

# THE PAPER POUND of 1797-1821

A REPRINT OF  
THE BULLION REPORT

WITH AN INTRODUCTION BY  
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## INTRODUCTION

### § I. WAR—CRISIS—SUSPENSION OF PAYMENT

WHEN war broke out with France in February, 1793, the pound sterling, which with its subdivisions, the shilling and the penny, formed the “*£ s. d.*” in which all English money accounts and contracts were expressed, was (as it was again from 1821 to 1914) interchangeable with 123½ grains or nearly 8 grammes of 22 carat (i.e. eleven-twelfths fine) gold. Owing to variations in the rating of the gold and silver coins which took place long before, there was indeed no gold coin representing *£1*, but the gold coins called guineas (because the gold from which the first issue of them was made came from the Guinea Coast) passed for twenty-one twentieths of *£1*, half-guineas for twenty-one fortieths, and seven-shilling pieces for seven twentieths, and these gold coins were all legal tender to any amount at those rates. One troy pound of 22 carat gold was coined into 44½ guineas, and anyone who had gold could demand that the Mint should coin it for him at that rate, but in practice he found it better to accept the slightly lower price, *£46 10s.* the pound or *£3 17s. 6d.* the ounce, given on the spot by the Bullion Office of the Bank of England. Gold was thus freely “convertible” into coin, and though the law forbade exportation of coin and of bullion produced by melting it, this seems in practice to have had so small an effect that the coin was in fact readily convertible into gold for mintage in foreign countries and for industrial uses both at home and

abroad, whenever any appreciable profit presented itself.

Silver coins were legal tender by tale for amounts under £25; but above that sum they were only legal tender by weight, at the coinage rate of 5s. 2d. an ounce, and there was no possible inducement to anyone to tender them at that rate, as they were commonly very much worn, and consequently anyone paying them away at 5s. 2d. to the ounce would have lost heavily as compared with passing them in small amounts at their nominal value.

There was no legal-tender paper. Bank of England notes, promising to pay the bearer on demand £10, £20, and a few larger sums, circulated freely in London and the immediate neighbourhood. Outside that area there were in circulation similar notes for sums of £5 and upwards, issued by over two hundred banks with less than six partners, called the "country banks" because the London private banks had long ago abandoned the business of issuing notes. The country banks did not go below £5, because the law had forbidden smaller notes since 1777; the Bank of England's abstention from issuing £5 notes (maintained by it till soon after the beginning of the war) seems to have been due to mere conservatism—it had only begun to issue £10 notes in 1759. The whole amount of Bank of England notes in circulation was about 12 millions: the amount of country notes is unknown, but later statistics suggest that it may have been not far off the same figure. The amount of gold coin in the country is supposed to have been from 20 to 30 millions, but it must be remembered that a far larger proportion than in modern times would be locked away in hoards only coming into circulation at long intervals.

The business of banking was still very imperfectly understood. Failures of country banks were frequent, and the Bank of England often had moments

of anxiety caused by these failures and by its own inability to resist the prevalent feeling of the public by being cautious in lending in times of speculation and liberal during depressions and alarms. It was apt to change its policy too late, so that it continued liberal advances when drawing in was required, and began to draw in when it was no longer desirable to do so, with the natural result of disaster accompanied by confusing recriminations about the comparative advantages of the "restrictive" and the "expansive" policies, both of which were right if only adopted at the proper time. Moreover, the legal prohibition of all interest above 5 per cent often stood in the way of effective restriction.

The near approach of the war in the winter of 1792-3 caused or coincided with considerable trouble among the country banks, which spread to London, and was only prevented from causing complete disaster by the Government undertaking to lend five millions of Exchequer bills to merchants in difficulties. This offer restored confidence, and bills for only £2,200,000 were actually issued.

Nearly two years of the war passed away without much financial difficulty, but towards the end of 1794 the Bank directors began to complain of Pitt's excessive demands for accommodation. The public expenditure had at first risen but slowly, as may be seen in Table I. on p. xliii. below. Including the expenditure of Ireland, it had been under 17½ millions in 1792, and it was only 24½ millions in 1793 and 29½ in 1794. But the revenue had scarcely increased at all; it was 19½ millions in 1792 and only 20½ in 1794. In a country with an aggregate income of between 200 and 300 millions mostly belonging to a poor population, even the nine millions borrowed in some way or other by the Government in 1794 must have been a large sum in proportion to the usual annual savings of the people. In 1795 and 1796, however, the public expenditure shot up to

