OBSERVATIONS

ON

THE EFFECTS

PRODUCED BY THE

EXPENDITURE OF GOVERNMENT

DURING THE

RESTRICTION OF CASH PAYMENTS.

BY WILLIAM BLAKE.

THE following observations were written in the beginning of last year, but I forbore to publish them, because inquiries relating to the currency had ceased to excite much interest. The discussions at the late county meetings have induced me to think, that the publication of these observations now will not be wholly useless. It is necessary, however, to mention, that where allusion is made to the present state of things, it must be understood to refer to the month of February, 1822.

PORTLAND-PLACE,
March 3, 1823.

OBSERVATIONS,

&c.

There never, perhaps, was a period which presented to the political economist so many interesting objects of inquiry as that which has occurred during the continuance, and since the termination of the late war. Peace, instead of its accustomed attendant blessings, seems to have brought calamity and distress upon almost every class of society; and the circumstances in which we are placed appear to be so peculiar and anomalous, as scarcely to admit of a satisfactory solution. We have seen landed proprietors without rents; farmers and manufacturers without a market; the monied capitalist ready to lend, and the merchant not wanting to borrow; a redundant capital, yet a redundant population; and the industrious poor compelled to apply, like mendicants, at the parish workhouse.

To account for these appearances every one has his favourite theory, and believes or assumes the facts that will best support it. One sect of political economists asserts that there is a want of capital, another that there is an excess. One party recommends us to save from our revenue, in order to increase our capital; another, to increase our expenditure by converting capital into revenue. The agriculturist, although he has had for some years the monopoly of the home market, still petitions for protecting duties against foreign corn; whilst the manufacturer urges the necessity of keeping down its price, that he may not be undersold in the foreign markets. Upon one point alone all parties seem to be agreed, namely, that the value of our currency has been depreciated to the extent of 25 or 30 per cent.; and that in whatever degree other causes may have operated to produce the present distress, the evil has been aggravated by the too sudden return from a depreciated to an undepreciated currency.

Whether any depreciation of the currency, in the sense in which that term is generally understood by the public, has actually taken place, or to what extent it has taken place, I have long had considerable doubts. It appears to me, that very great delusion has prevailed, and continues to prevail, on this important question. As I have myself been heretofore under the influence of this delusion, I think it may be of service to state what are the facts, and the in-

ferences from those facts, that have led me to modify the opinions I have given upon this subject.

The most sanguine theorists who have written on the alleged depreciation of the currency must, I think, have felt their faith shaken by the passing events that have occurred since the report of the Bullion Committee in 1810, and by the facts disclosed in the evidence before the committee on the resumption of cash payments in 1819.

There can be no doubt that subsequently to the restriction on cash payments in 1797, every symptom that indicates an over issue of paper circulation, and an alteration in the value of the currency, has manifested itself. We have witnessed a depression of the exchanges, to a degree, and for a countinuance, that has been unexampled. We have had the market price of gold exceeding the mint price, far beyond the limits that could have occurred if the Bank had been paying in specie. We have seen the legislature compelled to pass an act to make bank notes a legal tender, in order to prevent an avowed difference between payments in gold and payments in paper. And all this accompanied by a general rise of price in most of the articles of consumable produce.

Now I have no hesitation in admitting, that all the symptoms just enumerated are *indications* of an excess of currency, and of depreciation: and further, that an over issue of currency could not exist for any length of time, without producing these symptoms.

I have, however, perfectly convinced my own mind, that all the results above specified may have arisen from causes not necessarily connected with an alteration in the value of currency; and, moreover, that such other causes are not hypothetical merely, but have been in actual operation.

Now if these premises can be substantiated, and there should appear to be two hypotheses, either of which is adequate to explain the very extraordinary symptoms just specified, it becomes an object of considerable interest to inquire which of the two has in reality been the efficient cause. The discussion will, in this way, resolve itself into a question of fact rather than a question of principle; and it will remain to be decided, which explanation most satisfactorily accounts for the appearances.

A series of phenomena so remarkable, and so connected, cannot have arisen either from accidental or from trivial causes: they are of a magnitude too extensive to be referred to any ordinary interruption or fluctuation of commercial intercourse. I have very little doubt that

the whole of these appearances may be traced, and will be found to have originated in the enormous expenditure occasioned by the late war, the extent of which has perhaps had no parallel either in degree or duration, and never before has been combined with a restriction on payments in specie by the Bank. My object is to show, that these effects not only may have arisen, but must have arisen, from such an enormous and continued expenditure, although the currency had remained in its most perfect state, and had been invariably kept to the due proportion which it ought to bear in relation to the commodities to be circulated by it*.

