

A
BIMETALLIC PRIMER

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BY
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CONTENTS

CHAPTER	PAGE
I.—Principal Monetary Changes at Home and Abroad before 1873—Great Influence of England in Monetary Matters—Effect of that Influence—Opinions of Mr. Seyd and Mr. Disraeli	1
II.—English Monometallic Law of 1816—19—Token Currency — Position of India—French Bimetallic Law of 1803—Ratio Explained—Evils of conflicting Ratios—Necessity for International Agreement ...	9
III.—Money as a Medium of Exchange—Portability of Gold and Silver—Money as a Measure of Value—Stability of Value of Gold and Silver	23
IV.—Importance of Stability in the Standard—Greater Stability under Bimetallism — Level of Prices under Bimetallism—Ratio to be adopted	38
V.—Stability in the Exchanges between Gold and Silver using Countries produced by the Bimetallic System—Evils of Instability in the Exchanges	55
VI.—The Evils of Instability	68
VII.—Would Bimetallism maintain the relative Value of Gold and Silver ?	88

PREFACE
TO THE SECOND EDITION.

As the First Edition was published less than four months ago, very few changes are necessary in the present one ; I have therefore contented myself with making a few verbal alterations with a view to making certain passages more easily intelligible.

August, 1894.

P R E F A C E .

MANY excellent books have been written on the currency question, but they nearly all presuppose some knowledge of the subject, being for the most part addressed to expert readers.

The object of the following pages is to place before inexpert readers an outline of the present difficulties and of the arguments in favour of employing the Bimetallic remedy. It is, I fear, impossible to treat the subject with such simplicity as to avoid the use of technical expressions on the part of the writer, or to avoid the necessity of close attention on the part of the reader; but I have endeavoured to explain all the technical expressions that I have been forced to make use of, and I have endeavoured as far as possible to avoid the side issues with which this subject is beset.

It is impossible in a short work like the present to answer all the objections that have been raised against Bimetallism, but happily they have for the most part been abandoned even by their authors; I have therefore only addressed myself to those that still appear to show signs of vitality.

There is, however, a large class of objections to which I do not refer. These objections are usually formulated as follows:—“If such and such a catastrophe occurred, what would happen under Bimetallism?” This may be usually answered by the counter question: “What would happen under our present system?” Bimetallism does not claim to be a panacea, it claims merely to be a better system than that existing at present.

We must therefore remember that our object is to compare Bimetallism with our present system, and not with the imaginary conditions of an ideal currency; and also that legislation should be framed to meet existing circumstances and probable events, rather than to deal with improbable contingencies in the dim and distant future.

The points that I have endeavoured to bring out most clearly are these:—

1. That under a Bimetallic system our standard of value would possess greater stability than it does at present, and the relative values of the silver and gold standards would also be comparatively stable; in other words, that Bimetallism would bring about greater stability in prices, and greater stability in the exchanges between gold-using and silver-using countries.

2. That it is essential that the standard of value should possess a maximum stability of value; for, as Mr. Gladstone so well said in the House of Commons on 28th February, 1893, "What you want in a standard of value to make it do its work properly is fixity, steadiness, stability, and continuity. You want its properties to be such that what it is to-day it shall be to-morrow, and what it is to-morrow it shall be the next day. Fixity and invariability are the first elements of a standard of value."

The plan of this book is as follows:—After giving a general idea of the subject in the

first chapter, and explaining the meaning of the terms Monometallism and Bimetallism in the second, I endeavour to show in the third chapter that either gold or silver can be made to form a perfectly efficient medium of exchange, and that we have therefore only to consider how they may be made to perform the most important function of money—viz., a measure of value. I then point out that stability of value is essential to the substance that is used as a measure of value, if the measure is to be trustworthy; and I show that, judged by the best test available, silver is at least as stable as gold. In the fourth chapter I give the proof that gold and silver combined must make a more stable standard than gold and silver separate; and in the fifth chapter I endeavour to show that the joint standard must have the effect of giving greater stability to the exchanges between gold and silver using countries; in elucidating this point I am compelled to give a short, and I trust simple, explanation of the theory of foreign exchanges. I have devoted the whole of the sixth chapter to

emphasising the fact that the misfortunes that have attended manufacture, trade, and finance of late years are primarily due to the instability of our standard, which has of late years taken the form of a considerable rise in its value, and a consequent considerable fall in prices. Up to this point I have assumed that the relative value of silver and gold would be maintained at the ratio fixed by law if a Bimetallic system were introduced. In proving this in the last chapter, I rely mainly on the opinion* of the Members of the Royal Commission of 1888 that it could be done, and on the historical fact that it has been done. I have therefore spared the reader any lengthy arguments on this point.

Throughout the book I have endeavoured to prove my points by reference to facts rather than to theories; for though the theory of Bimetallism is in my opinion incontrovertible, the facts are simpler to understand,

* I believe that at present all or almost all the Professors of Political Economy in Great Britain are in favour of Bimetallism.

and are so strong as hardly to require any theoretical support.

Those who are familiar with the subject will therefore notice the omission of many arguments which would have added strength to the case ; but I have aimed at simplicity rather than completeness, though I fear I may not have succeeded in my difficult task. I shall, however, be well repaid for writing this pamphlet if, though my expert friends may consider it " slight and sketchy," my inexpert friends understand it.

15, BISHOPSGATE STREET WITHIN,

April, 1894.

A BIMETALLIC PRIMER.

CHAPTER I.

PRINCIPAL MONETARY CHANGES AT HOME AND ABROAD BEFORE 1873 — GREAT INFLUENCE OF ENGLAND IN MONETARY MATTERS—EFFECT OF THAT INFLUENCE—OPINIONS OF MR. SEYD AND MR. DISRAELI.

BIMETALLISM is not a new thing. On the contrary, it existed in some form or other in most civilised nations until recent times.

Up till 1873 France, Italy, Belgium, Switzerland, (forming the Latin Union), and the United States were Bimetallic; under this system their mints were open for the unrestricted coinage of both gold and silver, and the metals so coined were by law available for the payment of debts to any amount.

Other nations were monometallic; that is to say, some kept their mints open for the unrestricted

coinage of gold alone, and used gold alone as the metal in which to discharge debts to any amount, and some used silver alone for that purpose.

Thus there existed up to 1873 a great demand for gold from some nations, and a great demand for silver from other nations; the approximate equilibrium thus established being perfected by the Bimetallic nations who exercised an impartial demand for either metal.

The effect of this condition of things was, as will be hereafter explained, that the value of silver as measured in gold remained practically constant, and both gold and silver were thus used indifferently for the discharge of international indebtedness.

In 1872 Germany changed her system from silver monometallism to gold monometallism, and thereby decreased the demand for silver and increased the demand for gold. In 1873 all the Bimetallic nations suspended the unrestricted coinage of silver; since that date the price of silver and other commodities has steadily gone down, or in other words the value of gold as

measured in silver and other commodities has steadily gone up.

Monometallism in individual countries is not a new thing; but monometallism in all countries (without the existence of Bimetallism in any) is quite new since 1873. It follows that since 1873 the commercial world has been embarked upon a perfectly new experiment of which we have had no previous experience whatever.

Let us now see how this has come about, and how far the action of England has been the cause of the great monetary revolution that has taken place.

In 1666 a Bimetallic law was passed in England under which the mints were open to the unlimited coinage of both metals, and the metals when coined were full legal tender; that is to say, both metals were by law available for the payment of debts to any amount.

In the next century, from 1726 to 1785, silver was valued higher by law on the Continent than it was in England, and the consequence was that

silver became scarce in England, and gold became the metal most in use.

During the great war in the latter part of the last and the earlier part of the present century, a paper currency was established in England, which drove the metallic currency out of the country. When an endeavour was made to resume specie payments, gold was selected as the sole standard because it was the metal to which the mercantile community had become more accustomed; no doubt, also, the simplicity in the idea of having one metal as the standard was one of the factors in determining the adoption of monometallism.

It is clear from the debates in Parliament that Lord Liverpool, Sir Robert Peel, and those who introduced the monometallic gold standard into England in 1816, and repealed the Bimetallic law of 1666, did not realise that other nations might follow our example; consequently they did not consider what the effect would be if the demand for silver as money were reduced, the demand for gold as money increased, and the relative value

of the two metals no longer maintained. These things, however, have come to pass ; a great monetary revolution has taken place, and there is no doubt that this was chiefly due to the action of England in 1816, although her action produced no definite results until 1873.

The fact that the bulk of the finance and trade of the world was in the hands of England was of itself a great inducement to other nations to assimilate their standard to that of England. The convenience of such a course was obvious, and the inconvenience was not apparent at the time.

The commercial prestige of England was another reason why other nations should follow her example. Since 1816 steam was introduced as a motive power ; and the contiguity of coal and iron in England, and the long period of peace that we enjoyed, gave us unrivalled opportunities for developing its use. The consequent prosperity of England was by many attributed to the use of the gold standard.

The result of these views was shown in 1867, when a monetary conference was held, at which

the representatives of practically all the nations, following the advice and example of England, supported the adoption of a single gold standard. In 1870 war broke out between France and Germany, with the result that a large war indemnity was paid in gold to Germany, and she was thus enabled to carry out her project. The suspension by all the Bimetallic nations of the unrestricted coinage of silver followed in 1873, and thus a great monetary revolution was accomplished, the foundation of which had been laid by England in 1816.

Very few people even in 1873 realised the gravity of the change that had taken place. There were, however, some who did, and of those I will mention two—viz., Mr. Ernest Seyd and Mr. Disraeli.

In 1871 Mr. Seyd made the following extraordinary forecast of the consequences that would follow the adoption of a gold standard by other nations :—

“ It is a great mistake to suppose that the adoption of the gold valuation by other States besides England will be beneficial. It will only lead to the destruction of the monetary equilibrium hitherto existing, and cause a fall in the value of silver, from which England's trade

and the Indian silver valuation will suffer more than all other interests, grievous as the general decline of prosperity all over the world will be."

"The strong doctrinism existing in England as regards the gold valuation is so blind that when the time of depression sets in there will be this special feature:—The economical authorities of the country will refuse to listen to the cause here foreshadowed; every possible attempt will be made to prove that the decline of commerce is due to all sorts of causes and irreconcilable matters. The workman and his strikes will be the first convenient target; then speculation and over-trading will have their turn. Later on, when foreign nations, unable to pay in silver, have recourse to protection, when a number of other secondary causes develop themselves; then many would-be wise men will have the opportunity of pointing to specific reasons which in their eyes account for the falling off in every branch of trade. Many other allegations will be made totally irrelevant to the real issue, but satisfactory to the moralising tendency of financial writers. The great danger of the time will then be that, among all this confusion and strife, England's supremacy in commerce and manufactures may go backwards to an extent which cannot be redressed, when the real cause becomes recognised, and the natural remedy is applied."

In November, 1873, speaking at Glasgow of the monetary changes that were taking place, Mr. Disraeli said: "It is the greatest delusion in the world to attribute the commercial preponderance

and prosperity of England to our having a gold standard. . . . It is quite evident we must prepare ourselves for great convulsions in the money market, not occasioned by speculation or any old cause, which has been alleged, but by a new cause with which we are not sufficiently acquainted."