51½ and 57½ millions, while the revenue was only 20 and 21½ millions. It is utterly impossible to believe either that the aggregate produce of the nation's labour had risen so that this enormous increase of government expenditure could be met without any reduction of individual consumption and investment, or that the consumption and investment by individuals had been cut down as much as the Government expenditure rose, and it is wholly improbable that increase of production and reduction of private consumption and investment would together anything like counterbalance the increase of Government expenditure. Doubtless what has constantly happened in great wars was happening in this country in 1795-6: the Government and people together were spending much more money than they could go on spending without either a sharp monetary crisis leading to a reduction of the aggregate money expenditure or a dilution of the currency which enables the large money expenditure to go on by providing a larger nominal amount of money to be expended in the purchase of the same amount of goods and services—at higher prices. In a country of compromise it was to be expected that both of these alternatives would be embraced.

At the end of February, 1794, as is shown in Table II. on p. xlv. below, the Bank of England held almost 7 millions of coin and bullion while its liabilities were less than 18½ millions (of which 10½ were notes in circulation). Next year the position was only a little less favourable, but in 1796 the coin and bullion had shrunk to 2½ millions while the liabilities had only gone down to 16½ millions. On August 31 the coin and bullion had gone down another £400,000, while the liabilities were still almost 16 millions. By what particular incidents the crisis was finally precipitated is of little importance. It arrived at the end of February, 1797. The coin and bullion in the Bank was reduced to so small an

amount and the drain was continuing at such a rate that the directors informed Pitt that the situation was desperate. In similar circumstances a modern government would declare a bank holiday of three days, and spend the interval in printing and securing authorisation for legal tender government notes, which it would then lend to the Bank to be paid out instead of coin. Pitt adopted a less simple but equally effective plan. First thing on Sunday morning, February 26, he secured the attendance of the King, the Lord Chancellor, the Lord President, the Duke of Portland, Marquis Cornwallis, Earl Spencer, the Earl of Liverpool, Lord Grenville and himself at a Council which passed and communicated at once to the Bank a resolution which declared "the unanimous opinion of the Board that it is indispensably necessary for the public service that the Directors of the Bank of England should forbear issuing any cash in payment until the sense of Parliament can be taken on that subject and the proper measures adopted thereupon for maintaining the means of circulation and supporting the public and commercial credit of the kingdom at this important conjuncture," and "required" the directors "on the grounds of the exigency of the case to conform thereto until the sense of Parliament can be taken as aforesaid."

Opening as usual on Monday morning, the Bank prudently made no attempt to explain why the order was issued, but exhibited it along with the following notice:

"The Governor, Deputy-Governor, and Directors of the Bank of England think it their duty to inform the proprietors of Bank Stock as well as the Public at large that the general concerns of the Bank are in the most affluent and prosperous situation, and such as to preclude every doubt as to the security of its notes. The Directors mean to continue their usual discounts for the accommodation of the commercial interest,



paying the amount in bank-notes, and the dividend warrants will be paid in the same manner."

At noon a great meeting of merchants and bankers was held which passed a resolution undertaking to accept bank-notes, and eventually 4,000 signatures were attached to this.

On the same day the King thought it "proper to communicate to the House of Commons without delay the measure adopted to obviate the effects which might be occasioned by the unusual demand of specie lately made from different parts of the country on the metropolis." His Majesty did not apparently think it proper to refer in any way to the difficulties caused by his Minister's demands on the Bank, nor did Pitt himself when he proceeded to present the Minute of Council recording Sunday's resolution and to move for a committee to inquire into the outstanding engagements of the Bank. He said he would propose that the liabilities of the Bank should be secured by the State (an intention never carried out), and that its notes should be accepted in all payments due to it. In answer to questions he declined to say whether he favoured making the notes legal tender or not, and said he would bring in a Bill to allow the issue (by all banks) of notes for sums less than £5. Fox and other speakers expressed the utmost consternation, and prophesied that the notes would go the way of assignats. Next day in the House of Lords the Government announced that they had decided against making the notes legal tender. Lansdowne gloomily asseverated, "A fever is as much a fever in London as in Paris or Amsterdam . . . the fall will be slow perhaps, and gradual for a time ; but it will be certain."

The Order in Council was confirmed by the Act 37 Geo. III. c. 45, called the "Bank Restriction Act," passed on May 3. How temporary the emergency was supposed to be is shown by the fact that

this act was only to continue till June 24: in fact it was kept in force by continuing acts for nearly quarter of a century.

