

**PRACTICAL
OBSERVATIONS**

ON THE

REPORT

OF THE

BULLION-COMMITTEE,

By CHARLES BOSANQUET, Esq.

SECOND EDITION, CORRECTED,

WITH

A SUPPLEMENT.

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PREFACE.

THAT my unaided and unsanctioned efforts to separate truth from error, in the Report of the Bullion-Committee, should be, in every instance, successful, is in no degree probable: I should, therefore, gladly have profited, on this occasion, by the observations of the public to correct the errors into which I may have fallen.

The rapid sale of the first edition of this work, and the urgent demand which, I understand, prevails for a second, deprive me, however, of opportunity to collect the public opinion: this second edition differs, therefore, from the first only in the correction of typographical errors, and in the omission or alteration of a few expressions liable to misconstruction, which, writing in the desultory form of notes, at both ends of the kingdom, and amidst varied occupations, escaped my notice in the manuscript. A note is added, to correct a trifling

mis-statement respecting silver, in page 34; but it has no effect on the argument.

The only occurrence of any importance to the subject of my Observations, since they first went to the press, is the publication of Mr. Huskison's masterly explanation of the principles of the writers of the Report, on the theory of money and exchange, &c. in a pamphlet entitled, "The Question stated and examined." It bears so directly on the point under discussion, and is so generally read and referred to, that it might seem like fear or affec-

tation to pass it unnoticed; I propose, therefore, to assign reasons, in a Supplement to this edition, why, though I dissent from Mr. Huskison's conclusions, I think it unnecessary publicly to investigate their accuracy.

Hampstead,
December 3, 1810.

PRACTICAL OBSERVATIONS,

&c. &c. &c.

“REASONING on things by figures is the way,” says Sir William Davenant, “to come to sure conclusions.”—To reason in this mode, exclusively, is the object of the present work.—The things to be reasoned upon are the opinions of the Bullion-Committee; and the figures to be employed are chiefly those contained in the Appendix to its Report. Abstract reasoning is foreign to my purpose; my observations will be founded wholly on facts, and these will be introduced with such details only as are necessary to render their application intelligible to those who have not the Report, with its Appendix, immediately before them.

In the early part of 1809, the foreign exchanges experienced a rapid and unusual depression; at the same time, the price of gold-bullion rose in an equal degree,—and the variation, when at the highest, in October and November, amounted to nearly 20 per cent.

The public attention was drawn to this subject by a pamphlet, published late in 1809, (the substance of which had previously appeared in the Morning Chronicle,) entitled, “The high Price of Bullion a Proof of the Depreciation of Bank-Notes.” This pamphlet, by Mr. Ricardo, is wholly theoretical, and, so far, unsatisfactory;—because the theories are not brought to the test of experiment. Other publications followed, on the same subject, but I particularly allude to Mr. Ricardo’s work, not only as having been the immediate cause of the inquiry which has since taken place, under the authority of the house of commons, but as a syllabus of the Report which has been presented by the Committee: and I refer, directly, also to a pamphlet published by Mr. Mushett, of the Mint, because the tables annexed to it are essentially useful to the inquiry, and are not found, at least not in so convenient a shape, in the Appendix to the Report.

At the commencement of the last session of Parliament, a select Committee of the House of Commons was appointed to “Inquire into the cause of the high price of bullion, and to take into consideration the state of the circulating medium, and of the exchanges between Great Britain and foreign parts.” The Committee sat upwards of three months, and, at the latter end of the session, presented a Report, with a copious Appendix of evidence and documents, which supplies, in great measure, the deficiency complained of in Mr. Ricardo’s work.

A rigid inquiry into the accuracy of opinions decisively pronounced by such high authority, on a subject of vital importance to the national interests, might, under any circumstances, be justified; but there is more than usual cause for inquiry in the present instance, because the opinions of the Committee are altogether at variance with those of the persons selected for examination, and who must be presumed to have been, at least in the judgement of the Committee, most conversant with the subjects brought before them; there are, therefore, two opposite opinions before Parliament, on the influence, for instance, of the greater or less amount of bank-notes in circulation, on the course of exchange, and the price of bullion;

the one theoretical, forming the substance of the Report, the other practical, and pervading the Appendix.

Under these circumstances, what opinion shall the public adopt?—what course is Parliament to hold? “When a theorem is proposed to a mathematician, the first thing he does with it,” says Paley, “is to try it on a simple case; if it produce a false result he is sure there must be some error in the demonstration.”—The public must proceed in this way with the Report, and submit its theories to the test of fact.

The question referred to the consideration of the Committee, viz. the cause of the high price of bullion, meets no direct answer in the Report;—but the Committee has offered a variety of opinions, and laid down several axioms, (the truth of which I am presently to ascertain,) from which they deduce the inference, that the present high price of bullion and low rates of exchange are caused by an excess in the amount, and consequent depreciation in the value, of bank-notes. The nature of the argument, on which this opinion is founded, cannot be more concisely or satisfactorily stated than by direct reference to the passages in the Report, and the corresponding passages in the other publications I have named, applicable to this part of

the subject. This notion was first suggested by Mr. Ricardo, who states, “That Parliament, by restricting the Bank from paying in specie, have enabled the conductors of that concern to increase or decrease, at pleasure, the quantity and amount of their notes. (1st Ed. p. 23.) Mr. Mushett says, “There can now exist no possible obstacle to the increase of their notes but what their own prudence suggests.” (p.41.) And the Committee state, expressly, that “The suspension of cash-payments has had the effect of committing into the hands of the Directors of the Bank of England, to be exercised by their sole discretion, the important charge of supplying the country with that quantity of circulating medium, which is exactly proportioned to the wants and occasions of the public.” (Rep. p. 24.)

In the exercise of this power the Bank, it is assumed, has not been sufficiently guarded; and the consequence is, according to Mr. Ricardo, “That the paper-currency of this country has long been, and now is, (Dec. 1, 1809,) at a considerable discount, proceeding from a superabundance of its quantity.” Mr. Mushett says: “Since the Bank-Restriction-Bill took place it has been generally supposed, that the excessive quantity of bank-notes in circulation has caused a considerable depreciation in their

value :” (p. 40.) and the Committee has formed an opinion “ that there is, at present, an excess in the present circulation of this country ;” and “ that the excess is to be ascribed to the want of a sufficient check and controul in the issues of paper from the Bank of England.” (p. 30.)

And as these writers agree in the fact of excess, or superabundance, of the paper-currency of this country, so do they also concur in the sign of its existence: “ The sign of this excess and depreciation has been a permanently unfavourable exchange,” says Mr. Mushett. “ The exchange,” in the opinion of Mr. Ricardo, “ will form a tolerably accurate criterion, by which we may judge of the debasement of the currency, proceeding either from a clipped coinage or a depreciated paper-money ; because, whilst paper can be exchanged for undebased coin, the exchange can never be more above, or more below, par than the expenses of transporting the precious metals :” (p. 18.) and the Committee report to the house their “ most clear opinion, that so long as the suspension of cash-payments is permitted to subsist, the price of Gold Bullion, and the general course of exchange with foreign countries, *taken for any considerable period of time,* form the best general criterion from which any inference can be drawn, as to the sufficiency

or excess of paper-currency in circulation,” (Rep. page 21,) and this opinion appears to be founded on the principle, which the Committee assumes to be indisputable, “ that the difference of exchange, resulting from the state of trade and payments between two countries, is limited by the expense of conveying and insuring the precious metals from one country to the other.” (p. 11)

On these points there seems no difference whatever in the three Treatises ; the coincidence of opinion, and even of expression, is as close as possible, and the Committee appears to speak the common sentiment of those who consider the paper-currency to be excessive, when they sum up their previously-expressed opinions in these words : “ that there is at present an excess in the paper-circulation of this country, of which the most unequivocal symptom is the very high price of Bullion, and, next to that, the low state of the continental exchanges : that this excess is to be ascribed to the want of a sufficient check and controul on the issues of the paper of the Bank of England, and originally to the suspension of cash-payments, which removed the natural and true controul.” (page 30.)

My purpose is to ascertain the sufficiency of the grounds on which these opinions are found-

ed,—the truth in *point of fact* of the several propositions laid down by the Committee.