More than twenty years have elapsed since these opinions were expressed, and the question now arises, Are we still insufficiently acquainted with this new cause?

When we see deficits in the Budget, continuous depression in trade and agriculture, default on the part of our debtors, and the Indian Government unable to meet its current expenditure, are we to sit still and say that things will right themselves; or are we to try and "recognise the real cause and apply the natural remedy?"

CHAPTER II.

ENGLISH MONOMETALLIC LAW OF 1816-19—TOKEN CURRENCY—POSITION OF INDIA—FRENCH BIMETALLIC LAW OF 1803—RATIO EXPLAINED—EVILS OF CONFLICTING RATIOS—NECESSITY FOR INTERNATIONAL AGREEMENT.

PROBABLY the best way of explaining different systems of currency is to take concrete examples. Thus to explain Monometallism we may take our present system established in 1816-19; and to explain Bimetallism we may take the French law of 1803.

The law of 1816, which introduced our present gold monometallic system, was withdrawn in 1817-18, but was re-established in 1819, and has remained in force until the present day.

By this law silver coins are not available for the payment of debts above 40s., and the mints are not open to the coinage of silver except on Government account. The mints are open for gold alone, one sovereign being given for every 123·27447

grains of standard gold (113·0016 pure gold) that are brought to the mints. Thus the money with which large debts can be legally paid is limited to gold coins or (in accordance with the Act of 1844) notes of the Bank of England, payable in gold on demand.

As a matter of fact large debts are usually paid by cheque, but no one is bound to accept that form of payment.

From this short description of our present system it will be seen that England is an example of a monometallic nation with gold as her standard; silver being used to a limited extent only as a subsidiary or token currency.

The object of a silver token currency is to avoid the necessity of using inconveniently small gold coins, the value of the silver when the arrangement was first made, making that metal a very suitable substitute.

The value of this token currency is, however, not derived from the value of the material, but from the amount of gold that the tokens represent. Thus in 1816 the value of the standard silver in our coins was worth about 61d. an ounce, but the value of the

coins themselves was fixed at 66d.* an ounce. In the same way at the present time (1894) silver is only worth about 28d. an ounce, and yet shillings for instance are still worth 66d.† an ounce for the purpose of paying debts, because the law declares that they are worth one-twentieth of a gold sovereign.

The somewhat startling power that the law is thus shown to possess, in fixing the value of currency, is not due to the fact that our silver coins cannot discharge debts above 40s., for in France and the United States five-franc pieces and silver dollars are in their respective countries available for the payment of debts to any amount, although their value as coins is almost as much above their intrinsic value as is the case with our silver coins; but the power of the law is due to the fact that the Governments regulate the amount of this coinage, and create a demand for it in their own countries by ordering that debts may be discharged in that coinage, either wholly or only in part.

* To prevent them leaving the country.

† With these figures, the Government makes a gross profit of 33d. on every ounce coined; but the objection is that any one else with an illicit mint can do precisely the same.

In concluding these remarks about token money, it is hardly necessary to observe that over-valued money is only of use for internal purposes, and is never exported, since for external purposes its value is only that of the bullion it contains.

Monometallism may have gold for its basis or silver for its basis; for any nation is said to be monometallic which makes one metal only full legal tender, or, in other words, which enacts that its citizens may pay their debts without limit in one metal only, or in coins of that metal, or in notes and coins representing that metal.

India is, or was till June, 1893, an example of silver monometallism. Until that date the mints of India were open to the unrestricted coinage of silver, just as the mints of England are open to gold, and silver when coined into rupees was full legal tender, just as gold is here when coined into sovereigns.

The Indian Government has now closed its mints to the public for the coinage of silver, with the idea of raising the value of the rupee as measured in gold. The Government hopes by these means to

sell the rupees that it collects as revenue at a better price, and so be enabled to meet its liabilities in England that are payable in gold.

I shall refer again to the Indian question ; I will therefore leave it for the present with this remark, that the Indian Government have for many years past been urging on the British Government the necessity of International Bimetallism as the only remedy for their difficulties ; but, owing to the refusal of the British Government to support such a measure, the Government of India has been obliged to propose financial expedients of at any rate a highly questionable character in order to try and obtain temporary relief.

We will now turn to the explanation of Bimetallism, and will take a concrete case as an example.

The English law of 1663 (repealed in 1816) would serve for this purpose ; but the French law adopted in 1803* is usually taken as the most suitable example, partly because its provisions are

* This law or edict, fixing the ratio at 15½ to 1, was passed by Calonne in 1785, but only became fully operative by statute in 1803, when the Bank of France was established.

entirely approved by modern Bimetallists, and partly because it operated without interruption till 1873, and therefore existed under modern conditions of finance and commerce.

Under this system the French mints were open to all the world for the unrestricted coinage of both gold and silver into French money, and this money was in France full legal tender. That is to say, that any one, whether Frenchman or foreigner, could send either gold or silver bullion to the French mints, and could receive his actual bullion back in the form of gold pieces of 20 francs if the bullion was of gold, or in the form of silver pieces of 5 francs if the bullion was of silver; and these francs, whether they were of gold or whether they were of silver, were by law available in France for the payment of debts to any amount.

It is a mistake to suppose that the mints in France would have given gold francs (in 20-franc pieces) for silver bullion, or silver francs for gold bullion; for all that they did was to give coined silver for uncoined silver, and coined gold for uncoined gold.

We must remember, however, that the purpose for which either gold or silver coins are required is for the payment of debts; and as both silver francs and gold francs were equally useful for that purpose, nobody cared of which metal their francs were composed. From this it is clear that so long as the French mints were willing to give a certain number of francs for a certain weight of gold, and a certain number of francs for a certain weight of silver, the holders of either gold or silver bullion would never sell it for a less number of francs than they could obtain at the French mints.

It is claimed for Bimetallism that the existence of that system in France maintained the relative value of silver and gold in all the markets of the world; and certain it is that the relative value *was* maintained till 1873, and that when the unrestricted coinage of silver was suspended in France in 1873 the relative value of the metals began to diverge, and has continued to do so ever since.

We will now consider the question of the *ratio*, which for some reason or other it is considered difficult to understand.

The word ratio, of course, merely means proportion, and is used in many different connections; but in currency questions it has become a technical expression to denote that proportion which exists between the weight of a certain value of coined gold and the weight of an equal value of coined silver.

In England, for instance, the pure silver in twenty shillings weighs 14.29 times as much as the pure gold in one sovereign, consequently the ratio in England is 14.29 to 1.

In France the weight of pure silver in 20 francs is $15\frac{1}{2}$ times as great as the weight of pure gold in a 20-franc piece, consequently the ratio is $15\frac{1}{2}$ to 1.

It would perhaps make it more intelligible to the general reader if the ratio were expressed by the gold price that the silver in the silver coins represented. Thus, instead of speaking of the ratio in England at 14.29 to 1, it might be said that standard silver when used for coinage passes in England as worth 66d. an ounce.

In the same way the French ratio of $15\frac{1}{2}$ to 1 is equivalent to placing a value on silver of 60.84d. an ounce when it is in this form of coin.

Now we have seen in the earlier part of this chapter that these mint prices for silver, or coinage values of silver, exercise no effect on the market price of silver bullion if the mints are closed to it. Under these circumstances all that happens is, that if silver coins are required, the Government buys the silver in the open market at the cheapest price it can, and sells it when coined at the mint price. Thus at the present moment (1894) the English Government can buy silver at about 28d. an ounce, and sell it at 66d. an ounce.

If, however, the mints were open in England to the unrestricted coinage of silver into full legal tender money passing current at 66d. an ounce, no one would sell an ounce of silver for less than 66d. of full legal tender money, and obviously this would exercise a great effect on the value of silver bullion.

The essential feature, then, of true Bimetallism is open mints; for directly the mints are ready to change gold or silver bullion into full legal tender coin, the Government does in effect decree that both gold and silver *bullion* shall be equally avail-

able, at a certain definite proportion, for the payment of all debts.

When therefore an important nation like France fixed a definite proportion between silver and gold bullion, and decreed that all debts might be paid to her or to her citizens in those metals in that proportion, the demand for those metals at that proportion was so great as to control the relative value of the two metals all over the world.

It may, however, occur to the reader that considerable inconvenience would arise if another important nation should fix upon another ratio. This is perfectly true, and consequently it is desirable that any agreement that is made should be international.

The disadvantages accruing from the existence of separate Bimetallic systems may be well shown by a reference to the period before and after 1666.

The English law of 1666 was, as we have seen, purely Bimetallic, but it operated under very different conditions from those now existing.* That

* There were large numbers of worn and clipped coins in circulation at that time which were as available for the payment of

which chiefly interfered with the smooth working of the law was that, owing to mistaken notions of finance and commerce, there was a constant struggle going on between the different nations to keep the metal that they most desired in their own country.

This led to continual changes in the ratio; for the power of altering the ratio was freely used by Governments to attract to their country the metal that they wanted.

The efficacy of this instrument can be easily seen if we take an extreme case, and if we express the ratio by the coinage value of silver in our present money.

Suppose then, that the coinage value of silver in France was 5s. an ounce, or one-fourth of a sovereign, and suppose that the coinage value of silver in England was 4s. an ounce, or one-fifth of a sovereign; it is clear that silver would be comparatively more valuable than gold for the payment of

internal debts as the coins of full weight. The consequence of this was that all coins of full weight left the country as soon as they were minted, for they were more valuable abroad than the light coins, as they contained more metal, and they were of no greater value in England for the purpose of paying debts.

debts in France, and that gold would be comparatively more valuable than silver for the payment of debts in England. The consequence, therefore, would be that there would be a strong tendency for gold to flow towards England, and for silver to flow towards France.

If then, in the times we are discussing, France, and the Continental nations generally, placed a higher value on silver than that which existed in England, silver would leave England and gold would arrive. Therefore when England was desirous of keeping silver in the country, she had to alter her ratio so as to give a higher value to silver at home than existed abroad, and so cause an inflow of silver and an outflow of gold.

These constant changes were of course very inconvenient; but in those days any attempt to obtain an international agreement was out of the question.

Both Locke and Newton were desirous of avoiding these unprofitable struggles, and in order to do so they both set themselves at different times to approximate the ratio in England to the average of the ratios existing on the Continent.

Modern Bimetallists, following the paths indicated by these great authorities, and assisted by the greater solidarity that now exists among commercial nations, are endeavouring to bring about an agreement between the principal commercial nations to adopt Bimetallism, and to agree upon the same ratio.

In the days of Locke and Newton the relative market value of gold and silver was continually changing, owing to the constant changes in the ratios of different nations, and it therefore seemed to the people of those days that the market value must always change, and that the ratio would have to be continually changed to meet it.

But since those days we have seen the ratio maintained without alteration from 1717 to 1816 in England, and from 1785 to 1873 in France; and this experience teaches us that, if a ratio were once agreed upon by the great commercial nations, the relative market value of the two metals would not alter, and consequently there would be no occasion to change the ratio.