In order not to perplex the argument, it will be advisable to divide the subject into two distinct parts: in the first of which I shall endeavour to prove that the adverse exchanges, and the excess of the market price above the mint price of bullion, were mainly caused by the large *foreign* expenditure of government; and in the second, that the general rise in the price of all consumable produce was the necessary effect of circumstances connected with

* I do not pretend to ascertain that due proportion. There is some ratio which ought to subsist between the total amount of the currency, and the total value of the commodities to be circulated by it. If that ratio be constant, the value of the currency will remain unaltered.

the war, and the increased *internal* expenditure of government.

That a large foreign expenditure of government will increase the demand for foreign bills, and produce an immediate effect upon the exchange, is admitted by all practical merchants, and by all speculative writers, who have adopted the distinction which has been made between the nominal and the real exchange.

It would be a waste of time, in the present advanced state of knowledge on this subject, to stop to prove, that the real exchange depends upon the proportion which the debts of a nation bear to its credits, or, in other words, between the payments it has to make and those it has to receive. An increase of demand then on the part of government for foreign bills must increase the premium upon them in proportion to its extent. Some judgment may be formed of the effect of this demand, from the fact, that the news of Buonaparte's landing in France from Elba, produced in one post day an advance of ten per cent. on the price of foreign bills, arising solely from the anticipation of this demand *.

Now as soon as the advance in the price of bills exceeds the expenses of transmitting

* See evidence of Mr. Haldimand, p. 67. Report on Resumption of Cash Payments.

bullion, the latter, if it can be procured at the usual price, will be sent abroad for the purpose of drawing against it, and deriving a profit from the premium on the bill. Before the restriction act, bullion could always be procured at the Bank by exchanging notes for coin: the coin was immediately exported, either in the state of coin, or melted into bullion, and no laws have ever been found effectual to prevent its exportation. An immediate reduction of the currency is the necessary consequence. As the law now stands upon this point, the coin is permitted to be exported, and therefore no alteration whatever would take place in the price of gold so long as the merchant exporter could apply at the Bank and convert the paper currency into exportable coin. If, in consequence of the increased demand for foreign bills, gold were to acquire an increased value, the currency by its contraction would augment in value at the same time, and, keeping pace with it, would prevent any excess of the market price above the mint price of gold. But suppose the currency to consist of paper only, and of paper not convertible into gold, what would then be the effect of this increased demand for foreign bills? In the first place, no gold could be procured at the Bank: the exchange-merchant must apply to the bullion-broker, who would be perfectly aware of the object of the application, and would, as a matter of course, increase his price in proportion to the profit that could be derived from its exportation. Let us take an instance: suppose the demand of government has continued long enough to raise the premium on foreign bills ten per cent.*, and that no bullion can be procured but at the bullion-brokers, and at the market price: suppose, too, that to transmit the bullion to the country with which the exchange is unfavourable would cost in freight, insurance, &c. 2 per cent. Is it not evident that the holder of bullion, by transmitting it to the Continent at an expense of 2 per cent., and drawing against it a bill which he could dispose of at a premium of 10 per cent., would gain 8 per cent. profit, and without risk. To conceive it possible, after such an advance had taken place in the price of a foreign bill, that an exchange merchant would think of offering the same price as he would have done before the advance had taken place, or that the bullion-broker would consent to accept it, is to

* It may be noticed here, that long before the premium on bills had risen to 10 per cent., the bullion of the country would disappear. A half per cent. above the charge of transit is sufficient to occasion its export. What remains is retained for the purpose of manufacture, and it remains because the price rises so as not to allow a profit on the export.

suppose that both the one and the other were utterly incompetent to their business. To draw this inference requires no knowledge of the practical dealings in exchange. It is manifest to common sense, that with such an alteration in the exchange, there must be a corresponding and proportional alteration in the price of bullion.

Now, if the paper currency of the kingdom is not convertible into coin, what is there in this demand for bullion that can have any influence on the amount of the currency? If the currency is in its due proportion to other commodities previously to the operation, there is nothing in the transaction between the bullion-broker and the exchange-merchant, that can in any way influence the general amount of the currency, or alter their proportion. Nothing more is required to insure the profit of the exchange-merchant, but that bullion should remain steady in its value at the place to which he intends to export it.