1st. That the variations of the exchange with foreign countries can never, for any considerable time, exceed the expense of transporting and insuring the precious metals from one country to the other.

2d. That the price of Gold Bullion can never exceed the mint-price, unless the currency, in which it is paid, is depreciated below the value of gold.

3d. That, so far as any inference is to be drawn from Custom-House returns of exports and imports, the state of the exchanges ought to be peculiarly favourable.

4th. That the Bank, during the restriction, possesses exclusively the power of limiting the circulation of bank-notes.

5th. That the circulation of country bank-notes depends upon, and is proportionate to, the issues from the Bank.

Lastly. That the paper-currency is now excessive, and depreciated in comparison with gold, and that the high price of Bullion and low rates of exchange are the consequences as well as the sign of such depreciation.

Before I attempt to investigate the truth of these propositions, by reference to the docu-

ments with which the Report has furnished me, it may be convenient to ascertain what, on a full admission of all the arguments and reasonings of the Committee, is the extent of the evil they point out, what the present state of the national currency, as resulting from the criterion established in the Report.

There is annexed to Mr. Mushett's pamphlet a table, shewing, 1st, the rate of exchange with Hambro' and Paris, for 50 years past, and how much it has been, in each instance, above or below par.

2d. The price of gold in London, and a comparison of this price with the English standard, or mint price.

3d. The amount of bank-notes in circulation, and the rate of their assumed depreciation, by a comparison with the price of gold.

On reference to these tables it appears that, for about two years antecedently to the suspension of cash-payments, the exchange had been, in some degree, unfavourable to England; that, at the immediate period of the suspension, and for two years and a half succeeding that measure, from Nov. 1796 to July 1799, the exchange was very greatly in favour of England, and gold at the mint-price. That, between the end of 1799 and 1802, the exchange was against London and the price of gold considerably above

the mint-price. That, from the end of 1802 to the end of 1808, the exchanges were for six years considerably in favour of Great Britain, and the price of gold stationary, at $2\frac{3}{4}$ per cent. above the mint price.* Subsequently to the end of 1808 the exchanges have fallen, the price of gold has risen as before stated, and these circumstances have led to the investigation of the Committee.

It results from this reference, that, admitting the criterion established by the Report, as the test of an excess of paper, the grievance complained of is of recent date, that it had no existence for six years previously to 1809, and that the circulation of bank-notes during this period did not therefore exceed the natural wants of the public and was not excessive. This inference appears undeniable. I do not mean to infer that 17 or 18 millions of bank-notes then in circulation may not be too much, under other circumstances; but I conclude, that Mr. Ricardo's opinion, that the paper-currency *had long been excessive*, when he wrote in 1809, was incorrect, and that Mr. Mushett had not

* It may be said, that even then the price of gold was above the mint-price; but it appears by the questions of the Committee and Mr. Goldsmid's evidence that the supply of gold was very small, and the price of £4 per oz. was fixed by the Bank of England, whence "the demand exceeded all competition."

referred to his tables when he stated that the sign of this excess has been a permanently unfavourable exchange.

It results equally from this theory, that during the year 1809, and subsequently, the circulation of paper has been excessive, because both the exchanges and price of bullion indicate such excess. During a part of this period, from July to Nov. 1809, the loss on the exchange amounted to nearly 20 per cent. We learn, however, from the Report, that, in the spring of 1810, the exchanges experienced a gradual improvement, that on Hamburgh rose from 28, the lowest rate, to 31, that on Amsterdam from 30 to 33:5, that on Paris from 19:6 to 21:11. "The exchange on Hamburgh appearing (as stated in the Report) to be 9 per cent. that on Amsterdam 7 per cent. and that on Paris 14 per cent. against this country."—These calculations do not exactly agree with those of Mr. Mushett; admitting, however, the correctness of the statement by the Committee, a small proportion only of the loss thus experienced on the exchanges with the continent is to be ascribed, according to the opinion of the Committee, to the depreciation of our currency.

It is a principle laid down by the Committee, and which they consider to have been long

settled and understood, "That the difference of exchange resulting from the state of trade and payments between two countries is limited by the expense of conveying and insuring the precious metals from one country to the other." It will be equally admitted that, in the event of an unfavourable balance of payments, the depression of the exchange must necessarily attain this limit, before the balance can be adjusted by the exportation of gold.

The Committee endeavoured to ascertain the extent of this limit, that is the expense of sending bullion abroad, under present circumstances, and they come to the conclusion, "that this expense in the last half of the last year (1809) did not exceed 7 per cent.—and they observe that an expense to this extent does not afford an adequate explanation of a fall in the exchanges so great as from 16 to 20 per cent. below par. "The increased cost," they add, "of such remittance would explain, at those moments when the risk was greatest, a fall of something more than 7 per cent. in the exchange with Hamburgh and Holland, and a fall still greater perhaps in the exchange with Paris; but the rest of the fall, which has actually taken place, remains to be explained in some other manner."

The expense of sending gold abroad was in no degree less in the spring of 1810 than in the autumn of 1809; and it follows, therefore, that, according to the statements of the committee, the loss on the Dutch exchange, in the months of March and April last, was exactly equal to the expense of sending gold as a remittance; on that on Hamburgh 2 per cent. greater; and that, on the exchange with Paris, it was undefined, because the expense of sending gold to Paris was not ascertained. According to Mr. Mushett's calculations of the par between London and Paris, the loss on the French exchange was 2 per cent. more than the expense of sending gold to Holland:—As this was the state of things for some months prior to the date of the Report, and at the period when it was presented, it will, perhaps, with some, be a subject of regret that the passage referring to the extreme of the lowest depression of the exchange was not expunged, as the event had proved it to be one of those temporary effects which the Committee had previously determined to disregard.

Whether, however, the difference, which remains to be accounted for in some other manner be 2 per cent. or 11 per cent. it is not necessary to travel out of the Report to assign a cause

for it, without recurring to depreciation :—“ Referring to the evidence of a continental merchant, on whose opinion the Committee appears to place much reliance, they state :—“ That political events, operating upon the state of trade, may often have contributed as well to the rise as to the fall of the exchange ; and, in particular, that the first remarkable *depression*, in 1809, is to be ascribed, as has been stated in the evidence already quoted, to *commercial events*, arising out of the occupation of the north of Germany by the troops of the French Emperor ; the evil has been, that the exchange, when fallen, has not had the full means of recovery, under the existing system :”—these means are explained to be, “ the clandestine transmission of guineas, which improved it for the moment by serving as a remittance.”

Thus, then, it appears, that, on a full admission of all the principles adopted by the Committee, and of their application to the present case, the foreign exchanges were, at the time when the Report was presented, and for three months prior thereto, about 2 per cent. below the natural limit of depression ; that this excess was the emanant of a much greater depression, occasioned by political events in the preceding year, during a period in which

the means of exporting English gold coin, at the mint-price, in payment of debts, were withheld.—When it is stated that, for 6 months since the date of the Report, the exchanges have continued at or about the same standard, or rather higher, and that at present the loss on the exchange is barely equal to the expense and risk of transporting gold, it will probably be thought that the question, as a practical question of national importance, is altogether at rest.—That there is no necessity, at least, for the adoption of hasty remedies, even though the correctness of the general reasoning of the Committee should, on full inquiry, be conceded. But I do not admit its correctness: I do not believe that the fall of the exchange and the increased price of bullion indicate excess and consequent depreciation of our paper-currency ; and I doubt it, because the premises, on which this opinion is founded, are unsound, and the conclusions contrary to experience.

The basis of the argument of the Committee, to the examination of which I now proceed, is that which I have shortly stated in page 8 as the first proposition, viz. “ that the difference of exchange, resulting from the state of trade and payments between two countries is limited

by the expense of conveying and insuring the precious metals from one country to the other; at least, that it cannot, for any considerable time, exceed that limit:" (Rep. p. 11.) therefore, all excess of depression on the exchange, beyond the expense of conveyance, is to be attributed to depreciation of our currency. This proposition is so fully admitted, and so broadly stated, in each of the publications to which I have alluded, that it is not even guarded by the condition, that the country, by which the balance of payments is due, shall possess bullion or specie sufficient to liquidate it; but, boldly as the principle is asserted, and strongly as reason appears to sanction it, I insist that it is not generally true, and that it is at variance with fact.