Supposing, then, that such an agreement as I

have indicated were arrived at between England, France, Germany, and the United States, these nations would keep their mints open to the unrestricted coinage of both metals at a fixed ratio, and the metals coined in each country would be full legal tender money in that country.

This is what is meant by International Bimetallicism.

CHAPTER III.

MONEY AS A MEDIUM OF EXCHANGE—PORTABILITY OF GOLD AND SILVER—MONEY AS A MEASURE OF VALUE—STABILITY OF VALUE OF GOLD AND SILVER.

IN order to estimate the advantages of different systems of currency, it is advisable to have some idea of what is required of money, and what are the necessary qualifications to enable it to fulfil such requirements.

Since under Bimetallism both gold and silver would be in full use as money, it will be as well to compare the two metals and see how far they possess the qualities essential to good money. There are, of course, many requirements necessary to enable a commodity to serve effectively as money, but it will be better to confine ourselves rigidly to those requirements which do not appear to be shared equally by gold and silver.

The uses of money may be divided into two heads:—

1. A medium of Exchange.
2. A standard or measure of value.

The necessity of a good medium of exchange is sufficiently obvious, for without it extended commerce would be impossible, and the world would be reduced to the primitive inconvenience of barter.

It is clear that the selection of any commodity as an intermediary with which all other commodities could be exchanged, or, in other words, any medium of exchange, would remedy much of this inconvenience; it is clear, too, that if this medium possessed value in small bulk, its convenience would be greatly enhanced.

Portability therefore is the essential characteristic of a good medium of exchange; and though both gold and silver possess this characteristic, gold possesses it in a higher degree than silver. It is, however, possible for a medium of exchange to be too valuable—for instance, if diamonds were suitable in other respects, their great value would

render them unsuitable for small change. In a lesser degree the high value of gold brings with it similar disadvantages, for gold coins of low value would be too small for general use, and the great value of gold renders the risk from theft and loss greater than in the case of silver.

On the other hand gold appears to be more convenient than silver when large values are dealt with ; though as a matter of fact gold is hardly ever used even now for large payments in the internal commerce of a country, because cheques and notes have practically taken its place ; and if the use of notes were extended, such advantage as gold possesses at present, for internal purposes, would practically disappear.

In most countries, including Scotland, notes are preferred to gold, on the ground of greater portability and convenience, though in this country a strong feeling exists against them owing mainly to the fact that small notes are often very dirty ; but in the first place the bulk of the foreign dirty notes are for very small amounts, and naturally they are renewed as seldom as possible owing to the cost of

renewal; in England, however, the smallest note necessary, would be for 10s., and the cost of renewing these would not be materially greater than the expense of renewing the worn gold coins; for the ten-shilling piece is more expensive than the sovereign to maintain, as the surface exposed to rubbing is greater in proportion.

But if the cost of renewing the ten-shilling note were considered of any importance, it could be issued against a short weight of gold or silver, and could be used for internal purposes only as legal tender up to 40s. The note would in fact occupy the same position as our present silver coins, and the Government would make a profit from the issue.

It would probably be advisable also to issue £1 notes (if Bimetallism were adopted) based on a full weight of gold or silver, but beyond that, no change would be necessary in the ordinary money of the people; it would not be necessary to issue any full-weight silver coins, as stamped silver bars would be sufficient for the basis of note issues and for export purposes.

The only question between the two metals, with regard to portability, that remains, is the relative cost of transmitting gold or silver abroad for the payment of the balances of international indebtedness.

It has often been alleged that the cost of sending silver abroad is so great as compared with gold that it could never be used to adjust balances of trade, while in the same breath it is urged that we should suffer from receiving shiploads of silver.

It is obvious that the two statements cannot both be correct, and I shall show later that neither of them is.

As regards the first statement, I must point out that compared to their value, the cost is very small of sending either metal abroad, and that the principal charges are in most cases the same for both metals, being payable on the value and not on the bulk or weight.

For instance, though the weight of £100,000 is, when packed, about three-quarters of a ton, and though £100,000 worth of silver, taking the ratio even at 20 to 1 (it is now about 34 to 1) is $14\frac{1}{2}$ tons,

yet the freight and insurance to India is precisely the same in both cases ; the cost of packing and handling the gold is a few pounds less than the cost of marking and handling the silver ; but these charges are quite insignificant, and the small charge of 1d. per ounce of gold (say 1 per mil) for making the gold into small bars, as is always done in the case of Indian shipments, is sufficient to turn the scale in favour of silver and make it actually a cheaper form of remittance to India than gold.

At the same time, to some other parts of the world, special rates are occasionally charged in special cases, and in these cases the advantage is somewhat in favour of gold, this advantage being no doubt more pronounced now that silver is so much lower in value.

If silver and gold were equally available for remittance, it is thought that such small difference as at present exists would tend to disappear, but this is rather a complicated matter to explain ; I will therefore merely point out that if the cost of transmitting silver were in any way prohibitive, silver would not be sent to England, and,

consequently, England would not have it to send away.

This question of the relative portability of gold and silver is really hardly worth discussing; for even supposing that gold were superior to silver in that respect, the advantage would resolve itself into little more than a matter of increased convenience; and if the more general use of silver would be of even the slightest benefit to trade, it would be puerile to allow an unimportant matter of this kind to stand in the way.

I hope I have succeeded in showing that either gold or silver makes an efficient medium of exchange; and that, though it is not possible to use gold for small values, and though silver is less suitable than gold for large values, yet that both these difficulties can be and are overcome by simple expedients. It would therefore appear that looking at money as a medium of exchange only, there could be no objection to the full and equal use of both gold and silver.

We will now examine money in its capacity of a standard or measure of value. The reason why it

is necessary to have a measure of value is, that one may be enabled to ascertain the relative value of different commodities at the same time, and the relative value of the same commodities at different times; also, as money is the measure of value and the medium of exchange, it is the most convenient medium in which to register debts.

Now it is clear that if money itself alters in value, it is difficult to determine how far the commodities that it measures have really altered in value; and that as debts are expressed in money, they must alter in value *pari passu* with money.

Stability in the standard of value is of the first importance, as will be explained later in Chapter VI.; at present it will be sufficient to remind the reader that to have an unreliable measure of weight, length, or capacity would be worse than having no measure at all: it is therefore *a priori* not unreasonable to suppose, that a measure of value, which is itself variable in value, should produce confusion or even disaster in finance and commerce.

Therefore, in selecting a monetary system, we

should consider which system would give us the most stable standard of value. Is the greatest stability to be obtained by using gold alone, silver alone, or gold and silver combined?

Let us now compare the relative stability of silver and gold.

As far as can be seen, there is very little inherent difference between gold and silver which could give greater stability to one rather than the other. The production of both metals appears from the best statistics available to be almost equally spasmodic and uncertain, while the demand for them for purposes other than currency appears to be almost equally steady.

Therefore the only factor capable of permanently affecting the stability of either metal is the demand for currency purposes. Before 1873, when the currency demand for silver and gold adjusted itself to the supply, their relative value remained practically constant, though the fluctuations in their relative production were very great; it must therefore be presumed that it is only the absence of this self-adjusting demand for the

metals as money that has caused the present divergence in value.

It would be unnecessary to pursue this matter further but for the fact that it has been often stated that gold has shown itself of late years to be more stable than silver. As this idea is absolutely opposed to the facts, it may be worth while shortly to examine the question.

A perfect unit of value has yet to be discovered, therefore we must use the best test available. It is manifest that if we measure gold by silver, or silver by gold, we shall only obtain their relative value, and we shall be as far as ever from knowing the real value of either. For instance, when the gold value of silver falls from 60d. an ounce to 30d. an ounce we know that gold has become twice as valuable compared with silver as it was before; but we do not know whether it is gold that has risen in value, or whether it is silver that has fallen, or whether both of these events have happened together.

Now, as the only use of gold or silver in currency is directly or indirectly the purchase of commo-

dities, it follows that the only value of gold or silver which it is of any importance for us to discover is their value in commodities.

Commodities may of course themselves vary in value from improved methods of production, good or bad harvests, &c., &c., but these variations would affect the value of commodities equally, whether they were measured in silver or gold; so if we measure these two metals by the bulk of commodities we shall at all events find out which metal has varied the most, or, in other words, we shall know the relative variation in the value of gold and silver as measured in commodities.

Before 1873 the relative value of silver and gold was practically constant, so their relative value as measured in commodities was also constant; it is therefore only the period after 1873 that we need examine. Prices were high in 1873, but one year will of course serve as well as another to act as the standard against which to compare the *relative* variations of silver and gold.

If we take silver first, we may see from the tables

compiled by the India Office how far the value of the rupee as measured in commodities has varied from 1873 to 1893 inclusive.

These tables take as a basis the average silver or rupee prices of thirty-one leading articles of export and import in Calcutta in 1873; and we may see from them that during the last twenty-one years silver prices in Calcutta never rose more than 5 per cent., and never fell more than 19 per cent.; in other words, the purchasing power of the rupee, or the value of silver as measured by goods in an Indian port, never fell more than $4\frac{3}{4}$ per cent., and never rose more than $24\frac{2}{3}$ per cent.* Although these figures show that the value of silver has fluctuated between the years 1873 and 1893, it is also true that its value in 1893 was nearly the same as its value in 1873; for the figures of the India Office show that the purchasing power of

* "The fall in the thing measured" and "the rise in the measure" are two phrases for the same thing, but in figures they are expressed differently; for instance, if sugar fell from 20s. a cwt. to 16s. a cwt., sugar would have fallen 50 per cent., as being worth half as much gold as it was before; on the other hand, gold would have risen 100 per cent. as measured in sugar, for it would be worth twice as much sugar as it was before.

silver in Calcutta was only about 4 per cent. less in 1893 than it was in 1873.

If it be thought that the purchasing power of silver in Calcutta is not a fair test of the value of silver in Europe, we can easily find out the purchasing power of bar silver as measured in European commodities; for we know the value of gold as measured in commodities, and we know the value of bar silver as measured in gold, and therefore we can easily calculate the value of bar silver as measured in commodities. If we do this we shall find that the value of silver in London, *as well as in India*, was only about 4 per cent. lower in 1893 than it was in 1873.

Let us see how far gold has varied in value.

If we take Mr. Sauerbeck's calculation of gold prices, we find that gold increased in value from 1873 to 1893 by no less than 64 per cent., and appears from the monthly figures of the present year to be still rising. He takes as his basis *forty-five* leading commodities, and calculates the average price over the *whole* of each year, and therefore one may consider his results to be as

trustworthy as is possible for this class of calculation.

The *Economist* newspaper takes as a basis the average price of *twenty-two* leading articles on the *first day* of each year, and this method does not seem to be quite so thorough as that of Mr. Sauerbeck. The calculations of the *Economist* make it appear that gold only rose about 40 per cent. from 1873 to 1893, but there is an unusual discrepancy between their figures for 1873 and those of other statisticians; for the *Economist's* figures make it appear that 1873 was a year of moderate prices, while the general opinion is that it was a year of extraordinarily high ones. Probably the discrepancy is due to the fact that the prices of the 1st January did not tally with the average prices of the rest of the year, and that the list of twenty-two commodities is not sufficiently comprehensive.