It is curious to observe, in the examinations of the merchants on this point before the committees of 1810 and 1819, the extreme perplexity they evinced, when pressed to explain how the value of gold could rise partially here, without a corresponding rise on the Continent; and with what complacency the examiners seem to have regarded the steadiness of its price on the Continent, as a proof that its high price here must have arisen from depreciation dependent upon over issue.

Now there is nothing whatever in the effect just described, that in the slightest degree indicates the currency to have changed its value in relation to commodities in general. It marks neither more nor less than that gold acquired an artificial increase of value in this country, in consequence solely of the premium on foreign bills.

The restriction on the specie payments of the Bank virtually precluding the accustomed contraction of the currency, it no longer rose to a level with the gold; and the excess of the market price above the mint price, marked the height to which the gold had risen.

Admittiug then, that if the Bank had been paying in specie, the difference in the value of gold would not have shown itself, would it not be a strange confusion to say that the restriction was the cause of the increased value? It is the premium on foreign bills that gives the increased *value* to the gold, and the bank restriction having removed the accustomed counteracting remedy, occasioned that increase of value to be shown by the increase of *price*.

It will be contended, no doubt, that in acknowledging the increase of the price of gold, I admit the currency no longer to conform to the value of bullion, its only legitimate standard; and that, inasmuch as it will no longer exchange for the same quantity of its standard measure, it must be considered in a certain sense as depreciated. This is perfectly just; and if the term depreciation was confined to this sense alone, it might with such limitation be freely allowed that the currency had been depreciated.

But this is not the sense in which the term depreciation is understood by the public; it is meant to convey, and does convey, the idea of falling below the former level—a change in its value as compared with *all* other commodities. The moment the term depreciation is applied to the currency, it is assumed as the cause of the increase of prices generally. If an adverse exchange raises the price of bullion 20 per cent. above the Mint price, it is supposed to account for an increase in the price of commodities to the extent of 20 per cent. also; than which nothing can be more fallacious.

Advantage is taken of the equivocal meaning of the word, and inferences are drawn from it which are not warranted. If this were merely a dispute upon terms, the inquiry would be of little importance; but it is a most essential distinction in fact, and a want of attention to this distinction has been the principal cause of the delusion which has misled so many. If any term had been invented or adopted, that should have expressed the rise in the value of gold, we should never have heard such extravagant opinions respecting the depreciation of the currency. It is extraordinary that Mr. Baring, Mr. Tooke, Mr. Ricardo, Mr. Haldimand, should all agree in stating, that they know of no other criterion of depreciation than the value of the note as compared with that of gold. This unqualified assertion conveys a false impression, and proves them not to have been sufficiently on their guard against the inferences that result from the ambiguity. They must know that cloth, corn, manufactures of all descriptions, are criteria by which the altered value of currency may be determined. If no change take place in the price of these commodities, it is a tolerably certain proof that the currency remains at its level.

It is evident, therefore, they must in their own minds have limited the signification of the word, and have used it in a sense different from, and more qualified than, that in which it is understood by the public. Mr. Ricardo, indeed, expressly states, that when two commodities are compared together, gold and paper for example, it is impossible to say when they are

varying; whether the one is failing, or the other is rising. Nay, he goes so far as to affirm, "that if the price of gold was at *5l. 7s.* per ounce, he should say the currency was depreciated in proportion to the difference between that price and the Mint price of gold, that is above thirty per cent., *although the price of all other articles remained the same.*" And in another part of his evidence he says, "I think it quite possible that a bank note may be depreciated, although it should rise in value, if it did not rise in value in a degree equal to the standard *."

Now, as the purchases and sales of goods will be regulated by their value estimated in the currency, and the currency will thus be the measure of all contracts between debtor and creditor, is it not an inquiry of vast importance to ascertain, whether the paper has been steady in value, and the gold *risen* above the paper; or whether the gold has been steady, and the paper *fallen* below the gold?