An Act (37 Geo. III. c. 32) had been passed three days earlier to suspend the prohibition embodied in the Act of 1777 and thus allow the issue of bank-notes for sums under £5 down to but not below £1. Nothing in the legislation made bank notes legal tender, nor was there any provision for country and Scotch banks. From the time when the news of the Order in Council reached them, these banks had apparently acted as if the Restriction required them as well as the Bank of England to refrain from cash payments. But they did not claim to be able to insist on paying out nothing except their own notes, like the Bank of England. They had always been ready to give Bank of England notes or drafts on London in exchange for their own notes, and continued to be so. Consequently though their notes were not convertible into coin, they were always convertible into Bank of England notes, and thus each bank remained subject to the ordinary limitations. It was the Bank of England alone which was relieved from all fear of being asked to give other money for its notes.

Gold coin was soon little seen, much of it being exported and most of the rest put away in hoards. Silver, required for all payments under £1 in the absence of half-guineas and seven-shilling pieces, was very scarce, and the want of national coins was to some extent relieved by the stamping of foreign dollars with the King's head and by the Bank issuing silver tokens for 5s.: why these should have been issued by the Bank as tokens instead of by the Mint as coins does not appear.

The currency situation thus created differed from that which prevailed after August 1914 in several ways. In the earlier period there was no legal tender paper, while in the latter both Treasury

notes and Bank of England notes were legal tender to any amount. On the other hand, in the earlier period Bank of England notes were inconvertible, whereas, in the later, Bank of England notes were convertible into Treasury notes and Treasury notes could be converted into gold coin by any one who had the temerity to demand it at the Bank, running the risk of being suspected of an intention of breaking the law which prohibited melting the coin of the realm. But neither of these differences are important. Under the Restriction Act of 1797 the Government was bound to accept and pay Bank of England notes as equivalent to the pounds sterling which the Bank still promised on the face of the note to pay. The ordinary law-abiding private individual, whatever the comparative value of note and bullion, could gain nothing by refusing notes and insisting on guineas, because he was unable to smuggle them abroad or to melt them down and swear that the bullion was not produced from coin of the realm. Such guineas as remained in circulation or were brought from hoards from time to time could only be passed in respectable circles for a pound and a shilling, and no one seems to have thought of treating a guinea as 21s., and a pound-note as, say, only 19s. The £1 of the note issue became the standard £1 in 1797 just as later in 1914. The convertibility of Treasury notes into sovereigns which continued all through the war of 1914-18 made no real difference, since transport difficulties prevented the exportation of sovereigns and the law forbade their conversion to ornamental or industrial uses. When transport difficulties ceased to operate, a prohibition of export was promptly issued. As sovereigns could only be used for currency, for which purpose £1 notes were just as good, there was no inducement to ask for them in place of notes.

It must not be supposed that the transition of 1797 from a metallic to a paper standard was effected

with a total absence of disturbance and confusion. *The Memoirs of a Banking House*, by a Scotch banker, Sir William Forbes, published long after the need for professing a confidence which was not felt had passed away, provide a useful supplement to the dry bones of official notices and brief newspaper reports of meetings. Sir William says that a meeting called by the Lord-Lieutenant of Midlothian to concert measures for the defence of the country in case of invasion and reported in the Edinburgh newspapers of Feb 18, caused a panic among the farmers and lower classes of country people.

"On Monday the 20th," he continues (p. 82), "they came to our counting-house in considerable numbers, evidently under the impression of terror, calling for payment of their notes that had been lodged at interest. This lasted the whole of that week and the two first days of the following. Nor was it confined to us alone, for the public banks experienced it in a still greater degree, and we were beginning to think there was to be a similar, perhaps a still severer, demand on us than what had taken place in 1793; when, early in the morning of Wednesday, the 1st March, an express arrived from London to the directors of the Bank of Scotland from Thomas Coutts & Co., their correspondents there, informing them that the demand for gold on the Bank of England had risen to such an alarming height that the Directors had thought it proper to state the circumstance to the Chancellor of the Exchequer, who immediately procured an order of the Privy Council to be issued, prohibiting that bank from making any more issues of specie in exchange for their notes. Mr. Mansfield, who was a director of the Bank of Scotland, informed our Mr. Anderson of this interesting event, and he immediately brought the intelligence to me, a little before the usual hour of commencing business. My ideas, at various times during the course of the war, had been often not a little gloomy when I thought of the state of things in the kingdom, and indeed in Europe; but now it was that I certainly did think the nation was ruined beyond redemption, when so novel and alarming a circumstance had taken place at the Bank of England, which had ever been considered as the bulwark of public and private credit. Mr. Hay, Mr. Anderson, my son and I all repaired as fast as possible to the counting-house, which at ten o'clock was crowded as usual with people demanding gold. We were soon joined by Mr. Simpson, cashier, and Mr. James, deputy-governor of