It is stated, in the Report, from the evidence before the Committee of 1797, that the average expense, at that time, of conveying specie from London to Hamburgh, was $3\frac{1}{2}$ per cent. yet, on reference to the course of exchange with Hamburgh, in Mr. Mushett's tables, it appears that, from the beginning of 1797 to the middle of 1799, the exchange was continually in favour of Great Britain more than twice the expense of conveying gold;—and, for eighteen months of that time, 11 to 12 per cent. in our favour, or from 7 to

8 per cent. beyond such expense: nor does this profit appear to have occasioned any considerable importation of gold, which, during this period, rose to the mint-price, although, for several years before, it had, nominally at least, been below it.

In the years 1764 to 1768, prior to the recoinage, when the imperfect state of the coins occasioned gold to be 2 to 3 per cent. above the mint-price, the exchange with Paris was 8 to 9 per cent. against London,—at the same time the exchange with Hamburgh was, during the whole period, 2 to 6 per cent. in favour of London; here appears, then, a profit of 12 to 14 per cent. for the expense, in time of peace, of paying the debt to Paris with gold from Hamburgh, which must have exceeded the fact by at least 8 or 10 per cent. and it is worthy of remark, that the average exchange with Hamburgh, for the years 1766 and 1767, of 5 per cent. in favour of London, added to 2 per cent. the price of gold above the mint-price, constituted a premium of 7 per cent. on the importation of gold into England, or, deducting $1\frac{1}{2}$ per cent. for expenses in time of peace, a net profit of 5 per cent. yet the exchange was not rectified thereby. Again, in 1775, 6, and 7, after the recoinage, we find the exchange

on Paris 5, 6, 7, and 8, per cent. against London in time of peace, when half the amount would have conveyed gold to Paris, and one-fourth have paid the debts of Paris at Amsterdam.— In the years 1781, 2, and 3, being years of war, the exchange was constantly from 7 to 9 per cent. in favour of Paris; and, during this period, gold was the common circulation of this country, and the Bank was compelled to provide it for the public at the mint-price.— It has been already shewn how little effect the precious metals produced towards equalising the exchange with Hamburgh, during the years 1797 and 1798; and another instance may be adduced in the years 1804 and 1805, when the Paris exchange varied from 7 to 9 per cent. in favour of London.

In every case here cited the fluctuations of the exchanges greatly exceeded the expense of conveying gold from one country to the other, and to a much greater degree in most of them than in the present instance; the circumstances of the times were, it will readily be admitted, more favourable to intercourse, on those occasions, than they now are, and the state of metallic circulation afforded facilities not now experienced here. Yet, under all these advantages, the principle assumed by the Committee was not operative, and cannot

therefore be admitted as a solid foundation for the superstructure of excess and depreciation, attempted to be raised upon it.—If it be said that probably, on these several occasions, gold was proportionately dear on the spot to which the exchange was unfavourable, I admit the fact as probable, because I am without evidence respecting it; but, if the price of gold abroad enters necessarily into the calculation of the “natural limit” of depression of the exchange, then the course of foreign exchanges, rectified by the expense of sending gold abroad, does not form a just criterion of the adequacy or excess of our circulating medium.—

There appears also a defect in the application of the principle to the particular case under the consideration of the Committee.—

It is admitted in the Report “that the first remarkable depression of the exchange, in 1809, is to be ascribed to commercial events, arising out of the occupation of the north of Germany by the troops of the French emperor.”—(p. 16.) If a depression equal to three times the cost of sending gold be admitted as the effect of any other cause than depreciation of currency, it can be considered as not overturning the principle of limitation, only by viewing the fall in question as an “occasional depression;”—

but, if taken as an occasional depression only, (as the event indeed proved,) how can it be brought forward as evidence of an excess of currency, the Committee having established "a considerable duration" as a necessary condition to render the course of exchange a just criterion?

The circumstances I have stated, respecting the exchanges on former occasions, were not perhaps brought under the notice of the Committee; but they had two facts prominently before them, bearing immediately upon the question, of which they have taken no notice.—Mr. Greffulhe offered this problem to the Committee: "During the depreciation of English currency on the continent of Europe, a premium was paid for it in America in hard dollars." The balance of payments may be against us with one country, and in our favour with another; and, if the exchange is regulated by this balance, it will exhibit corresponding appearances, particularly where those countries are remote. But, if the currency be depreciated below the value of gold, it is so *positively*, not relatively, and all exchanges must equally feel the influence of the depreciation.

The other fact I learn from the paper 65, in the Appendix to the Report; between January 1809 and May 1810, the Swedish exchange

rose (against Sweden) 25 per cent. and was at that date 24 per cent. in favour of London.—What are the circumstances of Swedish currency? We collect them incidentally from the examination of Mr. ———— a continental merchant (p. 75)—"Have you ever known the exchange to fall to the extent of 12 to 15 per cent. in any part of Europe, in which it was computed in coin, containing a fixed quantity of gold or silver, or in paper, or bank-money, exchanged at a fixed agio either for such gold or silver, or for gold or silver bullion of definite amount."—Ans. "No, never; *except in countries where the export of their currency has been effectually prohibited, such as Sweden*; I do not recollect any other country where paper, resting upon the foundation of coin, the latter is effectually prohibited from being exported."—Q. How is that prohibition made effectual in Sweden? "By the bank not issuing specie to any amount, when the exchange is depreciated".—Sweden was greatly indebted to England, for goods sent thither for the supply of the continent and north of Europe.—Gold could not be exported, and therefore the premium on remittance by bills was great; this seems a very natural effect, and one which will not surprize any one; yet to account for an effect exactly similar, under similar circumstances, we are required to admit that our paper-currency is depreciated,

whilst the Americans were giving a premium for it in hard dollars. It will be recollected that the question now agitated is not whether any inconvenience attends the substitution of paper for gold, as the medium of circulation, but whether that paper be now excessive in amount, and depreciated in value.—As the result of the facts I have adduced, I assume that from the state of the foreign exchanges no such inference can justly be drawn.*

* The terms favourable and unfavourable applied to the exchange are, perhaps, sufficiently understood, as indicating a corresponding balance of trade and payments; but a favourable exchange is frequently a very unfavourable circumstance, and *vice versa*. A British merchant sent goods to Sweden for sale early in 1809; they were valued at 1000 rix dollars; the exchange being at four rix dollars per pound sterling, they would then have produced, by remittance, £ 250. They were actually sold for 1000 rix dollars in the beginning of 1810; and, remitted for at the exchange of five, produced £ 200. The funds for the bill were provided by a consignment of goods from Sweden; and England, therefore, received goods worth £ 200 in payment of the original export instead of £ 250, which it would have received had the exchange not become so favourable. In a more familiar instance, England benefits by an unfavourable exchange. When the Dutch had large sums in our funds, the dividends were remitted periodically, and a real or supposed demand for bills on Holland, at those periods, occasioned a fall on the exchange. Thirty-three shillings Flemish, for instance, were given in exchange for a pound sterling, instead of 34*s*. The exchange was, therefore, less in favour of London. Yet it is

The Committee considers, however, the price of gold as the most certain sign of excess and depreciation.

“ An ounce of standard gold-bullion will not fetch more in our market than £ 3 : 17 : 10½, unless £ 3 : 17 : 10½ in our actual currency is equivalent to less than an ounce of gold;” yet gold-bullion does bear in London a higher price than this standard or mint-price; whence a depreciation of the paper is inferred, which Mr. Mushett estimates to have amounted, in September, 1809, to £ 13 : 7 : 0 per cent. Whilst sanctioning this old, and in the abstract incontrovertible, theory, and, as applying it to the present case, the Committee do not appear to have recollected, that, having admitted an adequate cause for the fall of the exchange, from commercial and political events, the increased price of gold-bullion to any extent, within the equivalent of the depression, is only a consequence; and the documents in the Appendix shew that the price of gold-bullion did not at any period of the depression of the exchange exceed the price which it was worth as a remittance, compared with its value in foreign markets. From the calculations furnished by Mr.

evident that on every 33 pigs of lead, blocks of tin, or ounces of gold, sent to Holland, to provide funds for payment of the dividends, one pig, block, or ounce, was saved to this country.