This question—whether the currency or the gold had altered?—was continually put to the witnesses by the committee in 1810 and 1819, and never received a precise and definite reply. To read the evidence, one would imagine both

* See evidence of Mr. Ricardo, pp. 138 and 140. Report on the Resumption of Cash Payments.

the examiners and the examined were alike perplexed. If the witness affirms, that gold has risen in value because it is wanted for exportation (which is quite correct), he is immediately asked, whether it has risen in the general market of the commercial world, whether there was any greater demand for gold on the Continent, or whether there was any scarcity in the supply there? And as he knows that not to be the case, he feels himself baffled and confused, and begins to guess and imagine any thing that will relieve him from the embarrassment of an apparent contradiction; that it is wanted for the payment of the armies there, or for metallic circulation, or for any other purpose that the examiner suggests. Whereas, the true and proper answer would have been, It has not risen in the general market of the world; it is not in greater demand abroad; there is no scarcity in the supply there. If goods could be exported without loss, they would answer the purpose as well as gold. The demand is for foreign payment, not for gold; and it rises in value in this country, and this country alone, because the exchange has become so adverse as to create a large premium on a foreign bill, and a profit is to be obtained by the export of gold. The steadiness of its value abroad is the circumstance that renders

the profit certain. On this account the holder of gold will not part with it, and transfer the power of making the profit to another person, unless at an advance in its price; which advance will be exactly measured by the difference between the premium on the bill, and the cost of transmitting the bullion, with a small additional deduction of perhaps a half per cent., constituting the profit of the exchange-merchant who conducts the operation.

Now, although this effect of an increased price of bullion could only take place within very narrow limits, supposing the currency were convertible into coin or bullion, it might take place to any extent when the currency was inconvertible, depending upon the amount of foreign payment to be made, and yet without deranging the just and natural proportion between the currency and the usual commodities that are to be circulated by it.

The price of corn, of cloth, of every other commodity, might remain precisely the same, and nothing alter but the price of gold. Not only might it vary to any extent without altering the price of these articles, but for any length of time too, provided the foreign expenditure continued upon the same scale that first induced the adverse exchange, and was constantly creating a fresh adverse balance, as the export of bullion or of other commodities was tending to liquidate it. This would depend on the extent of foreign payment required to meet an extraordinary exertion, and on the difficulties which might be thrown in the way of providing for that payment by the export of goods. For the bullion that could be procured to meet a large foreign expenditure would be very limited, and would disappear almost immediately unless kept in the country by increase of price.

It will be objected, no doubt, that the case which I have supposed does not apply to the actual circumstances we have witnessed during the late war; inasmuch, as the price of produce rose, and indicated the same depreciation of the currency in regard to *all* other commodities as in relation to gold. Of this I am perfectly aware, but I have no doubt of being able to prove, that this general rise in price was the result of another cause acting simultaneously with that which produced the high price of gold, but equally independent of any previous alteration in the value of currency. That it was in fact the result of circumstances connected with the war, and the increased expenditure of government within the country, creating a demand, which could not be supplied except at an increase of price. Now, if

I prove this, and moreover that the increase of price would of *necessity* arise, although the currency remained at its level; then the argument remains untouched by the objection, and is applicable in all its force as far as relates to the high market price of gold. The discussion of this point would lead me prematurely into the second division of my subject, and I must postpone for the present any investigation of this topic; only begging my reader will not suffer his attention to be diverted from the immediate subject of inquiry, *viz.* whether the excess of the market price above the mint price of gold is a fact, when taken alone, that *necessarily* implies an alteration in the value of the currency.

It will be asked, however, does not this excess imply a derangement in the currency? Does it not imply a greater amount of circulating medium than could have existed under similar circumstances, if the Bank had been paying in specie? Undoubtedly it does. If the Bank had not been restricted from cash payments, such a state of affairs must have led to a contraction of their issues; and the consequence would have been, that the value of the currency would have been elevated to the artificial value which the adverse exchange had given to the gold, and thus the difference between the market and the mint price of gold would have disappeared.

This was the accustomed mode in which the currency kept on a level with gold previously to the restriction act, in 1797; but it is evident, that, where the increased value of gold was occasioned by an adverse exchange, such a change in the amount of circulation did not restore a depreciated currency to its level; it raised the currency from its natural level to an artificial elevation; and thus, by an imperceptible influence, kept the currency *apparently* of an uniform value, and the exchanges steady.