the Royal Bank, and by Mr. Fraser, the treasurer of the Bank of Scotland, and we sent for Mr. Hog, manager of the British Linen Company, for all ceremony or etiquette of public or private banks was now out of the question, when it had become necessary to think of what was to be done for our joint preservation on such an emergency. Thence we repaired to the Bank of Scotland, where their directors were assembled, and after some time spent in consultation with them, it was agreed that there was no choice left but to follow the Bank of England, and suspend all further payments in specie. The Lord Provost instantly gave orders for calling a meeting of the principal inhabitants that day at two o'clock, which was very numerously attended, considering the shortness of the notice. . . . After stating the order of Council for suspending the payments in specie by the Bank of England, and the similar resolution taken by the banks of Edinburgh, a resolution was instantly and unanimously entered into by those present to give every countenance and support to the Edinburgh banks—including our firm—by receiving their notes in payment with the same readiness as heretofore, and a handbill was instantly circulated over Edinburgh, and inserted in all the newspapers. Expresses were likewise despatched to Glasgow, Greenock, Paisley, Ayr, Perth, Dundee and Aberdeen—at all which places there were banks—to inform them of what was passing. The instant this resolution of paying no more specie was known in the street, a scene of confusion and uproar took place of which it is utterly impossible for those who did not witness it to form an idea.

“Our counting-house, and indeed the offices of all the banks, were instantly crowded to the door with people clamorously demanding payment in gold of their interest-receipts, and vociferating for silver in change of our circulating paper. It was in vain that we urged the order of Council—which, however, applied, merely to the Bank of England—and the general resolution adopted by all other banks in Edinburgh. They were deaf to every argument and although no symptom, nor indeed threatening of violence appeared, their noise, and the bustle they made, was intolerable; which may be readily believed, when it is considered that they were mostly of the lowest and most ignorant classes, such as fish-women, carmen, street porters and butcher's men, all bawling out at once for change, and jostling one another in their endeavours who should get nearest to the table, behind which were cashiers and ourselves endeavouring to pacify them as well as we could.

“Of our interest-receipts we were prompt in payment; but instead of giving our own circulating notes, as heretofore, we paid the value in notes of the public banks . . . the sums had been

deposited with us not in specie, but in such notes as we now gave back to the holders. With regard to our circulating notes . . . we felt the hardship on the holders, who were deprived of the means of purchasing with ready money the necessaries of life, as there were no notes of less value than twenty shillings and it was with the utmost difficulty they could get change anywhere else; for the instant it was known that payments in specie were suspended, not a person would part with a single shilling that they could keep, and the consequence was that both gold and silver specie was hoarded up and instantly disappeared. . . . Saturday was the day on which we had the severest outcry to encounter . . . many master-tradesmen requested in the most earnest manner to have a little silver for enabling them to pay their workpeople. All we could do when sensible that their demand proceeded from *real* necessity, was privately to change a note or two by taking them into a separate room, for we durst not do it openly in the counting-house for fear of raising a riot. "It was a matter of agreeable surprise to see in how short a time after the suspension of paying in specie, the run on us ceased. . . . It was remarkable, also after the first surprise and alarm was over, how quietly the country submitted, as they still do, to transact all business by means of bank notes for which the issuers give no specie as formerly. The wonder was the greater because the act of the Privy Council first, and afterwards the act of Parliament, applied merely, as I have already said, to the Bank of England, while all other banks, both in England and Scotland were left to carry on their business without any protection from Parliament."

Forbes adds in a footnote that no attempt had till then (he was writing in 1803) been made to force any Scotch bank to pay in specie; nor to his knowledge had any similar attempt been made in England, except against Oakes & Son of Bury St. Edmunds by a Mr. Grigby, whose conduct was severely reprobated by Mr. Baron Hotham, who tried and apparently managed to shelve the case.