Greffulhe to the Committee, (Appendix 58,) it appears, that, in the spring of 1810, an ounce of gold, of English standard weight, was worth, at Hamburgh, £4 : 17 : 0 sterling, the price being 101, and the exchange 29*s.* At this time the extreme price of bullion, in London, was £4 : 12 : 0, or 5½ per cent. below the price at Hamburgh. At the same time the price of gold, at Paris, exceeded its value here by 8½ per cent. and, at Amsterdam, by 7 per cent. at the then current exchanges. The expense of conveyance to Holland being then about 7 per cent. gold would not then pay for importation, neither would it be exported, merely with a view to profit, though it would be exported, and was in fact exported, in preference to bills in abundance of instances, which might readily have been ascertained by the Committee. On reference to the paper, No. 60, in the Appendix to the Report, it appears, that, in June, July, August, and September, 1809, the price of gold, at Hamburgh, was 104½, and the exchange 28*s.* if at 101, and 29*s.* there was a profit on the export of gold from hence to Hamburgh of 5½ per cent. it follows that at 104½, and 28*s.* there was a profit of 12½; or, deducting the expenses of conveyance, that gold, if bought here at £4 : 12 : 0 per ounce, was a cheaper remittance by 5½ per cent. than

a bill at the current exchange. This same document, No. 60, shews also, that within twelve months the price of gold at Hamburgh varied from 100½ to 104½, the exchange with Great Britain in both instances, and during the intervening period of eight or nine months, being at 28*s.* We find the price of gold continuing, in other instances, at 104, whilst the exchange rose from 28*s.* to 29*s.* 11*d.* even to 30*s.* 8*d.* variations of 4 or 5 per cent. in the cost of a remittance in gold, which remained nearly stationary in its price here during the whole period. These fluctuations seem to militate against the intimacy of connexion which the Committee assumes to exist between the course of exchange and the price of gold, in places where the currency is gold or convertible into it. And the facts stated, respecting the actual price of bullion in the foreign markets, satisfactorily meet the observations of the Committee, implying that they discover no advance of the price of gold in those markets analogous to that which has obtained here. Referring to Mr. Greffulhe's documents, No. 58, they observe, indeed, that it is important, "as it shews that "the actual prices of gold in the foreign markets are just so much lower than its market-price here as the difference of exchange amounts to." Mr. Greffulhe's observations

on this paper convey a different impression: "One of the papers I have delivered in shews (he says) the foreign prices of gold reduced into sterling money at the present low rates of exchange, *and the excess above the market-price here may be considered as about equal to the charges of conveyance,*" (page 3); nor is this excess of price at Hamburgh merely relative, and arising out of the exchange. It appears by the paper, 56, in the Appendix, that the prices of gold at Hamburgh have, in the two last years, risen considerably, as the following extract shews "highest and lowest prices of gold at Hamburgh, in the years 1806-7, and 1808-9.

	lowest.	highest.		lowest.	highest.	
At Hamburgh, 1806,	98	103	1808,	102	106	
	1807,	98 $\frac{3}{4}$	101 $\frac{1}{2}$	1809,	101 $\frac{3}{4}$	104 $\frac{1}{2}$

The price of gold, at Hamburgh, was, therefore, between three and four per cent. higher, on the average of the years 1808 and 9, than in the two years which preceded them. I observe, also, that the fluctuations in the price of gold, at Hamburgh, where, as the Report informs us, "Silver is not only the measure of all exchangeable value, but is rendered an invariable (or unvarying) measure," have, within a period of two years, amounted to no less than eight per cent.

But, it will be said, gold at Hamburgh is a commodity; here it is the standard of value; and an ounce of gold cannot sell for more than an ounce of gold of equal quality, unless the medium of payment is of less value than an ounce of gold: and Mr. Mushett is of opinion, "that the price of gold can in reality, at no time, be above its mint-price, and that its being so at present in appearance is caused by the excessive quantity of bank-notes in circulation."

This is the strong hold of the theorists, and I shall not attack it otherwise than by fact. — The theory may, however, be correct, and its application erroneous.

In the Report of the Committee, I find this statement, page 4. "Upon referring, for a course of years, to the tables, which are published for the use of the merchants, such as Lloyd's List and Wettenhall's Course of Exchange, your Committee have found, that, from the middle of the year 1773, when the reformation of the coin took place, till about the middle of the year 1799, two years after the suspension of cash-payments by the Bank, the market-price of *standard gold in bars* remained steadily uniform at the price of £3 : 17 : 6, being, with the small allowance for loss by detention at the mint, equal to the mint-price of £3 : 17 : 10 $\frac{1}{2}$, with the exception of one year,

from May, 1783, to May, 1784, when it was occasionally at £3 : 18 : 0; during the same period, it is to be observed, the price of *Portugal gold coin* was occasionally as high as £4 : 2 : 0; and your Committee also observe, that it was stated to the Lord's Committee, in 1797, by Mr. Abraham Newland, that the Bank *had been frequently obliged to buy gold higher than the mint-price*, and, upon one occasion, gave as much for a small quantity, which their agent procured in Portugal, as £4 : 8 : 0. But your Committee find, that the price of standard gold, in bars, was never, for any length of time, materially above the mint-price during the whole period of twenty-four years, which elapsed from the reformation of the gold-coin to the suspension of the cash-payments at the Bank."

I submit the whole passage to my readers, that I may not risk misrepresenting its meaning, which I profess not to understand. The Committee cannot mean, that the value of standard gold in the market was only £3 : 17 : 10½, or £3 : 18 : 0, when the Portugal gold, from which it was made, was worth £4 : 2 : 0. To me it appears evident, that the sentence respecting Bank purchases, beginning "during the same period," and ending at "£4 : 8 : 0," was introduced after the Report was framed,

and its operation on the statement not exactly perceived.

It appears also to have escaped the notice of the Committee, that, in 1795, the directors of the Bank stated to Mr. Pitt, that the price of gold was £4 : 3 : 0 and £4 : 4 : 0 per ounce; and that their guineas being to be purchased at £3 : 17 : 10½ pointed out clearly the ground of the fears of the Bank of a continued demand for them, (see Report of Lord's Committee anno 1797.)

The fair inference from the information gained from Mr. Newland, and from the Bank directors, seems to be this: that, although it appears, by the printed lists, that, during the whole period between the recoinage and suspension of cash-payments, standard gold never exceeded the mint-price more than the difference between £3 : 17 : 10½ and £3 : 18 : 0 per ounce, yet that, in fact, the foreign gold coin from which such standard gold was made did sell for £4 : 2 : 0 and £4 : 4 : 0. That the Bank was in the habit of paying these prices, and, on one occasion, paid £4 : 8 : 0, or 13 per cent. above the mint-price. During this period bank-notes were at once convertible into gold, and the coin was in the most perfect state. — The real question before us is, not what was the price of that gold which the

Bank was compelled to deliver to the public on demand at £ 3 : 17 : 10½, but what was the price at which gold could be elsewhere obtained? £ 4 : 3 : 0. — £ 4 : 4 : 0, say the Bank directors. Aye, £ 4 : 8 : 0, says Mr. Newland. An ounce of standard gold did then sell for more than an ounce of standard gold. This, says Mr. Mushett, is impossible.—“ I do not say it is possible; I only say it is true.” —