Be this as it may, even the *Economist* shows that the fluctuations in the value of gold has been 40 per cent., which is greatly in excess of the fluctuation in the value of silver.

During the last few months silver has experi-

enced a heavy further fall as measured in gold, and though the further rise in the value of gold has assisted this fall, the fall of silver as measured in commodities also has been considerable. This is of course due to the closing of the Indian mints and to the cessation of the American purchases; but even now the fall in silver is not nearly as great as the rise in gold.

Probably the figures given above will convince the reader that silver has been much more stable than gold as a measure of value during the last twenty-one years; but it will be quite sufficient if it is admitted that silver has been at least as stable as gold.

CHAPTER IV.

IMPORTANCE OF STABILITY IN THE STANDARD—
GREATER STABILITY UNDER BIMETALLISM—LEVEL
OF PRICES UNDER BIMETALLISM—RATIO TO BE
ADOPTED.

SIR ROBERT PEEL'S famous question—"What is a pound?" is often quoted with satisfaction by those who admire our present system; for the answer appears to them to be simple, and simplicity in currency is no doubt a thing to be desired.

The received answer to Sir Robert Peel's question is "123·27447 grains of standard gold;" and an equally simple answer could be made by giving the exact circumference of the sovereign in inches up to six places of decimals.

To know the size of a sovereign is useful, so that it may not be mistaken for a smaller coin; to know the number of grains of gold in a pound is more useful in case it should be exchanged against foreign gold or bar gold; but the question about a pound

which is of really vital importance is not "What is it?" but "What is its *value*?"

The fact that it contains 123 grains of gold is no answer to this question unless we are also told what gold is worth. To give the value of one unknown quantity in terms of another unknown quantity does not solve the problem.

Those who are engaged in manufacture, in trade, or in finance, those who are debtors and those who are creditors, one and all require to know what is the value of a pound. They do not care to know whether it contains so many grains of gold, or whether under Bimetallism it would contain so many grains of gold *or* so many grains of silver; what they want to know is whether they can pay their debts with it, whether they can buy commodities with it, and whether its value is stable.

If they find that the pound will purchase the same amount of commodities at one time as it will at another, and that when pounds are borrowed and when pounds are repaid they represent the same purchasing power, they have every reason to be satisfied; but the information that they require

is not the weight or composition of the pound, not whether it is of one metal or of two metals, but *whether it is legal tender money of a stable purchasing power.*

The answer to this question is that our present gold pound is legal tender money, and indeed our only full legal tender money, but that unfortunately its purchasing power is unstable in the highest degree.

The tables (index numbers) of Mr. Sauerbeck and the *Economist*, already referred to, both show that, taking as a standard of comparison the average prices of the years 1865-69, when prices were moderate, that the value of gold up to and including the year 1893 has risen $47\frac{1}{2}$ per cent.

Thus our standard of value, and the substance in which we register our debts, has risen in value $47\frac{1}{2}$ per cent. during the last twenty-five years, and under altered circumstances might as easily fall in value in the next twenty-five years to the same extent; yet we pride ourselves upon the possession of a simple and stable standard because 123·27447 grains of gold go to the sovereign.

How often do we hear it said that gold cannot alter in value because it is always worth £3.17s.10½d.an ounce! If the same reasoning were applied to silver we should find that silver could not have altered in value either, because it was always worth 1 rupee for every 180 grains until the Indian mints were closed. But under these circumstances the relative value of gold and silver could not have altered, which, as Euclid would say, is absurd.

The fact is that gold and silver, whether in the form of pounds, rupees, or dollars, are commodities, and are affected precisely in the same way as other commodities, by the ordinary laws of supply and demand. The only circumstance that differentiates them from other commodities is the fact that their value is almost entirely given them by law; for it is law that causes the great demand for them.

By a stroke of the pen the great commercial nations could throw £880,000,000 of gold upon the market, and exercise a corresponding demand for silver; just as by a stroke of the pen Germany, the Latin Union, the United States, and India

did cancel their demand for silver and increased their demand for gold.*

Though the power of Governments over the value of gold and silver is so enormous, and though we see them exercising that power before our eyes, it is nevertheless difficult to realise that the value of the sovereign can fluctuate; for being accustomed to measure everything by the sovereign we come to regard it as an unalterable standard and a fixed point with relation to which all other things vary.

For this reason people shrink from the possibility, which they imagine would occur under Bimetallism, of having their debts paid in silver, if silver were to become less valuable than gold; yet they never consider whether or not under those circumstances they would receive back the same power of purchasing commodities that they lent.

With the same absence of thought they lend 123 grains of gold, and as long as they receive back the same number of grains of gold, they do not

* In 1883 Mr. Goschen estimated the new demands upon gold, since 1873, at not less than £200,000,000; and since 1883 these new demands have considerably increased, and are apparently still increasing.

take it amiss, though gold fall in value and their power to purchase commodities is thereby reduced.

But, though people may be unconscious of the cause of their trouble, it cannot be doubted that all fluctuations in the value of money are an unmixed evil, except that one which arises from the abundance of commodities. Therefore it is of the greatest importance for us to discover what system would give us the greatest stability ; for stability should be the great object of all proposals for monetary reform—stability in prices, and stability in the exchanges.

We will consider in the next chapter the advantage that Bimetallism would give us in respect of the exchanges between gold and silver using countries ; at the present moment I shall endeavour to show that we should obtain greater stability in prices under Bimetallism than under our existing system.

We have seen from the previous chapter that silver is at least as stable a measure of value as gold, and therefore there could be no objection on that ground to joining the two metals together.

But we may go further than that and say that if the Bimetallic or joint standard of silver and

gold were adopted, it would be a distinct improvement on our present system with regard to stability of value.

If we look at things as they are, and not as what in theory they ought to be, we find that though there is nothing inherent in either metal to make one more stable than the other, silver is and has been for the last twenty years, more stable than gold as measured in commodities. Therefore, from the point of view of a gold-using country, it would appear to be an advantage to join silver to gold, though silver-using countries would suffer a corresponding disadvantage from joining gold to silver. This disadvantage would, however, be compensated by the increased stability of the exchanges, as well as by that of the standard in England, for it is in that standard that many of the debts of the silver countries are due.

Looking still at the facts as they are, we see that such alteration as there has recently been in the value of silver is in a downward direction, and that the alteration that has taken place in the value of gold is in an upward direction; therefore,

under a Bimetallic standard, the downward tendency of silver would tend to counteract the upward tendency of gold and *vice versâ*; so that the joint standard would show more stability than the two taken singly.

This, therefore, is what Bimetallism would effect under existing circumstances; but these circumstances may be abnormal, and we ought to be also convinced that under ordinary circumstances the joint standard would be more stable than a single one.

This can be easily shown.

Demand and supply affect the value of money precisely as they affect other commodities; when, therefore, a Government chooses a commodity to serve as money, the demand for it is greatly increased, and consequently the value is increased. Conversely, if a Government rejects as money the commodity that it formerly chose, the supply of that commodity is increased and consequently its value is diminished.

Therefore, under the present monometallic system, the value of the standard of any country is liable to be greatly affected by the action of other

nations; for as all nations at present use either gold as standard money or silver as standard money, and as none use both metals for that purpose, an increased or decreased use of gold by any one nation tends to a proportionate increase or decrease in the value of the standard of the gold-using countries; while an increased or decreased use of silver by any one nation tends to a proportionate increase or decrease in the value of the standard of the silver-using nations.

Again, the natural supply of the metals from the mines is variable, and affects their value; so if there is a large increase in the production of silver there is a tendency for the value of the standard of silver-using nations to decrease in proportion; and if there is a large increase in the production of gold, there is a tendency for the value of the standard of gold-using nations to decrease in proportion.

If, too, a nation adopts one of the metals as its standard, and rejects another at the same time, or if there is a great falling off in the production of one metal and a great increase in the production of the other at the same time, a very violent

divergence is caused in the relative value of the two metals, under our present system.

On the other hand, if there existed a group of nations willing to use silver, if silver were more available, or to use gold if gold were more available, the effect would be, as I hope to show later, that the relative value of gold and silver would be maintained at the proportion fixed by law. Therefore if a nation changed its standard from gold to silver, or from silver to gold, or if the production of one metal fell off and that of the other increased, no effect at all would be produced, either on the actual or the relative value of the metallic standards; for if the value of silver and gold were always the same (at a certain proportion), silver would be practically the same thing as gold at that proportion.

For the same reason if there were a large production of gold, or if a nation rejected gold as its currency and took to paper, gold would not fall in proportion to the excess in the supply; for if Bimetallism existed, silver would be linked to gold and would form for this purpose one commodity;

consequently the excess supply of gold would produce its effect on the mass of silver and gold combined, and would cause a much less violent alteration in value than if it affected gold alone. Also if a Bimetallic system existed, no change at all would take place in the *relative* value of the two metals; and though changes in the actual value of the standard might be more frequent, the violence of the changes would certainly be less intense.

Let us now see exactly what changes could take place in the demand and supply of the precious metals:—

1. The demand for or supply of both the metals might increase in the same proportion.

The effect of this would be, under our present system, that there would be a proportionate alteration in the same direction in the value of each of the precious metals taken separately.

Under a Bimetallic system there would be the same alteration in the same direction of the two metals taken together.

Thus the effect under both systems would be the same.

2. The demand for or supply of one metal might increase, while that of the other might remain stationary.

In this case the value of the latter metal would not be affected under our present system, while that of the former would be affected to the full extent of the change in the supply or demand.

Under Bimetallism the relative value of the metals would not be affected at all, while the actual value of both the metals would be affected to a modified extent.

This result may be considered somewhat in favour of Bimetallism, for though under that system the changes in actual value would be more frequent, they would be less violent, and moreover there would be no change in the relative value of the two metals.

3. The demand for or supply of one metal might increase, and that of the other might diminish in the same proportion.

In this case, under our present system, the full effect of the increase would be felt by one metal, and the full effect of the decrease would be felt by

the other, and there would be a violent change in their relative value.

Under Bimetallism the effect would be absolutely *nil* both in the relative and actual value, for the increase and the decrease would counteract one another.

Thus in the first case that we have stated the stability under Bimetallism would be the same as under our present system.

In the second case Bimetallism would be superior at least so far, that it would produce greater stability in the exchanges.

In the third case the advantage is wholly on the side of Bimetallism.

In considering this question of stability of value for money or steadiness of prices under Bimetallism, it might naturally be asked—"What would the level of prices be under Bimetallism? or, in other words, would the adoption of Bimetallism have any effect on prices?"

The answer to this question must primarily depend upon the ratio that is adopted between gold

and silver. The arguments connected with this subject are very intricate, and I do not propose to discuss them here, but for my part I have little doubt that if a much higher valuation were placed on silver, than that which is now current, prices would rise to some extent in gold-using countries.