## § 2. INCONVERTIBLE PAPER

The crisis, with its excitement and alarm, eased the situation. Private expenditure, both for consumption and investment, was doubtless checked by the general consternation, and the Government now

began to check it further by imposing additional taxation, which made it more difficult for the individual both to buy what he wanted and to save money out of his income. Even public expenditure was checked to some extent ; in the next four years it was rather less than in 1796, and then only rose slowly, so that in 1810 it was but 76½ millions, while the revenue had risen to 67. The rake had suspended his progress, and there was no need of a depreciation of currency to square the account of aggregate produce and aggregate money expenditure. Cash payments might have been resumed after a few months, and the Bank was quite willing. But no government involved in a great war is willing to give up so potent an engine for surreptitiously fleecing its subjects as an inconvertible currency, whether in its own hands or in that of a bank which it influences. For "political reasons" the Restriction Act was continued.

Joined with the determination of the public to accept notes, the Act placed in the hands of the Bank the power of creating money without limit for the benefit of its shareholders, or Proprietors, as they were called. It could have lent notes to every one who offered one per cent. for an advance ; it could have bought up all the public funds except those belonging to the most careless or obstinate stockholders ; it could have subscribed the whole amount of every Government loan for the war. But the Directors had long managed the Bank with one eye indeed on the interest of the proprietors but with the other on that of the "monied interest" generally. The example of the assignats, just finishing their meteoric career in France, was sufficient to prevent them from adopting the fantastic belief of the cranks who believe that currency—alone among all objects of commerce—can be offered in indefinite quantity without depreciation of value. They recognized that to prevent eventual disaster to their class and country the issue of notes must be subject to limitation, and with their natural

conservatism they thought it sufficient to limit it as they had limited it before the Restriction Act. Now before the Restriction Act they had been in the habit of making advances of notes whenever it seemed safe to do so, and the issue of notes thus appeared to be limited to the amount which could be advanced with safety. What could be better than to go on being guided by this rule ?

They overlooked the fact that the conditions were altered. Before the Suspension the convertibility of the notes absolutely prevented the Bank from increasing its issue whenever the value of a given quantity of gold was appreciably greater than that of the notes which promised to pay that quantity ; the Bank could not lend additional notes promising to pay the bearer on demand, say, £210 at a moment when any bearer would find it profitable to demand the 200 golden guineas to which he was entitled because he could sell them for substantially more than £210. At such a moment more notes would be coming in than were going out, and more gold going out than coming in, and this would continue until parity was restored or the Bank broken. In order to continue doing as they did before the Suspension, therefore, the Directors should not only have considered the soundness of each particular advance but should also have considered how the whole position would have looked if the Suspension had not been in force. Had they done so, they would clearly have limited advances and reduced the amount of notes in circulation whenever £1 in notes became worth appreciably less than 123½ grains of standard gold in the market—or, as it would commonly be expressed, whenever the price of gold rose appreciably above £3 17s. 10½d., and would have maintained this policy until £1 in notes and 123½ grains of gold were again equal in value.

When a bank's advances of notes are unlimited except by the lack of additional solvent borrowers, they are certain in any long run to become greater



than when they are limited not only by that but also by the necessity of keeping the notes up to the value of the gold promised on their faces (see *Report*, p. 50). The Bank of Ireland, put by the Irish Parliament under the same Restriction as the Bank of England, and adopting the same policy, caused an obvious severance of the value of its notes from that of the promised gold in a very short time. The Bank of England, perhaps because of a higher standard of security in the individual case, perhaps because its stereotyped 5 per cent. rate was more deterrent to borrowers in the circumstances of the time and country than the charge made by the Bank of Ireland, moved more slowly. In the earlier years of the Restriction such dealings in gold as were recorded, the foreign exchanges, and the quantity of bullion which the Bank managed to obtain and hold, all indicate little discrepancy between the value of notes and gold bullion. The pound sterling, in which all transactions were calculated, was always worth less than  $123\frac{1}{4}$  grains of gold, but the difference was never large enough to be important. In 1808, however, owing, it is said, to the opening up of South America to British commerce, a wave of optimism—called “speculation” by contemporaries—among traders caused an excessive rise in the price of many articles. The Bank was prevented by the usury laws from at once benefiting its Proprietors and moderating the enthusiasm of the traders by raising its rate of discount, and, being by no means exempt from the failings of the crowd, would probably not have done so even if it had been able. Under convertibility a check would have been imposed by the limited quantity of gold, which would eventually have made the Bank “anxious for the safety of its establishment”; with the means of manufacturing unlimited amounts of money on the premises, the Bank had no fears, and “accommodated the public,” perhaps not quite as liberally as usual, though of that there is no evidence,