It is clear, however, that this apparent uniformity of value was in truth a real fluctuation; and unless it had been confined within moderate limits, might have become a positive evil; and an evil, too, that scarcely admits of a remedy, unless the currency can be so regulated as always to bear its just proportion to the wants of the community, and can be continued at that exact proportion during the fluctuations of the exchange. But how is the currency to be so regulated? And to whom is the regulation to be committed? To the bank-directors? By no means. Much of unmerited odium, as I believe these gentlemen to have incurred, and giving them all possible credit for the moderation and forbearance with which

they have exercised the power so improvidently committed to them; I am confident, that no human being, or corporation of human beings, is capable of executing so important a trust, as that of proportioning the amount of the circulating medium to the wants of the community. It is utterly impracticable to calculate what amount of currency would be required, for the purposes of distributing the annual produce amongst its consumers. No human foresight could anticipate the contingencies that might occur. If such calculations were possible, we should at once attain that great desideratum in political economy, an uniform measure of value: but not possessing such powers of calculation, we have no alternative but to adopt that circulating medium which is least liable to variation, and to leave it to find its level among the different nations of the commercial world, by export or import, by melting or coining, as circumstances may denote the necessity of these changes. Such was the state of our currency before the restriction act, in 1797. No other checks against fluctuation then existed, and they were found sufficient for all practical purposes, and in the main salutary in their operation.

After this examination it may be assumed, that provided the paper be not convertible at option into coin or bullion, the price of gold will be advanced by an adverse exchange; and yet, that the currency may remain at its natural level, that is, unaltered in value, and be maintained in its exact and perfect relative proportion to the commodities to be circulated by it.

Let us then, before we quit this branch of the investigation, examine the facts disclosed by the evidence before the committees of 1810 and 1819; and see how far they tend to invalidate or confirm this opinion.

Assuming that the price of gold, when the currency is not convertible into bullion, may be augmented by either of two causes, that is, by an adverse exchange, or by an over-issue of paper; it might afford strong ground of inference which of the two had been the operating cause, according as a connexion could be traced between the one or the other with the changes in the price of gold.

Upon this point, the tables published in the Appendix to the Report of 1819 offer ample instruction. Not only is there a general accordance between the exchanges and price of bullion whether rising or falling, but if taken for any long periods of time the connexion

may be stated to be absolutely invariable*. Whilst, on the contrary, no such connexion has subsisted between the amount of Bank issues and the high price of gold: nay, so far from it, that for months together they are found to run in opposite directions.

It was this want of connexion, between the amount of Bank notes and the price of bullion, that first led me to suspect the accuracy of the theory, that attributed the high price of gold to the over-issues of the Bank; and the suspicion gave way to absolute conviction upon the events that took place on the peace in 1814, and the return of Bonaparte from Elba, in 1815.

When the war ceased in 1814, the price of gold bullion was five guineas per ounce, that

* Some few discordant instances occur of trivial import, and trivial amount, where a specific quantity of gold and silver might be wanted for consignment on the sailing of an Indian Fleet, or for the immediate supply of Government; and one or two slight discrepancies are also pointed out by Mr. Baring. So far, however, are they from shaking his conviction as to the necessary correspondence between the exchange and the price of bullion, that he attributes them entirely to some inaccuracy in the statements of price by the bullion-brokers of the Bank; for he observes, that such discrepancies would be impossible if the price of gold were correctly reported.—See Report of Committee on Cash Payments, p. 186. See also Evidence of Mr. Holland, p. 116.

is nearly thirty per cent. above the mint price, and it had been at that price upon an average, ever since the latter end of the year 1812. From May, 1814, it fell gradually, and was at 4*l.* 9*s.* per ounce before the following March, the exchange experiencing, *pari passu*, a corresponding improvement: on the arrival of the news of Bonaparte's landing in France from Elba, the exchange varied at once ten per cent. and continued falling, whilst the price of gold mounted as rapidly to 5*l.* 5*s.* per ounce. All the symptoms that had been considered as indicating a depreciation of the currency previously to the peace of 1814, immediately manifested themselves, and continued during the one hundred days of Bonaparte's power. The battle of Waterloo again put an end to the war, and from that moment the exchange gradually recovered. The price of gold fell back proportionably, and in the course of the following year was at 3*l.* 18*s.* 6*d.* per ounce, that is within 7½*d.* of the mint price.