The Committee is not, however, quite so peremptory; they have discovered, that standard gold, in bullion, may be worth 5½ per cent. more than gold in British coin; because the one, being an exportable commodity, and the other not so, may be worth 5½ per cent. more to him who has occasion to send it abroad; and Mr. Goldsmid had told them the fact was so.—This admission is like the letting out of water; it is impossible to foresee where it will run or where it will stop.—Be it granted, that the rubbing of guineas deteriorates English gold in coin, as compared with gold in bars, 1 per cent. That the conscience of the exporter, and the value of a false oath, are correctly estimated by the Committee at 4½ per cent. (page 6,) which two circumstances account for the increased price of 3 or 4 s. an ounce, which foreign gold bears over that produced from British coin. What occasions the difference in value? — the demand

for exportation. May not this demand increase in its proportion to the supply of exportable gold; may not consciences grow more tender, as custom-house officers become more active?—The principle being admitted, that foreign gold has an extrinsic value beyond English gold, how can the Committee limit its operation? and say, “ that the highest amount of the *depression of the coin* * which can take place when the Bank pays in gold, is 5½ per cent. (page 6, 7.)” The statement is erroneous as a fact, for £ 4 : 3 : 0 or £ 4 : 4 : 0 per ounce, which the Bank paid for foreign gold in 1795, is, on average, an advance on the mint-price of 7¼ per cent. and the extreme case of £ 4 : 8 : 0 is an advance of 12 or 13 per cent. But, granted that the fact were as stated, English gold is not now to be obtained (none being issued) at the mint-price; who can then pretend to limit the value of gold as an exportable, or even as a consumable, commodity? Where is the point of contact between English and foreign gold, upon which the comparison of their respective values shall be established? If the demand for foreign gold was at any time very great, and the melting and exportation of guineas, howe-

* This is a very singular expression to denote a high market-price of bullion, and will point out to an attentive reader how extremely theoretical the arguments of the Report are.

ver abundant, by any means effectually prevented, foreign gold might double its price in English gold, and yet the intrinsic value of guineas remain undiminished. How far any circumstances, in our present situations, run parallel with this supposition will be seen hereafter.

The Committee hesitate, however, to admit either a scarcity of gold or an unusual demand for it, and, on these points, few direct facts are to be found in the Appendix. Mr. Goldsmid stated that his sales of gold in the 15 months preceeding his examination were greater than on an average of years; that large quantities had been purchased at the high price by individuals; that none, he believed, had been received within that period from the continent of Europe; and that gold has been of late sent to the Brazils, instead of coming from thence as formerly through Lisbon.

It appears, by the returns from the bullion-office at the Bank, Nos. 7 and 8, in the Appendix to the Report, that the total amount of gold Bullion imported and deposited in the bullion-office in 1809 amounted in value to only £520,225
That, during the same period, the quantity of gold delivered out of the bullion-office amounted in value to £805,568 of which only £592 was not exportable.

The amount of the importation is therefore such as, when compared with the amount of exports and imports, and that of the circulating medium, to justify the assumption of comparative scarcity; and the excess of delivery beyond the importation is sufficient evidence of unusual demand. The point of view in which these facts are important is that which places the amount of gold imported or delivered, in line of comparison with the amount of paper-currency, supposed to be depreciated on the evidence of the increased price of bullion. The advance of 12*s.* per oz. on the total quantity of gold delivered in one year, about 200,000 ounces, amounts to 120 or 130,000*l.*; and this is assumed as an unequivocal symptom of a depreciation of 12 or 13 per cent. on 30 or 40 millions of paper, the probable amount of our paper-currency.—Yet this account of gold, trifling as it is, exceeds, as Mr. Goldsmid states, the average sales of preceding years.

In confirmation of their opinion, that the price of gold has not been influenced by natural causes, the Committee observe, “that the rise in the market-price of silver in this country, *which has nearly corresponded to that of the market-price of gold*, cannot, in any degree, be ascribed to a scarcity of silver: the importations of silver have of late been unusually large.”—This state-

ment is unpardonably erroneous; for the fact which refutes it had drawn the attention of the Committee.

In Mr. Merle's evidence, I find it stated, that silver is about 5 pence per ounce above the coinage-price.

Question by the Committee.—That is about 9 per cent. is it not?—*Answer.*—I suppose thereabouts. *Question.*—How do you account for the circumstance of gold being 16 per cent. above its coinage-price, and silver only 9 per cent.—“I cannot answer that question.” Mr. Merle says also, that he never recollects silver so low as the standard price; in fact it never has been so low since the days of King William.* A very low average, taken before the suspension, would fix the price of standard silver at 5s. 3½d. or three halfpence above the mint-price: deducting this amount from the increased price of 5d. per oz. there remains an advance on the present occasion of 3½d. per oz. or 5½ per cent.—whilst the advance on gold is stated at 16 per

* This statement is not *literally* correct. Silver was as low as the mint-price, for a very short time, in 1799. A small quantity was sent to the mint by an individual, and an Act of Parliament was passed to prohibit its coinage, which recites the fact. The East-India Company paid, in that year, 3¼d. above the mint-price for standard silver, as appears by the document (No. 13 in the Appendix.) The average price of silver, as I have stated it, agrees with Lord Liverpool's information.

cent.—The rise on the market-price of silver has *not*, therefore, “nearly corresponded” with the rise in the market price of gold, and the ample supply, noticed by the Committee, has had the natural effect of restraining the price; and the fact adds strength to the opinion, that the price of gold has been augmented by its scarcity.

I will refer my reader to one fact more on this subject. The paper No. 1, in the Appendix, shews the amount of gold exported for several years past, so far as the Custom-House have knowledge of it.—The account stands thus:

Year ending first February					
1805	1806	1807	1808	1809	1810
None	17,007	3,019	13,008	14,716	69,962 oz.

I have now submitted to my readers all the facts and figures contained in the Report and its Appendix, which appear to me to bear directly on the propositions respecting the exchanges and price of bullion, on which the Committee formed their opinion of the excess and depreciation of our paper-currency. It will not escape notice that, admitting their theoretical accuracy, they involve exceptions to the amount of 12 or 13 per cent. on the admission of the Committee, when applied to practice.

But the accuracy of the theory is one question, the correctness of its application is another, and on this point the public may reasonably entertain jealousy, because the same theory, in the hands of the ablest men this country has known, has been once already erroneously applied, and, by such application, has subjected the nation to disappointment and inconvenience, under which we still labour, and to an unprofitable expense of nearly three millions sterling.—A theory brought forward by Mr. Locke, as counsel to the chancellor of the exchequer, and acted upon by Sir Issac Newton, as warden of the mint, might challenge the world for higher sanction.—Yet the recoinage of silver, in the reign of King William, directed by these great men, was made on erroneous principles and failed in its object. Mr. Locke assumed it as an incontrovertible principle that “an ounce of silver, whether in coin or in bullion, is and eternally will be of equal value to any other ounce of silver, under what stamp or denomination soever,” and he inferred from thence that, whenever the silver coins (then grievously depreciated) were restored to their due weight, the price of silver bullion would fall to the mint-price.—At this time, silver was the common money of account, as gold is now; and Mr Locke seems to have considered that it was naturally or necessarily so.—Men

of less powers but more practical information foretold to Mr Locke the evils which would follow from the unlimited adoption of his theory. Sir Richard Temple,* endeavoured, in vain, to point out the distinction between coin and bullion, and to convince Mr. Locke that the value of silver bullion was become greater than the standard or mint-price. He was not listened to; (he might perhaps have erred too much on the other side, which numbers were ready to do,) and the recoinage took place at the old standard of 5s. 2d. per ounce.—As the new money came out, it disappeared: between seven and eight millions were coined, yet little was found in circulation; and, within 17 years, Sir Issac Newton reported to the treasury, that, “should silver become a little scarcer, people would in a little time refuse to make payments in silver without a premium,”† the standard being taken below

* See a tract in Lord Somers' collection, dated 1696, by Sir Richard Temple.

† Earl of Liverpool's letter to the king.—As Lord Liverpool could not obtain, from the public offices, any account of the expense of this recoinage, I refer those who take an interest in such subjects to an official statement of the public income and expenditure from the revolution to the quarter-day following the death of King William, preserved in Lord Somers' collection, vol. 12, whence it appears that the deficiency exclusive of the expense was £2,415,140.

the value of bullion, the coins were melted down as fast as they were issued. The expense of this recoinage was between £2,500,000 and £2,600,000, and it would probably cost as much more at present to remedy the defect. It will probably therefore be admitted as possible, that an incontrovertible theory may, even in the hands of the ablest men, be erroneously applied.

I will next call the attention of my readers to that part of the Report which relates to the balance of trade and payments: The Committee is of opinion, that the favourable balances of the two former years ought to render the exchanges in the present year peculiarly favourable; but, observing how entirely the present depression of the *exchange with Europe* is referred by many persons (being indeed all those who were examined) to the great excess of our imports above our exports, they called for an account of *the actual value* of those for the last five years: what they called for they received; but, by a most unaccountable omission, they have never referred to it, and appear to have formed their opinion upon documents altogether irrelevant to the subject before them.