but at any rate too liberally to allow £1 to remain nearly equal in purchasing power to 123½ grains of gold. Early in 1809 the price of gold went up to 90s., or to put it the other way £1 in notes would only buy about as much as 107 grains of gold instead of 123½. The foreign exchanges told the same tale. On August 29 the first of three letters from Ricardo (reprinted for Johns Hopkins University, 1903) appeared in the *Morning Chronicle*. It begins with a statement that the present excess of the market price of gold over the mint price has excited much attention, but that the public "do not seem to be sufficiently impressed with the importance of the subject, nor of the disastrous consequences which may attend the further depreciation of paper," and goes on to explain, with a lucidity never surpassed in the author's later works, how the insufficient limitation of notes, due to their inconvertibility and the absence of any substituted check, had led to a difference between the value of £1 in notes and the 123½ grains of gold to which £1 was formerly equal.

On February 1, 1810, Francis Horner, who till then had played no prominent part in Parliament, moved the House of Commons for various "accounts and returns respecting the present state of the circulating medium and the bullion trade," and said he intended to move for a committee to consider the subject. The Committee was appointed on February 19 with the reference given at the head of the Report below (p. 3). The members, a list of whom will be found below on p. xlii. were largely experts. They took evidence on twenty-two days from Thursday, February 22, to March 26; on seven days from March 26 to April 18, and on May 22 and 25. Horner was Chairman, and the Minutes of Evidence show him to have occupied the Chair at all these meetings until March 15, after which, owing chiefly to his absence on circuit, he only presided at three of the meetings, Huskisson taking seven, Henry Thornton

three, and Davies Giddy one. The Minutes of Evidence, like all others of the period, never attribute the questions asked to particular questioners : questions were doubtless supposed to be put by the Committee as a body, speaking by the mouth of the Chairman. That some at least of the questions were read out from slips of paper handed to the Chairman by members is suggested by the occasional appearance of questions beginning with the word "Whether," the words "please ask the witness" being no doubt understood if not actually prefixed.

In Horner's *Memoirs and Correspondence* (vol. ii. p. 47) there is a letter written on June 26, when the Report was still in the printer's hands, in which he says : "The Report is in truth very clumsily and prolixly drawn ; stating nothing but very old doctrines on the subject it treats of, and stating them in a more imperfect form than they have frequently appeared in before. It is a motley composition by Huskisson, Thornton, and myself ; each having written parts which are tacked together without any care to give them an uniform style or a very exact connection. One great merit the Report, however, possesses ; that it declares, in very plain and pointed terms, both the true doctrine and the existence of a great evil growing out of the neglect of that doctrine. By keeping up the discussion, which I mean to do, and by forcing it on the attention of Parliament, we shall in time (I trust) effect the restoration of the old and only safe system."

A detailed summary of the Report is given below (p. xlvii). Here it need only be said that what Horner calls its "true doctrine" was that when a paper currency originally founded on and convertible into coin has become inconvertible, it can only be kept up to its proper value by a limitation of its quantity based on observation of the price of bullion and the foreign exchanges. The "great evil growing out of neglect of that doctrine" was the gap between the

value of £1 sterling (i.e. £1 in notes) and that of 123½ grains of gold, as indicated by the price of gold and the foreign exchanges.

The Report assumes, without any attempt to prove, that the proper value of £1 at any time is the same as that of 123½ grains of gold at that time. In view of the general belief that money ought to be stable in value, it was, strictly speaking, a mistake to assume this, since it may be alleged by an opponent that it is desirable that there should be a divergence between the value of £1 and that of 123½ grains of gold if it happens that the value of the gold, measured in general purchasing power (such as is indicated by an index number of prices), undergoes some alteration. If, for example, gold will buy double or will only buy half as much of ordinary services and commodities as it bought down to a year or two ago, and as it will buy again after a year or two, there would be much to be said for an inconvertible currency which showed a considerable divergence from it, provided that the divergence indicated greater stability. So it could not be assumed straightway that the value of £1 in notes ought to be always the same as that of 123½ grains of gold: the value of £1 in notes at any moment might be nearer the normal or ordinary value of £1 than the value of 123½ grains was. But this was of no importance for the practical controversy then in hand, since then, as in most, if not all, modern wars, no one could possibly deny that gold had in fact varied *less* from its normal purchasing power than the paper currency. Prices, it was universally admitted, were much above their normal level: that is, £1 would buy much less than usual. The 123½ grains of gold would also exchange for much less, but at any rate they would buy more than £1 in notes—you could get 90s. for an ounce, which is equal to 23s. 1d. for 123½ grains, and 23s. 1d. must buy more than £1. All that the Bullion Committee need have claimed was that it was undesirable for the purchasing power

(or "value") of £1 to fall below that of 123½ grains) of gold at a time when the purchasing power (or "value") of gold was admittedly—and with admittedly unsatisfactory results—itsself much below the normal. If the Committee had done this and avoided putting an unproved assumption in place of it, much confusion would have been avoided: but in the extreme infancy of the invention of price index numbers, so much could scarcely have been expected.