During the whole of this period there was but little variation in the Bank issues, the numerical amount of the notes in the beginning of 1814 and the end of 1815 being about twenty-five millions. They had been at one time in the course of the two years as high as twenty-eight millions; but, by a perversity most

unfortunate for the theory of depreciation, the issues of notes were continually augmenting whilst the exchanges were improving, and the price of gold falling: these events speak volumes. In the midst of peace, when all the symptoms of depreciation were gradually subsiding, when commodities were selling at prices corresponding with the amount then in circulation, a great political event occurs, entailing the probability of a new war and of a great foreign expenditure. In an instant, without any change in the amount of circulation, or of consumable produce, the exchanges fall between twenty and thirty per cent.; and the price of gold mounts in the same proportion above the mint price. This state continues for one hundred days, and at the expiration of that period, when the battle of Waterloo and the march of the allies to Paris put an end to all further expectation of a continuance of the war, the currency still maintaining its relative proportion to commodities, all the movements begin to retrograde, and every thing returns to its former state of quiescence.

If the symptoms that occurred during this short interval are to be considered as *proofs* of an alteration in the value of the currency, it is in vain to continue the argument. To my mind they demonstrate incontestably, that the anticipation of a large foreign expenditure acted suddenly and powerfully on the exchange, and, as suddenly, through the intervention of the exchange, on the price of gold.

If alterations in the amount of the currency had been the moving force, the price of gold instead of rising ought to have fallen. Can there be a doubt then, that in this case the gold was raised for a time above the level of the currency and afterwards fell back to it? And if in this case, why not in others that occurred previously to the peace of 1814, when the same disturbing forces were in action?

This fact alone throws all the *onus probandi* on the advocates for depreciation; and yet, in the evidence they gave before the committee on the resumption of cash payments, they were utterly unable to give even a plausible explanation of these contradictions. Instances without end are adduced before the committee of 1819, not only of a want of connexion between the Bank issues and the high price of bullion, but of a direct opposition between them, and that not for short periods, but for months and years; and it is quite impossible to lend oneself to the various futile attempts that are made to

reconcile the inconsistencies*. If an accidental coincidence can be traced between an enlarged issue of Bank notes, and an augmentation in the price of bullion, it is immediately insisted upon as cause and effect. When the want of coincidence is pointed out, then the witness replies, that the numerical amount of Bank issues is not to be considered as any criterion of excess of circulation, or the contradiction is attributed to some alleged interference of the issues of the country banks. When again the witness is asked, whether the amount of country paper is not regulated by that of the Bank of England? then the difficulty is referred to excessive importations occasioning stagnation of commerce.

* I subjoin the reference to some of the instances alluded to.

	Bank notes.	Price of gold. £.	s.	d.
April to June, 1815	27 millions	5	4	0
July to Decem. 1817	29 millions	4	0	6
July to Decem. 1818	26 millions	4	2	6
Evidence of Mr. Ward, p. 74.				
1813	24 millions	5	10	0
1817	28 millions	4	6	0
Evidence of Mr. Tooke, p. 129.				
Latter part of 1817	29 millions	4	0	6
1819	25 millions	4	3	0
From July 1815 to Decem. 1816, three half years steadily at	26 millions	4 16 0 to 3 18 6		

Evidence of Mr. Ricardo, p. 134, 135.

In short, the high price of bullion is never to be accounted for by the adverse exchange; but both the one and the other are attributed, as a matter of course, to the over issue of circulating medium. Indeed Mr. Ricardo, whose opinions upon subjects connected with political economy will always be received with the deference due to one whose writings have so much contributed to the advancement of the science, entertains such very peculiar notions on the subject of exchanges, that I do not see how he can attain a correct view of the bearings of this question; for he seems to maintain in all his publications, that the variations of the exchange arise solely from the variations in the comparative value of the currencies of different countries, and does not admit that the exchange is dependant upon the balance of debts and credits. Mr. Wheatley, as far as I know, first stated this opinion in his work on the theory of money and commerce; and it seems to have been adopted in its full extent by Mr. Ricardo. As the opinions of these gentlemen are peculiar to themselves, and, in my mind, absolutely untenable and at variance with facts, I must, with all due respect for the weight of such authority, think it unnecessary to dwell upon them; I shall merely state a circumstance that I consider conclusive upon the subject.

