will be increased by the over-issue of currency, so, for the same reasons, the contraction of it below the natural wants of circulation, will diminish the *nominal* prices in the same

proportion. A smaller quantity of currency will then measure the same value, and the *nominal* exchange will be favorable to the country where the value of the currency is increased. This is an event that does not often occur; for as the profits of a bank that issues paper-money depend upon the quantity it can circulate, the directors of the establishment will generally take care that the supply shall not be less than the demand. When the market price of bullion, however, has from any cause been elevated above the mint price, the Bank has always the power of giving the currency an artificial value by a diminution of its total amount; and it is evident that by such a diminution, the price of bullion will be lowered in the same proportion as that of any other commodity. Bullion will then be of less value in the market than in the form of coin, and the merchant will carry it to the mint, to obtain the profit attending its conversion into specie. If, under such circumstances, there should be a demand for bullion for the purpose of exportation, this would evidently occasion no drain upon the Bank, while it could be procured at a cheaper rate in the market; and should the demand for exportation continue so long as to raise the price of this commodity, in consequence of its scarcity* the

* The scarcity here spoken of refers only to the partial-scarcity

Bank would always have the power by a greater contraction of its currency, to lower its *nominal* price, and thus preserve the superiority of its value in the form of coin over its value in the shape of bullion.

It is thus that the value of the currency is made to correspond with that of the precious metals of which it is composed, or into which it is convertible; and as long as they continue to be the standard by which the value of other commodities is estimated, the circulating medium of the whole mercantile republic will suffer no permanent alterations, but what arise from the variation in the intrinsic value of the precious metals themselves.

It is some proof of the truth of these positions respecting the uniformity of the value of currency, that from the period of the reformation of the gold coin in 1774, to the year 1797, the *computed* exchange between London and Hambro' was generally in favor of the former, arising, probably, from the superiority of our coin; and that it seldom varied, except in 1793, more than 5 per cent. on the one side or the other of par. In

arising in particular countries from the temporary unequal distribution of bullion, and not an actual scarcity arising from a permanent diminution of the usual quantity produced at the mines.

that year the *computed* exchange rose to 10 and 11 per cent. in favor of this country, owing to the sudden contraction of currency that took place in consequence of the run upon and failure of the country banks, at the breaking out of the French revolutionary war, which had the effect of raising the *nominal* value of the currency here to the degree indicated by the favorable exchange. During the whole of this period the market price of bullion never exceeded its mint price, except in the year 1783, by the very trifling amount that has been already specified; and in the year 1795, when the Bank had extended its paper from less than 11 to upwards of 13 millions and a half.

After this review of the subject, and the strong evidence which presents itself that the currency of a kingdom, whether consisting of coin only, or partly of coin and partly of paper, can never be augmented beyond its due proportion, so long as the paper is convertible at pleasure into specie—can any one for a moment doubt of the result, should this salutary check be removed, and at the same time the paper currency be made a legal tender for the payment of debts*?

* By the Restriction Act, bank notes are not absolutely a legal tender; but if a tender be made in notes, the debtor cannot be arrested.