In the body of the Report, pages 12 and 13, are two statements of exports and imports for five years preceding 1810; from the first

of which it appears, that the balance of the *actual value* of exports and imports to *all parts of the world* in 1809 was £14,834,000; by the second, it is shewn that the balance in favour of Great Britain on its trade, with the *continent of Europe alone*, computed in *official value*, for the year 1809, was £14,170,758, to which latter statement the Committee adds this observation. "The balances with Europe alone, in favour of Great Britain, as exhibited in this imperfect statement, are not far from corresponding with the general and more accurate balances before given. *The favourable balance of 1809, with Europe alone, computed according to the actual value, would be much more considerable than the value of the same year in the former general statement,*" that is much more than £14,834,000: we will suppose, in even numbers, 15 millions. Now this assertion involves an actual error of half its object, for it appears, by the papers 75 and 76 in the Appendix, being accounts of official and *real values* of exports and imports to the continent of Europe, that the amount of the *actual value* of exports in 1809 was £27,109,337 of the imports 19,821,601

leaving the balance in favour only £7,287,736

If the average of the two years 1809 and 1810

were taken, the balance would be £6,200,000, being a difference on the two years of £8,600,000; or, on the single year to which the observation, though not the reasoning, of the Committee was confined, of £7,500,000, but this is not by any means the extent to which the impression conveyed by the observation of the Committee is erroneous.—There is an omission of greater importance than the error I have noticed.—These Custom-House documents are defective, the Committee observe, because they do not include any account of freight paid to foreigners, at this time peculiarly large, or of the sums received from them for the employment of British shipping. They leave out of consideration interest on capital on either side; the pecuniary transactions between the governments of Great Britain and Ireland;—contraband trade, and the imports and export of bullion; also the important articles of bills drawn on government for naval, military, and other foreign, expenses.

A Committee, appointed to inquire, might have been expected to endeavour at least to ascertain the extent and operation on the balance of these several items of exception; but they dismiss the subject with a regret, that there has been some difficulty and delay in executing an order for the account of the government bills. I have thought it right

to be more inquisitive, and am enabled, from the documents in the Appendix, and where these are deficient from accounts obtained from the public offices, to exhibit the following statement of the foreign expenses of government.

Amount of bills drawn on the Treasury, between Dec. 1808, and Dec. 1809, (Army Extraordinaries,) Appendix, 70, A 1 . . .	£ 4,162,190
Deduct bills drawn from the West Indies, Africa, and America . . .	903,366

Amount affecting the European balance	£ 3,258,824
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The specie and bullion exported by the paymasters-general amount- ed, in 1808 and 1809, to upwards of five millions, of which, in 1809, (Appendix, 79.)	1,540,000
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In addition to these sums, and of the same nature, are bills drawn on the commissary-in-chief . £ 328,767

On the Pay-Office, (ordi- nary of the army,) . . 1,793,778

On the Victualling-Office 897,095

On the Navy-Board . . . 672,820

On the Transport-Board . 295,705

On the Board of Ordnance 212,753

4,200,918

The accounts I have obtained do not distinguish European from other services, admitting a deduction in equal proportion to that on the extraordinaries, which is ascertained, about . . . 900,000
 Leaves the amount affecting the European balance 3,300,918

In estimating the neutral freight, I will suppose the amount paid by foreigners to British ships, in 1809, equal to that paid by Great Britain to neutrals for corn,* wine, and brandy, from France, and for the intercourse between Heligoland and the continent, and confine the deduction to the neutral freight in the Baltic trade alone. I have sufficient grounds for estimating this trade, in 1809, "at 200,000 tons and upwards, the rate of freight £20 per ton and two-thirds neutral," hence arises a debt of 2,600,000

£ 10,699,732

* The importation of corn in six months exceeded 600,000 quarters

This sum exceeds by three millions the balance arising on British trade with the continent in 1809, supposing the whole amount of our exports to have been paid for within the year. This, it appears by the evidence, was not the fact. Nor can the deficiency have been made good (according to the idea of the Committee) by balances due from former years; for, by reference to the same documents, Nos. 75, 76, we learn that, in 1808, the balance in our favour was only five millions, subject to deductions of a like nature,* and that, in 1807, it was two millions against us, without reference to them, the real value of imports from the continent of Europe having been £ 17,442,755 and the value of exports, only . . . 15,420,514

Balance against us, £ 2,022,241

Nor does the preceding statement adequately represent the amount of our foreign payments. The pay of officers on foreign service and in garrisons is, for the most part, received by, and drawn from, their respective agents. The money transactions with Ireland are not noticed, the first feature of which is the loan of 3 millions, raised

* In 1808, the Treasury-bills for European services amounted to 1½ millions, and the exportations of specie by the paymasters 3½ ditto. These two items alone absorbing the whole balance.

in this country for the service of that, subject to a deduction of about 2 millions for interest on former loans, &c.; neither is any deduction made for that proportion of our exports, which being the produce of foreign colonies in our possession belong to residents abroad, or, if sold in England, constitutes a debt to the Dane or Hollander. The interest due to foreigners, for money in our funds, is also left out of the account; and which, according to the latest computation I have seen, amounted to upwards of £500,000 per annum; but, taken as it stands, the result is, that from the estimated favourable balance of fifteen millions, as assumed by the Committee, are to be deducted, first, the error in point of fact, £ 7,500,000 and next, the account of the items of foreign service, &c. on the principles established in the Report . . . 10,700,000

constituting a real difference affecting the argument respecting the course of exchange of £ 18,200,000

I need not solicit attention to the result of this inquiry into the accuracy of the opinion promulgated in the Report, viz. that the state of the exchanges ought, during the present year, to be peculiarly favourable, but I offer one observation to the serious consideration of the public.

The usual cause of variations in the foreign

exchanges and price of bullion being the fluctuations in the balance of payments, due to or by Great Britain, the real object of the appointment of the Committee was to ascertain whether the same or any other cause operated in the instance referred to them. The chief object of investigation would naturally be, therefore, the actual state of trade and payments; and the reader of the Report presumes, that the facts stated, and the inferences drawn, are deduced from every procurable document, tending to illustrate this leading point of inquiry. Instead of this, the Committee has, it appears, supposed and assumed the fact on which the whole question turns, without waiting for the means of information, (for Mr. Irving's papers 75 and 76 are dated on 1st of June, and the Report was presented on the 8th) or making use of it when in their possession.

The Report states loosely, that this favourable balance of 15 millions should be subjected to some rectifications, without ascertaining what their effect would be; and, owing to this haste, conveys to parliament this most erroneous impression, that our resources and means of foreign expenditure are still great; instead of apprising them of a fact which would, I apprehend, have been new, and perhaps not very acceptable to the public, that, in 1807, the whole of our foreign expenditure, whatever it was, was

an addition to a debt to the continent of Europe of two millions sterling; that, in 1808, the total of the foreign expenditure for the ordinary of the army abroad, of Bills on the Navy, Victualing, Transport, and Ordnance, Boards, was a debt incurred; and that in the last year there was a deficiency of 3 or 4 millions increased by whatever proportion of 27 millions of exports was not paid for within the year. The evidence of all this was before the Committee, or at its command; had they thought fit to bring it forward, it is probable the public would have deemed the rate of exchange and price of bullion sufficiently accounted for, without engaging in any very vehement controversy, respecting the accuracy of the abstract theories of the Report.

In proportion as our faith in the Report is staggered, in proportion as we feel compelled to receive with caution the opinions of the Committee, will those of the practical men rise in estimation. In defiance of documents and of statements to Parliament on authority of vast favourable balances, it was the declared opinion of every such man before the Committee, that the balance of payments has been against us, and so the fact has proved.

I trust it will not be thought that I treat lightly, much less with any thing like disrespect, the *arguments* contained in the Report, and the publications to which I have alluded.