It seems hardly likely, however, that the prices of commodities would rise to any great extent even if silver were restored to its original gold value; for since 1873 population and trade have increased, and it is doubtful if the production of gold and silver combined has been sufficient to meet the increased demand so established, and thus to maintain prices.

It is, I think, also rightly supposed that the cause of the rise that has taken place in the value of gold is not only due to the increased demand for gold, but also to improved means of communication and improved methods of production of commodities.

It is difficult to see how a rise in the value of silver could diminish the effect of these improvements; it would appear, therefore, that if silver

were again valued at about 60d. an ounce, as in 1873, prices would only rise until they recovered such of their fall as was due to the greater demand for gold since 1873; and that prices would still feel the full effect of such improvements in production as have come into force since that date.*

Therefore it appears to me that those who believe that prices will rise under Bimetallism must admit that prices had previously fallen owing to the increased value of gold caused by the increased legislative demand.

If this be so, then it follows that just so far as debtors have been prejudiced by currency legislation since 1873, to that extent and no more will they be benefited by the adoption of Bimetallism, at the old ratio of $15\frac{1}{2}$ to 1; and to that extent it may be said that an act of justice would be done.

It does not of course follow that it would be advisable to adopt a ratio of $15\frac{1}{2}$ to 1, for many other things have to be considered in making a change of this description. For instance, it would be necessary to avoid any violent disturbance of existing conditions, although the disturbance would

be temporary, and although we are at present liable to continuous disturbances of this nature.* Then, again, we should have to adopt the ratio which was practically possible, rather than the ratio which was theoretically correct; for the really important thing is that we should settle on some ratio, while the question of what that ratio should be is comparatively of very small importance.

If the ratio were to be determined by the proportion that exists between the stocks of gold and silver money, it would be about $15\frac{1}{2}$ to 1; for the amount of gold in the world in use as currency is estimated at £880,000,000, and the amount of silver in use as currency is estimated at £870,000,000, taking the ratio at $15\frac{1}{2}$ to 1, or 60·84d. for an ounce of silver.

On the other hand the present market price of silver is represented by a ratio of about 34 to 1; and though this price is brought about by the pre-

* Of course no change can be made without injuring somebody, and we see this truth daily exemplified by the fluctuations in the relative value of silver and gold. "You can't make an omelette without breaking eggs," says the proverb; but you can break eggs without making omelettes, and that is what we have been doing for many years past.

sent diminution in the demand for silver, yet there is a great gap between 34 to 1 and $15\frac{1}{2}$ to 1, and a practical man would hesitate before attempting to span it.*

It is, however, useless to discuss this matter any further, for the particular ratio to be adopted depends entirely upon the ideas and opinions of the nations interested. The result of these opinions would probably be a compromise, and, whatever it was, England would do well to accept it.

* As a step towards spanning this gap, there is no reason why the present gold ten-shilling pieces (and similar coins in other nations) should not be gradually withdrawn, and notes based on silver substituted for them. By this means the Governments would make a large profit, and that which all parties desire would be accomplished—viz., the strain on gold would be reduced and the use of silver for internal purposes would be increased. In England alone £20,000,000 of gold could thus be set free and if the silver necessary to replace it could be purchased for 33d. an ounce, the Government would have found a use for £10,000,000 worth of silver and would make a gross profit of the other £10,000,000.

CHAPTER V.

STABILITY IN THE EXCHANGES BETWEEN GOLD AND SILVER USING COUNTRIES PRODUCED BY THE BIMETALLIC SYSTEM—EVILS OF INSTABILITY IN THE EXCHANGES.

WE have seen in the last chapter that Bimetallism must inevitably produce a greater steadiness in prices; but there is another most important object of Bimetallism—viz., steadiness in exchange between gold and silver using countries; for if under Bimetallism the relative value of silver and gold remained steady, the main cause of the fluctuations in the exchanges between gold-using countries and silver-using countries would be eliminated.

In order to make this matter clear, I must first try and explain the main features of exchange.

Questions of exchange are always supposed to be extremely difficult; and no doubt it is almost impossible to foretell the course of exchange, as there are so many different things that affect

it, but the machinery by which goods are exchanged between different countries is really perfectly simple.

It will probably make the matter clearer if we begin with an example of the exchange between two countries only which use the same standard, say France and England.

Now, we have seen that France is still to a certain extent Bimetallic, for her silver coins are full legal tender in the country to any amount; but as her mints are not open to silver, and as her silver coins are of much less value for export than they are in the country, we may look upon France for international purposes as a monometallic gold-using country like England.

In order to make the exchange question still clearer I will limit the transactions between France and England to the interchange of goods, and we will suppose that only two or three transactions take place at the same time; we will also leave out all questions of long-dated bills, and imagine that payments are made by short bills or cheques drawn on the person who receives the

goods. We will also neglect the existence of the agio, which is a small charge that the Bank of France occasionally makes for giving gold for export instead of silver.*

With these exceptions, which in no way affect the principle, I will proceed with my explanation.

Let us suppose that an English manufacturer sends to a French draper goods to the value of £100. If there were no other transactions between the two countries, the Frenchman would have to send to the Englishman the equivalent in gold of £100, which gold the Englishman would take to the mint and receive 100 sovereigns for it. Now the French gold would be in francs, or rather in 20-franc pieces, and as the exact value of the gold in a sovereign is the same as that in 25 francs 22 centimes, the Frenchman would have to send 2,522 francs in payment of his debt of £100. But this sending of gold would cost a little under a half per cent., or say about 11 centimes for every frs. 25·22 that he sent, so the total cost of sending the equi-

* Before 1873 both gold and silver were liable to this charge when required for export.

valent of each sovereign would be frs. 25·22 + ·11
= frs. 25·33.

Supposing therefore that gold was freely obtainable in France, it is clear that however much France owed to England it could never cost more than frs. 25·33 to send the equivalent of a sovereign to England.

On the other hand, supposing that this transaction had been in the contrary direction, and goods to the value of frs. 2,522 had been shipped to England, it would cost £100+9s. to remit the equivalent to France, from which it is clear that the extreme cost of sending the equivalent of frs. 25·22 to France would be £1. 0s. 1d., which is the same as saying that £1 would be required in England to pay frs. 25·11 in France, and it is in this way that the transaction is expressed, as it is convenient to have the exchange always quoted in the same form—viz., in francs.

We have therefore seen that the value of a sovereign is intrinsically frs. 25·22, and that, owing to the cost of remitting to France, a sovereign is only worth for that purpose frs. 25·11, whereas the cost

to a Frenchman of placing the equivalent of a sovereign in England is frs. 25·33; and, as will be now explained, it is between these two points, which are called respectively the outgoing and the ingoing specie points that exchange must always fluctuate.

We have now seen how much it costs to make remittances between England and France; now let us see how Bills of Exchange modify or remove the necessity for these remittances.

When the English manufacturer mentioned above sold to the French draper £100 worth of goods, he would not necessarily wait till the draper sent him the gold, but he would draw a cheque (or bill, as it is called) on the draper for frs. 2,522, and go on 'Change with a view to selling it and getting the money at once.

Now supposing that an English merchant had imported wine from France to the value of £100, he would also go on 'Change with a view to buying a bill to pay the wine grower; and supposing that there were no other transactions at the moment, the merchant would be very glad to give the

manufacturer £100 for his bill on the French draper for frs. 2,522 that he might send it to the French wine grower, and the manufacturer would be very glad to get £100 for his bill on the French draper; and in this case exchange would be said to be at par.

Of course there are in fact large numbers of people wanting to buy bills on France and large numbers also wanting to sell them, and the buyers compete with themselves and the sellers compete with themselves; the consequence is, that if there is a short supply of bills—that is to say, if England has not been exporting to France as much as France has been exporting to her, there is a greater demand for those bills; and consequently as the demand increases the value of the sovereign goes down as compared with those bills until it is only worth frs. 25·11.

But as we remember frs. 25·11 is the outgoing specie point below which the value cannot go, for below that point it would pay better to export the sovereign itself rather than to buy the bills.

When this state of things exists, the exchange

and the balance of trade are said to be in favour of France, as specie is being or is likely to be remitted; but when the balance of trade is in favour of England the converse happens; the supply of bills drawn on France for French purchases is greater than the demand for them, consequently the value of the bills goes down and the value of the sovereign goes up till, if the demand continues, it reaches the ingoing specie point of frs. 25·33, above which point it pays better to remit gold from France than to sell bills on France.

From this it follows that when the standard used by two countries is the same, and when the mints of both countries are open to the free coinage of the metal used as the standard, the exchange between those countries cannot fluctuate to a greater extent than is represented by double the cost of remitting the metal from one country to another.

Obviously this rule would apply whether the standard in use between two countries was gold or silver, and also if the standard was gold and silver.

But when the standard of one country is gold and the standard of another country is silver, it is

clear that any fluctuation in the relative value of gold and silver would cause the exchange between the two countries to fluctuate to a corresponding extent, in addition to the constant small fluctuations within the limits of the outgoing and ingoing specie points caused by the fluctuations in the balance of trade.

Thus, if we suppose* that with silver at 60d. an ounce a rupee is worth intrinsically one-tenth of a sovereign or 24d., this 24d. would be the par of exchange with India, and consequently the exchange could never vary from 24d. to a greater extent than the cost of remitting the metals between this country and India; but if silver dropped to 30d. an ounce, the par of exchange or the intrinsic value of the rupee would drop to 12d., because (excluding the cost of remitting) it would require just double the number of rupees to place the equivalent of a sovereign in England, and just half the number of sovereigns to place the equivalent of a certain number of rupees in India.

* At a ratio of $15\frac{1}{2}$ to 1, standard silver is worth 60·84d. an ounce, and the silver in the rupee is worth 22·61d.

From this it is clear that if the relative value of silver and gold is variable, there can be no fixed par of exchange between gold-using and silver-using countries, and consequently it is impossible to fix any limits within which exchange may fluctuate. If, however, a group of nations adopted Bimetallism, and if by that means the relative value of silver and gold were maintained, a fixed point would be established, round which exchange would fluctuate within the narrow limits of the cost of specie remittances.

For the sake of example I have treated India as a silver-using country with her mints open to silver, as was the case up to June, 1893, though since that date an attempt has been made to separate the value of the rupee from its intrinsic or metallic value by closing the mints. I have taken India as an example, rather than Mexico or any other silver-using country, because I imagine that my readers are more familiar with India and rupees than with Mexico and dollars, and also because the finances of India more nearly concern us than those of any other country.

The question that naturally arises is—What are the evils of a fluctuating exchange? This question will be partly answered in the next chapter, where the evils are explained of instability in the standard of value, so it is not necessary to refer to it here at any great length.

Perhaps the most obvious evil is that when the price of silver falls it becomes difficult for silver-using countries to arrange their taxation so as to pay their gold debts.