"The Report," says Smart in his *Annals*, p. 255, "was presented on the day previous (June 8) to the prorogation of Parliament, and could not, of course, be discussed. Copies in fact were not in the hands of members till the middle of August (the number of tables in the appendix having delayed the printing), but the substance and the recommendation were circulated in the newspapers immediately after it was laid on the table. Its arguments were at once combated by a host of pamphlets; its conclusions said to be inconsistent with the evidence; and even the motives of its members questioned. In reply, Huskisson, who had been one of the most active members of the Committee, followed it up in October by an able pamphlet, entitled *The Question concerning the Depreciation of our Currency stated and examined*—restating and expanding the Report—which ran through several editions in a few months."

Davies Giddy, another prominent member of the Committee, attempted *A Plain Statement of the Bullion Question*, which is at least as successful as most modern efforts at elementary exposition on the subject. Malthus discussed the question with Ricardo in private conversation and correspondence, and wrote an article for the February *Edinburgh Review*, to which Ricardo replied in an Appendix to the fourth edition of his *High Price of Bullion* (see Ricardo's *Letters* to Malthus, p. 10, and Horner's *Memoirs*, vol. ii. p. 68). Horner, we may gather

from his own and other speeches in the House of Commons on April 5, 1811, thought the Report would lose nothing by delay, and it was not till May 6 that he moved the House into Committee to consider it.

With what would now, at any rate, be regarded as very bad parliamentary strategy, though he says that it was recommended to him by parliamentary experts, he moved sixteen resolutions, all academic and only likely to raise unnecessary controversy except the fourteenth, which declared it to be the duty of the Bank to consider the foreign exchanges and the price of bullion in determining the amount of its issues so long as the Suspension continued, and the sixteenth, which pronounced it expedient that the Suspension should terminate, whether the war was at an end or not, in two years' time. A four days' debate took place, in which Horner spoke for three hours and was supported by Henry Thornton, Huskisson and five other members of his Committee and by Canning, whose speech he thought the best of all. The most doughty opponent was Rose, whose speech, however, is not reported in Hansard but merely copied from a printed version subsequently published by him. There were two divisions, the first of which rejected the theory of the resolutions by 151 to 75, and the second rejected the definite time limit for Suspension by 180 to 45.

On May 13 Vansittart, according to notice given in this debate, brought forward seventeen counter-resolutions modelled on Horner's, but taking the line that there was no divergence of value between notes and coin, and that the divergence between notes and coin on the one hand and bullion on the other was due not to superfluity of notes but to shortage of bullion, and was therefore quite proper. Owing to the failure of the Bullion Report to explain that the "evil" of the divergence of notes from

coin lay in the fact that it made the prices of commodities more abnormal than they otherwise would be, this argument that the paper had the right value and gold the wrong value was never adequately dealt with; Vansittart and his friends were not asked to explain why they thought the paper standard better than the gold standard, in which prices would have been appreciably lower than they were. Vansittart himself in the sixteenth resolution admitted that the Suspension should terminate as soon as "the political and commercial relations of the country" rendered it "compatible with the public interest," which implies that the gold standard was better for ordinary times. The seventeenth resolution declared it "highly inexpedient and dangerous now to fix a definite period for the removal of the Restriction earlier than the existing limit of six months after the conclusion of peace." All the resolutions were carried on May 15 (Hansard, pp. 1-127, 134-46, 150-75).

The third of Vansittart's resolutions asserted that "the promissory notes of the Bank of England have hitherto been, and are, at this time, held in public estimation to be equivalent to the legal coin of the realm, and generally accepted as such in all transactions to which such coin is legally applicable." This equivalence was denied by several members in the debates, and Lord King, a descendant of Locke, who had written as early as 1803 a pamphlet to prove that notes were depreciated, resolved to give the lie to it. Before the Midsummer quarter-day he addressed a letter to his tenants saying that he could no longer accept notes in satisfaction of their contracts in their leases to pay "good and lawful money of Great Britain," and that he therefore required payment in guineas, or in an equal weight of Portuguese coin, or in notes sufficient to purchase an equal weight of standard gold at the market price of the day.