I put this question to one of our principal exchange-merchants:—" If, in time of profound peace, with the currencies of France and England upon a perfect level in regard to commodities, and the exchange at par, you were to be informed that the English government had, for some purpose, no matter what, determined to transmit a subsidy, or loan, or present of ten millions to the government of France, would you, after the receipt of that information, draw upon Paris upon the same terms as before?" The answer was, " Undoubtedly not. I should be aware that such an intention must increase the demand for foreign bills, and I would not grant a bill except at an increased premium." Now as the terms upon which this gentleman would draw upon Paris would, in fact, be quoted, as the exchange of the day, there needs little further argument to prove, that the amount of payments to be made compared with those to be received, must have a decisive influence on the exchange. Whilst considering this part of the subject, it may be advisable to point out a material distinction, which, from not being sufficiently attended to, has led to considerable confusion on the subject of exchange.

It is perfectly true, that if a difference take place in the relative value of the currencies of two countries, in consequence of one of them having increased the amount of its circulation so as generally to affect prices, such an alteration will immediately show itself in the exchange. The depreciated currency of one country will no longer buy the same amount of the currency of the other. This would be an adverse exchange arising solely from depreciation. Such a derangement can only be remedied by a removal of the cause, that is, by contracting the currency, and reducing the excess which occasions the depreciation. In this case, the alteration of the currency is the cause, and the adverse exchange is the effect. This accords with the theory of Mr. Wheatley and Mr. Ricardo, who suppose that no fluctuation can occur in the exchange without a *previous* fluctuation in the currency. But it is equally true, that the same *apparent* difference in the relative value of the two currencies will show itself, when from a disturbance of the relative amount of exports and imports an alteration first takes place in the exchange; and this apparent difference may be produced without any real difference in the value of the two currencies.

For it would take place between two countries making use of the same metallic currency. In the case above supposed of the currencies of England and France being in the most perfect

state possible, and a large payment of ten millions for subsidy being to be made from London to Paris, the premium on foreign bills would rise. Suppose it were to rise 1 per cent., it would then require £101 to purchase a bill upon Paris for £100; or £101 of English currency would appear to be of no more value than £100 of French currency, although not the slightest change took place in the proportion between the currencies of either country, relatively to the commodities to be circulated in each*. This fluctuation would be rectified

* I am quite at a loss how to reconcile such an exchange with the theory of Mr. Wheatley and Mr. Ricardo; for it is easy to conceive an intercourse between trading nations of the following description. England might send hardware to Spain, Spain might send wool to France, and France send wine to England; in which case the respective debts and credits would be liquidated through a circuitous remittance, known technically by the term arbitration of exchange. The direct exchanges, however, between England and Spain would be in favour of England; between Spain and France, in favour of Spain; and between France and England, in favour of France. If these exchanges are to be considered as indicating a corresponding difference in the value of the respective currencies, it would follow that the currency of England was more valuable than that of Spain; that of Spain more valuable than the currency of France; and the currency of France more valuable than that of England: that is, A greater than B, B greater than C, and C greater than A, which is evidently impossible. The contradiction arises from transferring that language to the currency which is only applicable to the bills.

quickly, if no obstruction to the commercial intercourse between the two nations interposed; because the £1 of premium on the bill upon France would be an extra profit upon all exports, and a diminution of profit upon all imports, and thus the derangement would be removed by an alteration in the proportion between the credits and the debts.

In addition to this remedy from the exports and imports, there is another powerful auxiliary to rectify the fluctuations of the exchange. For as soon as the premium on a foreign bill has exceeded the limits which will repay the exporter the expenses of transmitting bullion, the coin itself will be exported in payment of the adverse balance. This will lead to a contraction of the currency, and an artificial elevation of its value; and this elevation of the value of the currency, lowering the prices of produce, will still further increase the profits upon export, and diminish the profits upon import. Not so, however, when, after the disappearance of the coin, the currency consists of paper, and of paper *not convertible* into specie. As soon as this step is taken, some of the essential correctives which tend to restore the exchanges are removed: for, first, the price of bullion will then rise exactly to the point where it ceases to be profitable to export it; and consequently the remedy from the export of bullion

can no longer be applied. And, secondly, the prices of all other commodities will *not fall.* Now it is this fall of price, arising from the forced contraction, that enables the exporting merchant to gain augmented profits upon all his exports; he would buy cheaper here, and sell at the same price abroad. For the same reason he could not *import* so advantageously as before; for he would buy at the same price abroad, and must sell cheaper here. The exchanges, therefore, could not, after the restriction, right themselves so rapidly. There would then be left but one correcting remedy; viz. the extra profit arising from the premium of the exchange on all exports, and the corresponding diminution of profit upon all imports.