Leaving, therefore, on one side the mass of debts due in gold by individuals in India and other silver-using countries, and taking the gold obligations of the Indian Government as an example, we find that India owes to England an annual sum of about £17,000,000, payable in gold; with the rupee at 24d. this would represent an annual payment from India to England of 170,000,000 rupees, but with a rupee at 12d. this charge would be increased to 340,000,000 rupees.

“ True,” it may be said, “ this is no doubt inconvenient, but, as the value of the rupee is by the hypothesis exactly half what it was formerly,

it is just as easy for India to obtain two rupees now, as it was to obtain one rupee formerly. India does not really pay her debts in rupees but in commodities, and it does not really matter to her whether rupees go up or down."

An excellent argument if the facts were correct, but as a matter of fact the *value* of the rupee has hardly fallen at all as measured in commodities, though its gold price has fallen; so that, if that condition of things continued, India would have to sell just twice the amount of commodities to produce £1 when rupees were at 12d. that she would have to do when rupees were at 24d.

In concluding this discussion of the Indian aspect of the question I will quote the following opinion of the Monometallist Members of the Royal Commission of 1888 on the disadvantages of a fluctuating exchange:—

Part II., sec. 101.—"There cannot be two opinions as to the very serious effect which the continued fall in the gold price of silver has had on the finances of the Government of India."

Sec. 102.—"We are fully impressed with a sense of the difficulties which surround the Indian Government,

and of the serious questions to which any proposed additional tax must give rise. It is not only the embarrassment which has already been caused to the Government of India that has to be borne in mind, but the *impossibility of foreseeing to what extent those embarrassments may be increased and their difficulty augmented by a further depression in the value of silver.*"

When this report was issued the rupee was about 1s. 5d.; it is now (July, 1894) about 1s. 1d.

Then again fluctuations in exchange are a great hindrance to commerce, and introduce into it an additional element of risk. In the case of merchants who purchase goods in England and export them to India it is impossible to say what price the goods will fetch in gold if the gold value of the rupee is liable to change. It is true that the banks are usually willing to take the risk of exchange for a consideration, but the risk remains for somebody, and to judge from the position of the Eastern banks, this risk is considerable. If we look at industrial enterprises we shall find the same difficulty; for if the price of a certain article in India or Mexico is two rupees or one dollar (say the equivalent of four shillings), an Englishman might

calculate that he could produce this article for export to India or Mexico at a cost sufficient to leave a profit at that price. He would then erect machinery for the purpose and set to work; but if the gold value of the rupee and the dollar went down, and the price in India and Mexico still continued at two rupees and one dollar, he would cease to make the same profit.

If, on the other hand, he lent gold to some one in India to erect machinery in that country, the borrower would have great difficulty in repaying the money. For this reason, too, railway enterprise is checked and the development of India retarded; for as was so well said by *The Times*, 8th March, 1892: "The truth is that railway development on its final scale in India, like the development of every other branch of Indian enterprise, is now awaiting some settlement as to the future of the rupee. The currency difficulty underlies the whole situation."

CHAPTER VI.

THE EVILS OF INSTABILITY.

IN considering this question it cannot be too strongly stated that the level of prices is of no importance whatever, as industry and trade could be carried on equally well with high prices as with low prices; it is the *change* of levels that is harmful. It is rising prices and falling prices that are objectionable.

It is not, however, the rise in the level of prices that is affecting us at present, but the fall. We will therefore give a few examples of the evils of falling prices.

The main feature of falling prices is, that all those who have fixed charges to pay in gold have to provide more commodities in order to discharge their debts.

So far, however, as the fall in prices is due to improved methods of production, the debtor (speaking generally) is no worse off than before; for

though individuals have suffered, it must be true that on the whole the labour necessary to raise commodities has been lessened, and therefore to that extent it may be alleged that the debtor should be expected to provide more commodities than before to discharge his gold obligations; but so far as the fall in prices is due to the arbitrary action of Governments in increasing the demand for gold, to that extent the fall of prices is an injury to debtors.

I think that the effect on prices of improved methods of production and communication during the last twenty years has been greatly exaggerated; for it must be remembered that these methods improved, to at least as great an extent, during the previous twenty years (from 1853 to 1873) and yet during that period there was a continuous rise in prices. This rise was no doubt due to the increased supply of gold from California and Australia, and it seems reasonable to suppose that, when the supply decreased and the demand greatly increased, the converse effect should be produced and that prices should fall.

We will now proceed with our examples of those who suffer by falling prices. Land has to pay rates and taxes which certainly do not diminish in amount, and which increase in value as measured in commodities; it has wages to pay which diminish somewhat in amount, but increase in value to a greater extent; and it has often the interest on mortgages or other charges to pay which do not diminish in amount, and which do increase in value. On the other hand, it either receives rent which diminishes in amount, though it increases in value; or it receives produce, the amount of which is stationary while its value is diminished.

No doubt the value of agricultural implements has fallen also, and improved methods of production have been introduced, but, speaking generally, it may be said that the burden of the fixed charges on land remains the same, while the value of the produce has decreased.

Manufacturers suffer in almost precisely the same way, except that they have wages to pay which do not diminish even in amount, owing to the action of trades unions.

The effect of this increased demand for gold is not only disastrous to our own agriculturists, but it produces the same effect on all those who have payments to make in gold. We see, for instance, that distress exists in Germany, the Western States of America, and Australia, consequently in all these countries there is a strong party in favour of checking the appreciation of gold.

Perhaps the Australian banks afford the most striking example of this evil, as the late collapse of nearly every bank in Australia has given some prominence to the matter.

It is rarely accurate to point to any result and to say that it has been produced by one cause; so with the Australian banks it is easy to show that their system was unsound, that they borrowed money for short periods, and lent it for periods that might be, and were in fact, long ones. This, no doubt, was one of the immediate causes of the disaster, but the *causa causans* was the appreciation of gold.

The banks borrowed money and lent it out on

land when gold was cheap; they were suddenly asked to pay it back when gold was dear. They lent their money when wool and stock commanded prices which appeared to be a reasonable basis for such transactions; they had to ask for it back when wool and stock were extraordinarily low. The consequence was that those who borrowed from the banks could not repay them, and the banks could not repay those from whom they borrowed.

What is true of the Australian banks is also true of private individuals. Millions of money have been lent to Australia or invested in land; and this money is lost or endangered by the appreciation of gold.

A study of the Australian crisis helps us to grasp two important facts: the first is that the appreciation of gold is by no means always a benefit to a creditor; and the second is that in the main the evils from which we are suffering are not brought about by silver, but by gold.

There are, of course, some people who suffer simply from the fall in the gold value of silver;

such, for instance, are the Eastern banks, who have liabilities payable in gold, but whose advances are repayable in silver; but these form a small fraction of the commercial world. The cause of our present difficulty is the fall in the gold value of commodities, and that affects silver-using countries and gold-using countries alike. It is not therefore a rise in the value of silver that is required, but a fall in the value, or at least a cessation of the rise in the value, of gold.

If, for instance, we take individuals in silver-using countries like India or Mexico who owe debts in gold, or if we take individuals in gold-using countries like Australia and Portugal who are in the same case, we find that it is in commodities that they have all to pay their debts; and if these commodities fall in their gold value, more of them are required to discharge the gold debts.

Or if we take the silver-using nations of India and Mexico and the gold-using nations of Australia and Portugal, we find them all in precisely the same position; the debts that they owe to England are not paid in rupees, dollars, sovereigns, or mil-

reis, but are paid in commodities, and the amount of these necessary to discharge their gold debts is increasing year by year. It is true that the Governments of silver-using nations are worse off than those of gold-using nations in that they experience some difficulty in adjusting taxation to meet their gold liabilities, but this would only be a temporary fiscal difficulty if the gold value of commodities had not fallen.

From this it is clear that the question is not between individuals who use silver and individuals who use gold, but between debtors and creditors. It is not a question between silver-using nations and gold-using nations, but between debtor nations and creditor nations.

It is contended, however, that as England is a creditor nation, she has done well to encourage the appreciation of gold. But in so far as England is a creditor on account of her exports, she receives proportionately less gold as gold appreciates, so she certainly gains nothing there; and so far as other nations are her permanent debtors, she is already beginning to discover that it is one thing

to be owed money and another thing to receive it.* For if the value of the surplus commodities of debtor nations is insufficient to pay their debts in full, or even if they find that they have to pay back much more in commodities than they originally borrowed, they either repudiate their debts altogether, or else repudiate such a portion as will leave them a comfortable margin after paying the balance.

In most cases other causes have contributed to this result: it may often be truly alleged that folly, dishonesty, and extravagance have played their part, but underlying all these influences is that insidious factor—the appreciation of gold.

In lending gold and then endeavouring to raise its value, or at all events refusing her aid in checking its rise, England does not seem to be taking a particularly broad or statesmanlike view of the position; for not only does she run the risk of not being paid at all, but if she is paid, it is only by checking the development of her customers, and so reducing their power to buy her goods.

* England is indeed a creditor nation, but she will remain so if other nations cannot pay her their debts!

This of course is merely a matter of business, and if England thinks it wise that the resources of her debtors and customers should be strained to this extent, there is nothing immoral in the proceeding; and if the value of gold had fallen, in spite of the influence of England, she would have borne the loss. It does, however, undoubtedly place this nation in a somewhat invidious position, and it is not very easy to distinguish the action of England from that of the typical money-lender. In both cases assistance is offered to the necessitous, and every advantage is taken of the position to extract from them as much as possible in excess of the value they received.

It must be remembered too that gold is only a measure or register of the power to purchase commodities, and that England has in the main lent to her debtors commodities and not gold, for gold rarely passes to the debtor country when a loan is made unless it be for the restoration of the currency. What really takes place is that transfers are made to those who have already supplied the debtor country with engines, rails, rolling

stock, cotton goods, &c., the bulk of which has been bought in England.

Thus England has in the main only lent commodities, and the debtor has certainly only received commodities, and, but for the fact that the debt is registered in gold, the debt would be repaid in the same amount of commodities as was lent.

Of course the debts of nations cannot be paid in anything else but commodities; the point, however, is, that when gold has gone up 47 per cent. in value, the debt has to be repaid by 47 per cent. more commodities than were received; and as the value of gold is still increasing, it seems rather hard on the debtor if no attempt is made to restore the debt to something nearer its original amount in commodities, or, at all events, to check the continual increase in the burden of the debt.

However, as the necessitous person is a free agent and need not go to the money-lender, so also nations are generally free agents and need not borrow from England. But what are we to say of India, and England's action with regard to her?

England has conquered India and holds in complete subjection a population of 280 millions; that in itself is marvellous, but she has also to guard her possessions from a powerful and restless enemy who is almost on her frontiers.

How is this wonderful thing accomplished?

There are three factors that render it possible. The first is the military power of England, and this is probably the least powerful of the three factors; the second is the divided character of the subject races; and the third is the confidence of the natives in the honour and justice of England; and it is not too much to say that, if one of these factors were eliminated or even seriously weakened, England's Empire in India would ere long cease to exist.

If, therefore, it is possible to show that the action or inaction of England has given India any cause to doubt the justice of her rule, the British Empire is brought face to face with political danger of the gravest character.