I pass them by, because my sole object is to adduce facts on which others may reason. It would unquestionably be difficult to deny the abstract truth of many of the theories contained in them; but, if abstractedly true, they are not always applicable. At a time when the absence, at least, if not the scarcity of gold is the ground of complaint, they reason on its operation as a *vis mediatrix*, as if it still formed the circulating medium, and was every where attainable. They speak of increased exportation from reduced prices as a general consequence, wholly disregarding the operation of embargoes, non-intercourse enactments, licences, orders of council, and *Milan* decrees, in the particular case. At a moment when we were compelled to receive corn, even from our enemy, without the slightest stipulation in favour of our own manufactures, and to pay neutrals for bringing it, Mr. Ricardo tells us, that the export of bullion and merchandize, in payment of the corn we may import, resolves itself entirely into a question of interest, and that, if we give coin in exchange for goods, it must be from choice, not necessity. Whilst providing against famine, he tells us, that we should not import more goods than we export, unless we had a redundancy of currency: writing in the end of 1809, Mr. Ricardo thinks it necessary for Mr. Thornton to shew, (in sup-

port of his opinion, that a demand for bullion, and an increased price, might be occasioned by an importation of corn,) "Why an unwillingness should exist in the foreign country to receive our goods in exchange for their corn; and, that if such an unwillingness did exist, we should consent to indulge it."—This equalising system is a very just one, where it meets with no external impediments; but, when applied to practice, it appears to me like the experiment in vacuo, where all friction, all obstruction, being removed, and the power of gravitation alone allowed to operate, the guinea and the feather descend with equal velocities. The fact is undeniably true under the circumstances of the experiment, but it is true only within the limits of an exhausted receiver, and is, therefore, wholly inapplicable to any of the common purposes of life.

The three propositions, to which I have in the preceding pages called the attention of the reader, appear to have been brought forward by the Committee, as well as by the authors on whose theories the Report is founded, to induce the admission of the depreciation of the paper-currency of this country as the necessary consequence of the impossibility of accounting for the depression of the exchanges and the increased price of bullion in any other way;—they may be termed negative arguments. If,

by what has been brought under the notice of the reader, this dilemma is in any degree removed, the positive arguments which remain to be examined are relieved of a weight which oppresses and restricts their free operation in the Report of the Committee.

The Committee is of opinion, that the paper-currency is issued to excess. This opinion is founded on two minor propositions:

1st. That the Bank possesses the power of adding to the amount of their notes in circulation beyond the absolute demand for paper, as a circulating medium.

2nd. That their issues regulate those of the country banks, which are dependant upon and proportionate thereto.

Previously to the year 1797, the affairs of the Bank of England were veiled in mystery; the amount of their notes in circulation was not even conjectured by the best-informed men; and it was deemed a sort of sacrilege to pry into their secrets. At that period many leading facts were made known, and information has since been annually communicated to Parliament of the extent of their issues; much additional light was thrown on the nature of their dealings, by the Finance Committee, in 1807; and it might reasonably have been expected, that all that could, with propriety, be made

public would have been developed on the present occasion. Such expectation, wherever it was entertained, has been greatly disappointed: instead of ascertaining facts which the experience of the Governors and Directors who were examined would have stamped with the seal of authority, the Committee has, generally speaking, called for opinions, and, where these have proved adverse to the theory which it was intended to establish, has been more occupied in refuting them, and proving their absurdity, than in ascertaining on what they were founded.

In the examinations of the Directors of the Bank, inserted in the Appendix, I find but two facts of any importance bearing on the question now under consideration, viz. the power of the Bank to increase at pleasure the circulation of their notes, — the one was wholly disregarded and the other treated as absurd; — both occur in answer to the question; “What is the criterion which enables the Bank to keep the issue of bank-notes within the limit which the occasion of the public requires, and to guard against excess in the circulation of the country?” — This question occurs virtually more than once, and the answer is this; 1st. The paper would revert to us, if there were a redundancy in circulation; 2dly. By discounting only solid paper,

given, as far as we can judge, for real transactions.

It would have been highly interesting to have procured some practical illustration of the first part of the answer, and it was indispensably necessary to a right understanding of the subject, to have obtained full explanation of the latter.—To the former, the Committee paid very little attention; and they appear to have held the latter extremely cheap; yet this latter criterion seems to be considered as a sort of Bank axiom, and has a sanction which entitles it to more respect than it has received.—To understand this subject aright, it is requisite to analyse, in some degree, the circumstances attending the circulation of bank-paper. Mr. Ricardo has assimilated the Bank of England, during the restriction, so far as relates to the effects of its issues, to a gold-mine, the produce of which, being thrown into circulation, in addition to a circulating medium already sufficient, is an excess; and has the acknowledged effect of depreciating the value of the existing medium, or, in other words, of raising the prices of commodities for which it is usually exchanged.—But Mr. Ricardo has not stated, what is essential to the comparison, *why* it is that the discovery of a gold-

mine would produce this effect. It would produce it, because the proprietors would issue it, for whatever services, without any engagement, to give an equal value for it again to the holders, or any wish, or any means, of calling back and annihilating that which they have issued. By degrees, as the issues increase they exceed the wants of circulation; gold produces no benefit to the holder as gold; he cannot eat it, nor clothe himself with it; to render it useful, he must exchange it either for such things as are immediately useful, or for such as produce revenue. The demand and consequently the prices of commodities and real properties, measured in gold, increases; and will continue to increase so long as the mine continues to produce. And this effect will equally follow whether, under the circumstances I have supposed, the issue be gold from a mine or paper from a government-bank. All this I distinctly admit; but, in all this statement, there is not one point of analogy to the issues of the Bank of England.

The principle on which the Bank issues its notes is that of loan. Every note is issued at the requisition of some party, who becomes indebted to the Bank for its amount, and gives security to return this note, or an-

other of equal value, at a fixed and not remote period, paying an interest, proportioned to the time allowed. "The notes of the Bank of England," the Committee observes, "are principally issued in advances to government for "the public service," (anticipations of the taxes and instalments of loans, to be repaid by the public,) "and in advances to the merchants upon the discount of their bills."

It is a consequence of this mode of issue that it costs something, namely the interest on the the money borrowed, to take a note out of the Bank. No note is issued in payment of any service, moral or physical, constituting the consideration for it, and there is therefore no analogy between the circumstances of the issues from a gold mine and those from the Bank of England. In the case of an excessive issue of gold beyond the wants of circulation, the excess is brought to market to be made productive, it grows cheap, and commodities grow dear. In the case of an excess of bank-paper the remedy is more simple: the "surplus," says the late Governor of the Bank, "would revert to us by a diminished application for discounts and advances on government-securities." This part of the subject requires illustration, because it cannot be very generally understood by those who must ultimately decide on the merits of the Report.

The Committee have entered into some detail in the Report, and have annexed some documents in the Appendix, to illustrate the practice which obtains in the transaction of business by the London bankers, and in the money-circulation of the metropolis, but their observations afford a very inadequate view of the subject, and the whole of page 23 must be taken as evidence that, by those who drew the Report, the subject was not perfectly understood.

By the practice of London, strengthened by a resolution of the Bank of England, not to discount any bill unless payable at the house of a regular banker, all the commercial payments of the metropolis, as well as those of the country transacted in London, are made through the agency of a banker. In 19 cases out of 20, where the payment is not to a revenue-board, the business is transacted between two bankers, one on the part of the debtor, the other on the part of the creditor.—It is become an established practice between bankers not to call upon each other for these payments before 4 o'clock; and then mutually to write off or exchange the respective charge which each has upon the other, and to pay the difference only; by which contrivance, so great an economy of bank-notes is effected, that an average of £220,000 of notes is found sufficient, according to the evidence of

the inspector of the clearing-house, to settle the balance of daily transactions to the amount of £4,700,000. Owing to this circumstance the bankers have been enabled to lower, very considerably, their stock of notes, and to place the same productively in bills and others securities. This comparatively unprepared state to answer unforeseen demands has led to other improvements in banking. A great proportion of bankers have now accounts open with the Bank, where, if they take care to hold a sufficiency of good bills, they can always get money at one day's notice; and, as a still farther accommodation, accredited brokers now hourly walk Lombard-street, take the superfluous cash of one banker, and lend it to another, in any sums, for any time, a week, a day, or for an indefinite period, to be repaid when called for; nay, so nicely is the scale now adjusted, that a loan of bank-notes before 3 o'clock, repayable by draft at the clearing at four, is no uncommon or unimportant accommodation to the most opulent parties in the money-market.