It is clear, too, that the exchange would become more and more adverse in the compound ratio of the extent of payment to be made, and the difficulties thrown in the way of exportation. At the time of the Milan decrees being enforced, and when the ports of the Continent were shut against English goods, the depression of the exchange would no longer be measured by the accustomed test of the expenses of transmitting bullion. The exporter would have to contend against the charges on the conveyance of bulky goods; he must incur the expense and risk of gaining admission for his goods, and when admitted, would have to sell them at low prices, in consequence of the supply being so much beyond the usual demand for consumption*.

It might therefore be expected, that during the continuance of the large foreign expenditure the exchanges would continue to be adverse in a much greater degree than could have arisen under ordinary circumstances.—As soon, however, as the foreign expenditure ceased, this sole remaining remedy was found effectual in improving the exchanges, and lowering the price of gold. For long before the resumption of cash payments, the exchanges were gradually approaching to par, and the price of gold to the mint price. Up to the time of the passing Mr. Peel's bill in 1819, this improvement was in progress, notwithstanding a considerable increase of Bank issues above the amount circulating in 1813.

The country paper is said to have been much diminished between the years 1813 and 1819. I have not been able to ascertain to what

* Some estimate of the extent of these difficulties, and of the expenses of sending goods to the Continent, may be formed from the fact, that during the Milan decrees the insurance against the risk of seizure in the ports of the Baltic could not be effected for a less premium than from 20 to 30 per cent.

degree the contraction took place; and certainly, whatever it might be, as it was previous to the passing of Mr. Peel's bill, it could not be owing to that measure.

There is positively no ground for supposing that Mr. Peel's bill produced any effect whatever upon the value of the currency. I am convinced that the exchanges and the price of gold would have subsided tranquilly to their level, if that bill had never been passed, and without any effort on the part of the Bank to contract their issues. Indeed, looking at the last returns of the issues of Bank paper, it does not appear to me that the directors have taken any steps whatever to contract their notes*, or that the amount of the circulating medium, taking the notes and new coin together, is in any degree less than it was at the time of passing the bill, and certainly nothing like so low as it was in 1813.

I have thought it right to make this short digression on the subject of the exchanges, because I observe a constant disposition on the part of some of the witnesses before the com-

* This is now stated from authority. The Bank has never made any preparation for cash payments by contraction of their issues. The Bank directors have, on the contrary, been quite ready to make advances upon bills, but the merchants have not applied for them.

mittee on the resumption of cash payments, to represent the exchanges as dependent upon the estimation in which foreigners might hold the value of our pound sterling. Now, if the value of our pound sterling, as compared with foreign money, would be equally affected either by a depreciation of the currency, or by an adverse exchange with an undepreciated currency, it is a complete *petitio principii* to attribute the foreigner's estimation of our pound sterling to his guesses at the depreciation of our circulating medium. The foreigner would be as well aware as ourselves that the adverse exchange enabled him to purchase a bill payable in our currency with a smaller amount of the currency of his own country, in exact proportion to the depression of the exchange.

Having past experience alone for a guide, it was not an unlikely mistake for theorists to fall into, that such an adverse exchange could only arise from depreciation. For no such exchange had ever before arisen without an acknowledged depreciation; as, for instance, that which occurred previously to the reformation of the gold coin in 1774. And it is demonstrable, that no such adverse exchange could have taken place now, but for the restriction on the Bank. It seemed, then, a natural inference, that the Bank being relieved from the necessity

of cash payments, had taken advantage of the privilege; and having created a depreciation by over issue, had produced those evils, which had never before been known to arise from any other cause.

It was stated in the evidence on the resumption of cash payments*, that on the return of Buonaparte from Elba, the pound sterling fell, in one post, on the Royal Exchange, to the extent of 10 per cent.; and this statement gave rise to the following questions and answers. "Have you ever known such a fluctuation unconnected with political causes? Such fluctuations I have never known unconnected with bank-paper; they are caused by speculation on the price of the paper.—Have you ever known that fluctuation with paper unconnected with some political event? I have never known that fluctuation in so short a time, which I should call an anticipation of the future value of paper currency, except from political causes."

Here it is evident that the witness is answering under the bias of a preconceived theory. He is fully persuaded of the depreciation of the note (which he afterwards distinctly avows), and he states his opinion that the depreciation

* See page 67, Report on the Resumption of Cash Payments.