First, let us again call to mind that it is not the fall in the gold value of the rupee, but the rise in

the purchasing power of gold, that is India's real difficulty. The rupee is merely part of the fiscal machinery by which the debts are collected; the fall in its gold value presents a difficulty indeed owing to the political condition of India, but a rise in the rupee would not in any way diminish the real burden of India's indebtedness, unless it were accompanied by a rise in commodities; for it is in commodities that India's debts have to be paid.

Secondly, we must remember that India is not a free agent; on no occasion has India been consulted as to the necessity of the works or measures that have been carried out, useful though they may have been; nor has she been consulted as to the form in which her debts should be incurred.

The facts are as follows:—England has ordered on account of India, engines, rails, and other commodities from English manufacturers, she has also expended on account of India a certain amount of rupees for native labour on public works; and these, and other benefits that India has received, have been registered as a debt due to England of £108,000,000 in gold.

England has also made contracts in the name of India with certain persons for management and other matters, and has made these contracts also payable in gold.

Under all these heads the annual gold liability that England has caused India to incur amounts at the present moment to about £17,000,000. It is difficult to estimate the exact average date on which these liabilities were incurred; but if we assume that since that average date a rise of only $33\frac{1}{3}$ per cent. has taken place in the value of gold, we find that from this cause the annual liability of India in England has been increased by an amount of commodities, equal, at the time when the debt was incurred, to £5,700,000 sterling, while in the same way the capital value of her debt has been increased by £36,000,000.

The debts that India has registered in rupees can be repaid now with more or less the same amount of commodities that she borrowed, for the rupee has been fairly stable in value; but the debts which she has registered in gold require at least $33\frac{1}{3}$ per cent. more commodities

to discharge them than were received to incur them.

To the extent therefore that more commodities are required to discharge these gold liabilities, England has committed an error in her administration of India ; but this is not all, for England, as I have endeavoured to show in Chapter I., has by precept and example been doing her utmost, though unconsciously, to aggravate the burden of the Indian debt, by increasing the value of gold as measured in commodities.

A study of the attitude of England at the various monetary conferences from 1867 to 1892 would convince the reader of the preponderating influence of England in currency matters, and would show in what direction that influence was used. It has, however, been said, that England has not to consider the effect of her advice and example on others. It is hardly to be supposed that such an argument would carry any weight, but such as it is, it does not at all events apply to the action of England in closing the mints of India to silver, with a view to introduce a gold standard into that country.

If this is successful, the effect must be a further demand for gold, and consequently a further increase in the load of India's gold indebtedness.

I do not for one moment suggest that the attitude of England in currency matters has been adopted deliberately with a view to carry out the policy of increasing the burden of her debtors. Such cunning is not only foreign to the English character, but altogether incompatible with the ignorance of currency matters which has characterised the majority of our statesmen, and those responsible at home for the government of India. But what I desire to emphasise is, that it is this short-sighted and immoral policy which is advocated by the exponents of the creditor country theory, when they urge England to continue with her eyes open the course that she has hitherto followed in ignorance.

For what is to be our answer to Indian agitators if they realise the situation and preach in the bazaars against the injustice of England? They have a good text at least for their sermon: the creditor country theory publicly advanced by

Englishmen ; the past action of England in conformity with that theory, culminating in the closing of the Indian mints ; the consequent lowering of the value of the native hoards of uncoined silver, and the attempt to raise the value of gold still further by the introduction of a gold standard ; and if additional proof were thought necessary to show that India is exploited by England without regard to the principles of justice, they would cite as an example the exclusion of Manchester goods from the new import duties.

The only answer that England can make to these charges is to plead her ignorance on matters of currency. But how far will that excuse be accepted ? How indeed could it ever be considered an excuse in the mouth of the greatest commercial and financial nation that the world has ever seen ? and how far is it even true, now that the attention of England has been at length successfully drawn to the subject.

Whatever may be the answers to these questions, it can hardly be denied that the Indian difficulty is a menace to the British Empire. Not only does

the expenditure of India considerably exceed her receipts, but her rulers are unable to frame a budget to show even an estimated equilibrium. This state of things cannot continue; and to avoid bankruptcy further measures will have to be taken, until India is forced to meet to the full the unjust burden of the rising value of gold. Already an attempt has been made to do this by artificially raising the gold value of the rupee; this, however, has not only failed in its object, but has checked the exports of India and reduced her power to pay, so that further taxation, in addition to what has been imposed, will have to be attempted.

Possibly the natives of India may not find out for some time that the manipulation of the rupee is simply an attempt to increase taxation, but when more direct taxes are introduced the Government will be face to face with disaffection and grave political danger, if indeed the measures that they have already adopted have not produced that effect.

The danger to India of allowing the currency question to drift is clear; but there is a danger at

home which, though less obvious, is almost as great.

The real value of the money paid as wages has been steadily rising in England during the last twenty years owing to the increased purchasing power of gold. The result of this on particular classes does not concern us, the principal effect having been merely a redistribution of wealth. But as Professor Foxwell has so well shown, there is a point when the rise in the real value of wages must cease; so that if the appreciation of gold continues, a time must come when the money value of wages will *have* to be reduced.

The history of late years has shown us that the most determined strikes are caused by attempts on the part of the masters to reduce wages, and not by attempts on the part of the men to raise them; and the position of employers of labour shows us that the necessity for this reduction is fast approaching.

It will hardly be possible to make the artisan classes realise the real effect of the appreciation of gold, and they will look alone to the money value

of their wages; their eyes will be closed to the rise in the purchasing power of money, and will be open only to the fall in the amount of money received, or the apparent value of their wages; so whenever a fall in the amount of money received as wages becomes necessary, we may expect a further series of determined strikes, constituting a grave political and commercial danger.

I will conclude this chapter with a somewhat striking illustration of the effect on debtors of the appreciation of gold. The English National Debt during the years 1865-69 stood at about £805,000,000; since that time £134,000,000 has been paid off, so that it only amounted in April, 1893, to £671,000,000; as, however, each sovereign in the present debt is worth in commodities $47\frac{1}{2}$ per cent. more than each sovereign was worth in the years of 1865-69, it follows, that if we measure our present debt in sovereigns taken at the value that they had in 1865-69, our present debt would be worth $£671,000,000 + 47\frac{1}{2}$ per cent. of £671,000,000, or £988,600,000. In other words,

though we appear to have reduced the value of our debt by £134,000,000 during the last twenty-five years, the burden of it, as measured in commodities, has been really increased by £183,000,000.

We fancy too that we are paying less interest now on the National Debt than we were in 1865-69, but as a matter of fact it required 35 per cent. more commodities to produce £2 $\frac{3}{4}$ in 1893 than it did to produce £3 in 1865-69, so that the interest on our debt as measured in commodities has increased 35 per cent.

It may be interesting to note that our National Debt was incurred before 1816, when England was on a Bimetallic basis, for though we have borrowed since that date, we have paid off more than we have borrowed.

CHAPTER VII.

WOULD BIMETALLISM MAINTAIN THE RELATIVE VALUE
OF GOLD AND SILVER?

We have now seen that the most essential characteristic of good money is steadiness of value, and that Bimetallism is superior to any other system in that respect.

We have also seen that if by the adoption of Bimetallism the relative value of silver and gold could be kept steady, the greatest element of instability in the exchange between gold and silver using countries would be removed.

The great question therefore is, *Would* Bimetallism keep the relative value of the two metals stable? and perhaps the best answer is, that it *did*.

From 1803 to 1873 Bimetallism was in full force in France, and during the latter part of that period France was joined by Italy, Switzerland, Belgium,

and Greece, and formed what is called the Latin Union. During this period there were enormous fluctuations in the rate of production of both the precious metals, but in spite of this their relative value remained practically unaltered for the whole of those seventy years.

For instance, in the first twenty years of this century the production of silver was in weight about fifty times as great as the production of gold, so that if the value depended on production alone, silver should have been worth about $18\frac{1}{2}$ d. an ounce instead of 60·84d. an ounce, which was the equivalent of the legal ratio—yet the value never varied. Later in the century, from 1852 to 1862, the production of silver was in weight only about $4\frac{1}{2}$ times as great as that of gold; and therefore silver should have been worth about 207d. an ounce instead of 60·84d. an ounce—yet the value never varied.

Or if we compare the value of the production of silver and gold during the period from 1852 to 1871 inclusive, we find that the production of gold was £311,500,000 in *excess* of that of silver (or an

excess of production of gold of £15,500,000 a year), and yet the relative value of silver and gold never varied. This is the more remarkable because the stock of gold and silver in the world was much less than it is now, and therefore it might be supposed that the effect would have been very great.

In 1873 France began to restrict the hitherto free coinage of silver, and from that moment the values of silver and of gold began to diverge; this divergence has continued to increase during the last twenty years, until silver has at last fallen to about 28d. an ounce.

This fall cannot have been caused alone by any alteration in the relative production of silver and gold, for during the twenty years from 1873 onwards the production of silver has been in weight only about $18\frac{1}{2}$ * times as great as that of gold; whereas before 1873 the production of silver was fifty times as great as that of gold, without producing any effect. Or if we take the year 1892, when the largest production of silver took place—

* Calculated from the figures of Dr. Sootbeer and the United States Official Report.

viz., 152,000,000 ounces—we find that, at the average price of the year—viz., about 40d. an ounce—the value of the production of silver was about £25,300,000, or rather less than the production of gold, and yet since 1892 silver has fallen about 12d. an ounce.

We must remember also that the excess production of gold in the twenty years before 1873 was £311,500,000; therefore, to restore the conditions existing before that period, we ought to have had an excess production of silver of £311,500,000 in the twenty years from 1873 onwards. But as a matter of fact we have had an increase of only *£41,000,000, even taking the value of silver at 60·84d. an ounce.

In conclusion, we have seen that *before* 1873 there were vast changes in the relative production of the two metals, but that their relative value remained stable; whereas *after* 1873 the changes in the relative production of the two metals were comparatively unimportant, and yet the value of

* Calculated from the figures of Dr. Sootbeer and the United States official report.

gold as measured in silver rose more than 100 per cent.

It seems therefore not unreasonable to suppose that some disturbance occurred in 1873 to cause this great change, and that if this disturbing cause were removed we should again find that the relative value of silver and gold would remain stable. Now the only monetary change that took place in 1873 was the suspension of the unrestricted coinage of silver in the Bimetallic countries; but as some people assert that the extraordinary stability of the ratio before 1873 was not due to the existence of Bimetallism, but to "other causes" (not specified), it may be as well to quote the *unanimous* opinion on this point of the Members of the Royal Commission of 1888 on Gold and Silver, Part I. :—

Sec. 189. — "Looking, then, to the vast changes which occurred prior to 1873 in the relative production of the two metals without any corresponding disturbance in their market value, it appears to us difficult to resist the conclusion that some influence was then at work tending to steady the price of silver, and to keep the ratio which it bore to gold approximately stable."