From this statement it is evident that the banking-houses in London are like so many cisterns, disposed on each side of the street, between which pipes of communication are introduced, the overplus of one will presently find

its way into the next, and whilst one is deficient none will overflow.

The Bank has of late become a party to a very important arrangement to economise bank-notes. The daily demand of the Bank on the bankers for the amount of bills accepted and payable at their several houses is of course considerable, and used to be made at an early period of the day, before the notes were issued for bills discounted on the same day, and without any previous information to the bankers of what the amount charged on them might be, and of which they had no means of judging. The Bank has, for some time past, notified the extent of the demand in the early part of the day, and taken the amount at four o'clock; receiving in payment any draft on the Bank for discount, or otherwise, which the bankers may happen to hold, instead of bank-notes. Every endeavour, it may fairly be inferred, therefore, is used to economise bank-notes, and restrict the circulation; by the bankers, for the purpose of increasing their profits, which depend on the proportion of their deposits which they can turn into quick stock; and by the Bank, with a view to the public accommodation, or to save an unprofitable issue of bank-notes. Still, it may be said, if the Bank gives way to the

applications for discount, which may be as unlimited as the spirit of adventure, bank-notes may be multiplied ad infinitum, at the will of the Directors. The Bank Directors say otherwise, "If we issue too many notes, the excess will return upon us."

There exists in the commercial world that degree of disinclination to discount at the Bank which leads every man to recur to his banker for assistance before he sends his paper to the Bank; and on the other hand a banker does not allow a respectable customer to go to the Bank for accommodation, whilst he can with any convenience furnish it himself. This is, in some measure, matter of feeling on both sides; and not only so: for the Bank advances money on bills of a particular description only, and is undeviating in its adherence to rules, and even to forms; neither does it take bills as a security for money to be repaid at the will of the borrower, as bankers do; but assumes the property in the bills, deducting discount for the whole term unexpired; so that a party wanting money for a week must pay two months interest for it, if he have no bills at shorter date to offer.

I have already shewn with what degree of rapidity money finds its level amongst the bankers in London, and it results, therefore, as

a general inference, that, whilst there is money unemployed and to spare in the city, discounters of the first class will not present themselves at the Bank; this statement will lead, I apprehend, to an explanation of the answer of the Directors to the inquiry of the Committee as to any rule by which they regulate their issues of notes so as to prevent excess. So long as the amount of notes in the hands of the public is not more than the parties holding them are willing to retain in their hands unemployed, for the purpose of making their daily payments, there is obviously no excess of that description which influences the price of commodities. When the amount goes beyond this, the surplus instantly fastens on the best bills and most eligible government-securities, chiefly on the first; and the effect even of a very small surplus will, whilst it continues, be surprisingly great. If it fall into the hands of any discounter who has occasion to pay money to the revenue-boards or to the Bank, the notes are cancelled, and the excess removed. If otherwise, the same sum of £50,000 may pass successively through the hands of every banker in Lombard-street, and absorb in its passage all the best bills in the market, to an unlimited amount; for if A. a merchant, borrow it of B. a banker, he immediately pays it away to C. who deposits

it without loss of time (indeed, as I before observed, he never withdraws it) with the same or other bankers; but, however often this transaction takes place during the day, it makes no real reduction in the supposed excess of notes, which will be as superabundant after the last discount it has effected as before the first. But the case will be speedily altered, the demand for discounts at the Bank is diminished on the morrow, to the extent of the multiplied accommodation afforded by the excess, whilst its call on the public for the payment of discounted bills falling due is undiminished.

The redundancy of notes reverts, therefore, (and in more than a due proportion, which accounts for some of the effects frequently experienced,) to the Bank, more being paid in than are taken out, and the amount in circulation is diminished.

The recurrence of a demand for notes by the first class of discounters (those which the directors distinguish as solid paper for real transactions) will indicate at once the abatement of the excess; and it does appear to me that the criterion, or rule, which the directors have stated is a sufficient one.

The effectual and rapid operation of this controul over the Bank issues receives satisfactory illustration by reference to the amount of bank-notes in circulation at the periods immediately preceding

and following the issue of dividends, the increased circulation arising from an issue on each of these occasions of upwards of five millions being within very few days hardly perceivable.

In April 1809, for instance, immediately preceding the payment of dividends, the amount of notes of £5 and upwards was £13,000,000

Subsequently to the 11th an issue took place of four millions, yet on the 7th of May the amount in circulation was only 13,100,000

On the 7th of July, after the quarterly payment had been made to the Bank, and when the circulation was at its lowest ebb, the amount of notes above £5 was 12,800,000

And of the issue of seven millions between the 11th and the end of the month, no evidence appeared on the 7th of August beyond a circulation of 13,100,000

How much earlier the effect was produced the paper in the Appendix to the Report does not in these instances shew, but the more detailed accounts No. 38, 39, and 40, enable me to state that in January, 1810, the large issue made on the 9th and subsequent day had lost its effect by the 22d, on which day the circulation was reduced below the average of December;

on this occasion, the speedy reduction may be considered, perhaps, as promoted by the partial redemption of the loan in the hands of the Bank at that period. But in April no such cause operated, yet it appears that by the 21st of April the circulation was within £100,000 of the amount on the 31st of March, although in the intervening period nearly four millions had been issued for dividends on the public funds.

In the year ending Jan. 1810, the interest on the public funds, exclusive of the proportion received by the commissioners for reducing the debt, amounted to about 26 millions, or, deducting the property-tax, to 23½ millions; which was issued to the public quarterly, in the proportions of 7½ millions in Jan. and July, and 4½ millions nearly in April and October.*

It is observable that, although the January and July dividends exceed by three millions those of the other quarters, there is no perceivable difference in the period within which the circulation is reduced to the average amount.

The efficiency of the controul which the public holds over the issues of the Bank is in some

* It appears by the account No. 4, in the Appendix to the second report of the Finance Committee of 1807, that the amount of dividends due is generally issued within about £500,000, before the end of the month in which it is payable.

measure governed by the amount of discounted bills in the hands of the Bank, compared with the amount of advances to government on securities payable at more remote or less certain periods, and the total amount of notes. The two latter amounts we know, the former is not distinctly before the public, but the Committee has stated, from a communication made in confidence, that, whilst the advances to government for the two last years are less than they were for any of the six years before the restriction, the amount of bills discounted in the last year *bears a very high proportion to their largest amount in any year preceding 1797*; without going into calculation it will readily be allowed that the amount of these bills, this demand on the public, far exceeds any possible or supposed excess; and, if there be any where a superabundance of notes, it is therefore very easy to reduce it.

I have entered into the preceding detail for the purpose of shewing the practical operation of the rule by which, as the directors have stated, the bank regulates its issues so as to avoid excess. I think it will be satisfactory to my practical readers. By those of a more speculative cast the theories of the Report will still be preferred, but for such I have a more cogent argument in store, and one to which they will

hardly demur;—whether the rule in question be really the governing principle of the Bank, or whether it was thrown before the Committee with any malicious intent, I dare not decide, but the fact certainly is, that the axiom, or rule of conduct, on which the Committee has been pleased to heap contempt and ridicule, respecting which they have declared that the doctrine is fallacious, and leads to dangerous results, was promulgated by, and is founded on, the authority of Dr. Adam Smith, and was proposed to the Committee nearly in his own words. I quote the passage from the second chapter of the second book of the *Wealth of Nations*.

“What a bank can with propriety advance to a merchant or undertaker of any kind is not either the whole capital with which he trades, or even any considerable part of that capital, but that part of it only which he would otherwise be obliged to keep by him unemployed, and in ready money, for answering occasional demands. If the paper which the Bank *advances never exceeds this value, it can never exceed the value of the gold and silver which would necessarily circulate in the country if there were no paper-currency*, it can never exceed the quantity which the circulation of the country can easily absorb and employ.” True; but how shall we ascertain when it exceeds this value. “*When a bank discounts to a*