Sec. 190. — "Prior to 1873 the fluctuations in the

price of silver were gradual in their character, and ranged within very narrow limits. The maximum variation in 1872 was $\frac{5}{8}$ d., and the average not quite $\frac{5}{16}$ d., while in 1886 the maximum was $2\frac{9}{16}$ d., and the average nearly $1\frac{1}{8}$ d. It has not been, and indeed hardly could be, suggested that this difference can be accounted for by changes in the relative production or actual use of the two metals."

Sec. 192.—"Now, undoubtedly the date which forms the dividing line between an epoch of approximate fixity in the relative value of gold and silver and one of marked instability is the year when the Bimetallic system which had previously been in force in the Latin Union ceased to be in full operation; and we are irresistibly led to the conclusion that the operation of that system, established as it was in countries the population and commerce of which were considerable, exerted a material influence upon the relative value of the two metals.

"So long as that system was in force we think that, notwithstanding the changes in the production and use of the precious metals, it kept the market price of silver approximately steady at the ratio fixed by law between them, namely $15\frac{1}{2}$ to 1."

Sec. 193.—"Nor does it appear to us *a priori* unreasonable to suppose that the existence in the Latin Union of a Bimetallic system with a ratio of $15\frac{1}{2}$ to 1 fixed between the two metals should have been capable of keeping the market price of silver steady at approximately that ratio.

"The view that it could only affect the market price to the extent to which there was a demand for it for

currency purposes in the Latin Union, or to which it was actually taken to the mints of those countries is, we think, fallacious.

“The fact that the owner of silver could, in the last resort, take it to those mints and have it converted into coin which would purchase commodities at the ratio of $15\frac{1}{2}$ of silver to one of gold, would, in our opinion, be likely to affect the price of silver in the market generally, whoever the purchaser and for whatever country it was destined. It would enable the seller to stand out for a price approximating to the legal ratio, and would tend to keep the market steady at about that point.”

The above opinion as to the past was unanimous, and ten out of the twelve members of the Commission gave the following unqualified opinion as to the future:—

Sec. 107.—“We think that in any conditions fairly to be contemplated in the future, so far as we can forecast them from the experience of the past, a stable ratio might be maintained if the nations* we have alluded to were to accept and strictly adhere to Bimetallism, at the suggested ratio. We think that if in all these countries gold and silver could be freely coined, and thus become exchangeable against commodities at the fixed ratio, the market value of silver as measured by

* United Kingdom, Germany, the United States, and the Latin Union.

gold would conform to that ratio, and not vary to any material extent."

The remaining two Commissioners also signed this report, but they doubted if the ratio could be *permanently* maintained. They did not give an opinion as to length of time during which the ratio could be maintained; we may presume, however, that as they admitted that in spite of vast changes in the production, France and the Latin Union kept the market price of silver steady for seventy years, they would admit that the whole commercial world, *plus* the Latin Union, would be also able to maintain the ratio for seventy years.

We need hardly try to look into the future for more than seventy years, but if we do, and suppose that at the end of that time the ratio would be either altered or would cease to exist, the world would at all events have had seventy years of comparative stability, and at the end of the time they would be in no worse a position than they are at present.

After the decisive verdict of the Royal Commission it became impossible for any one who had

impartially studied the subject to deny that it would be possible for Bimetallism to maintain the ratio under normal conditions. It therefore became necessary for monometallists to base their objections upon circumstances of which we had no previous experience.

These may be stated as follows :—

1. That if the gold price of silver were raised, the increase in price would cause an enormous increase in production.

2. That the production of silver would be so great that the ratio could not be maintained and all the gold would leave the Bimetallic nations.

Let us examine the first objection. There can be, of course, no doubt that if the gold price of silver were raised, its value in commodities would be raised also to some extent, and therefore a certain impulse would be given to silver mining. There can be no doubt also that even if its value in commodities were not raised, the rise in its gold price would give a temporary impulse to such mining as is carried on with gold capital. There are a certain number of mines in the world con-

taining ores of such low grade that at present they would not pay to work. If the value of silver increased, silver would be extracted from some of these; but the bulk of the silver in the world has always come either from mines like the Broken Hills, the Huanchaca, or the Comstock Mines, which have paid to work at very low prices, or else from other ores from which silver is extracted as a by-product. It may in fact be said that the production of silver depends upon the discovery of the metal rather than upon its value, at all events when the value is as high as 40d. an ounce.

If, however, it be true that a rise in the price of silver would enormously increase its production, we might reasonably expect that a fall in the price of silver would produce a diminution in production. The average price of silver for the year 1873* was 59¼d., and the production was 63,000,000 ounces, so according to this theory we ought to have seen a steady diminution in the production; for the price of silver fell until 1892, when it reached an average for the year of under 40d. an ounce. The

* Before 1873, the production was only from 30,000,000 to 40,000,000, although the price was about 60d. an ounce!

fact, however, is that the production of silver steadily increased during that period, and in 1892 it reached 152,000,000 ounces; this was the largest annual production of silver that had ever been seen, and was accompanied by the lowest price that had ever been reached. The figures for 1893 are not yet published, but it is believed that the production was nearly as great as in 1892, though the price of silver had fallen heavily.

Let us now admit, for the sake of argument, that the production of silver would be enormously increased by a rise in the price, and let us consider Objection 2—viz., That the production of silver would be so great that the ratio could not be maintained, and all the gold would leave the Bimetallic nations.

The first question that naturally arises is, Whither would the gold go? The answer now given is that it would go into the arts, and go out of circulation altogether. We may take for granted that if the demand for gold ceased for currency purposes, it would go into the arts; but let us try and see how we could do without it as currency.

At present it is estimated that £880,000,000 is used as money, and as the production of gold was at least £28,000,000 last year, and is apparently rapidly increasing, there will be a very large number of gold ornaments about before this scheme is carried out.

I do not know whether there is any unanimity, among monometallists as to the time necessary for this transformation to take place, but I see that one well-known writer places it at forty years; if, then, we take that figure, we find that the arts will have to take £880,000,000 + forty years production of gold, say £1,120,000,000 (*plus* any increase that there may be on the present production of gold), or say in all at least £2,000,000,000.

I suppose the arts will also take their usual annual proportion of silver, and that the rest of the world will take theirs also; so that the production of silver will have, indeed, to be enormous before the increase would be sufficient to replace both the gold already in circulation, and the future production.

Let us, however, suppose for the sake of argu-

ment that such a thing did happen ; how should we suffer? For when the arts had taken the £2,000,000,000 in gold, the whole world would have but one standard ; and as by the hypothesis the production of silver would be nearly twice as great as the present production of both gold and silver together, it may be supposed that this would be sufficient to meet the wants of increased trade and population ; so if this monometallist forecast is true, the world would pass through the stable system of Bimetallism to find itself with that other great desideratum—a simple and universal standard, of an amount sufficient for its needs.

The supposed reason for gold going out of circulation is that silver would fall in value as measured in gold. But both theory and history show that Bimetallism would maintain the ratio ; and even if this were not the case, it would seem hard to believe that if the whole demand of the world for currency were thrown upon silver, and if the whole of the gold used as money were thrown on the market, that gold would go up in value and that silver would go down.

But if it be true that gold would go out of circulation if silver were produced in large quantities, why did not silver go out of circulation when gold was produced in large quantities? We know in fact that the contrary takes place, and when gold or silver is abundant, more is used in the arts, and not less.

What would really happen under Bimetallism if silver were produced in very large quantities would be that prices all over the world would rise, just as prices rose before 1873 when gold was produced in very large quantities in California and Australia; whereas, under our present system, an excessive supply of either metal would be distributed over those countries only which used that metal, and would thus produce a greater effect in those countries.

In the same way, if Bimetallism were adopted by the present gold-using nations, as is now proposed, we should find that if there were any difficulty in maintaining the ratio, it would be more likely to be in the direction of keeping up the value of gold than in keeping up the value of silver, for silver could be absorbed by the whole world,

whereas gold could only be absorbed by the Bimetallic nations.

But the power of the Bimetallic nations alone would be so great that there need be no fear that gold would fall in value as compared with silver ; for it must be remembered that all the wealth of the Bimetallic nations and all their exports would be exchangeable against either gold or silver at the legislative ratio. To give an idea of the enormous influence that this would have, I may mention that the wealth of England was estimated by Dr. Giffen* in 1885 at £10,000,000,000, and that the official estimate of the wealth of the United States in 1880 was £8,728,000,000, while an average of the various estimates of the wealth of France in 1885 gives a result of about £8,500,000,000. If to these figures we add the wealth of Germany, Italy, Switzerland, and Belgium, and any other nations that might join the Bimetallic Union, we could not estimate the wealth of the group at the present time at much less than £50,000,000,000.

* See Dr. Giffen's "Growth of Capital."

Or if we look only at the exports of these countries, we should find an enormous annual amount of commodities saleable indifferently for either gold or silver, the annual exports of England alone amounting to about £300,000,000.

It must not be forgotten either that unless artificial restrictions exist on the export of the precious metals, they cannot accumulate in any one country, but must find their own level over all the countries where they are used; for if gold is produced in large quantities and is shipped to England, it can only be shipped for the payment of goods; thus a shipment of gold connotes a sale of goods by England. The gold, however, does not remain in England, but is shipped by her to other countries to pay for goods. The effect, then, of a heavy production of gold on England at the present time would be sales of English commodities, which sales would probably leave a profit; and if the production of gold increased, the demand for English commodities would increase. This is exactly what happened from 1852 to 1871, when, to use Mr. Gladstone's

description, "the prosperity of England advanced by leaps and bounds."

Under Bimetallism the same thing would happen whether the large production was of gold or of silver. It is, however, not probable that the increase in the production of either metal would equal the increase in the production of gold in the fifties and sixties, nor if it did would it be possible that the effect could be so great now, when the stock of gold and silver in the world has so much increased; but what we might reasonably anticipate would be that the production of either silver or gold would increase sufficiently to check the present increase in the value of our money, and to give an approximate stability to finance and commerce by meeting the demand of increasing trade and population.

It has often been alleged that the Bimetallic system is artificial, and that it is impossible to maintain an artificial value between gold and silver by fixing the price of these commodities as

measured by one another. But, in the first place, as we have seen, it is not quite accurate to say that the price of these commodities is fixed by law; it is the demand for these commodities that is regulated by the law, by conferring a demand on both metals at a certain proportionate value, and the demand thus created being practically unlimited, exercises a controlling influence upon the market price; and why is it more artificial to give a value to both silver and gold, by regulating the demand for them both, than it is to give a value to gold by creating for it an exclusive demand? Monometalists speak as if by the working of some great natural law gold was adopted in 1816 as the standard currency of this country. No doubt gold and silver are the most serviceable substances for currency purposes, and therefore in one sense the natural ones to employ; but surely it is true that the action of nations in choosing gold rather than silver, or silver rather than gold, is perfectly arbitrary; and therefore that the *relative* value of the two metals, as caused by the relative demand for them, is not natural but artificial.

By a willingness to abandon this artificial preference and to employ either metal according as it was most convenient, or most available, nations have in times past maintained a fixed ratio between the precious metals, and "what man has done, man can do again."