The effect of this was to compel Parliament to pass legislation which was equivalent to making bank notes legal tender, though there was a childish attempt to avoid doing it in so many words.

In November, 1810, the price of gold was down to 84s. 6d., but soon began to rise again, and in August, 1813, it attained the height of 110s., making the value of £1 in notes only equal to that of 87½ grains of gold instead of 123½. By October, 1814, the divergence had greatly diminished; the price of gold had sunk to 85s. In February, 1815, just before the escape of Napoleon from Elba, it was a little higher, at 89s., and that event made it shoot up to 107s. After Waterloo it fell rapidly, and was only 83s. in October, 1815. In the next twelve months it fell to 78s. 6d., never again during the Suspension to rise above 83s. (*Lords' Committee on Resumption of Cash Payments*, 1819, App. C.1, in sessional vol. iii.: *Commons Committee on the Bank Charter 1831-2*, App. 96 in sessional vol. vi.)

Vansittart told the House of Commons on February 10, 1815, that everything that had happened since the beginning of the Bullion controversy went to show that Horner's doctrine was wrong. It must be admitted that the course of events from 1810, to 1816 was unfavourable to the easy propagation and acceptance of the doctrine, for from August, 1810, to August, 1813, while the Bank of England circulation did not increase at all, the price of gold was rising, and from August, 1813, to October, 1814, while the circulation rose 3½ millions the price of gold was falling. And the violent fluctuation in the price of gold in the year of Waterloo could certainly not be attributed to changes in the note circulation.

But economics resembles therapeutics in the difficulty of isolating causes. A patient is not justified in concluding that his doctor's prescription



for him was wrong simply because he recovered from his illness without taking it. He might have recovered quicker if he had; or a change of weather, habits or diet may have acted as an effective substitute. So here the defender of the Report may effectively reply to Vansittart and his supporters that if the Bank had "adverted to" the price of gold and the foreign exchanges in regulating its issue, and consequently been stiffer in giving advances, and so reduced its issue from 1810 to 1813, the price of gold would not have gone up, and the price of commodities in general would have fallen faster than it actually did. Commodities were falling in consequence of the diminution of readiness to buy—to part with money—characteristic of the reaction after a boom or period of "speculation," and the Bank by maintaining its circulation undiminished made the fall less than it would have been if the circulation had been contracted.

Supposing the Bank had adopted this policy with its eyes open, it might be defended on the ground that though it was desirable that prices should come down from the abnormal height of 1810, it was not desirable that they should come down with too much of a rush. Unfortunately for this defence, however, the diminution of the rapidity of the fall from 1810 to 1813 only aggravated the precipitousness of the fall at the end of the war. That fall, like other falls at the ends of wars in face of a currency stationary in amount, was caused in the first place by the sharp drop in public expenditure (just as the rise at the beginning of a war is caused by the opposite) and was maintained by the increased ease of obtaining ordinary commodities (from the price of which we form our idea of general prices). It was bound to take place unless the paper currency had been enormously increased, like that of some countries after the war of 1914-18, and this not being attempted, it would clearly have

been better to have let prices down more rapidly between 1810 and 1813.

About the effect of the Napoleonic escapade of 1815, it may be recalled that the Report expressly confines the application of its theory to "any considerable period of time" (p. 45). It certainly does not ask us to believe that each sharp fluctuation of the comparative value of notes and gold shown either by the price of gold or the foreign exchanges was caused by alterations in the circulation of notes.

Any one who is puzzled by the fact that although when some other standard is established, gold "is only a commodity," yet the price (in notes) of gold does not always vary in the same proportion or even in the same direction as general prices (in notes), must be reminded that it is not necessary for the price of *each* commodity to vary in the same proportion and direction as the price of *all* commodities taken together. Each has its own set of special circumstances, and the special circumstances of gold were by no means unimportant. For one thing, it was still current as money over a wide area; for another, its production and movement was less interrupted by warlike operations than those of most articles of commerce; for a third it was more subject to being locked up in hoards at one time and poured out of hoards at another.

On the whole we may condemn Vansittart's theory as being as unsound as his financial administration was feeble.

### § 3. RESUMPTION OF PAYMENT

After October, 1816, with the price of gold at 78s. 6d., only 7½d. above the coinage par, Resumption of Cash Payments should have seemed easy of attainment. But the Bank had found itself com-

fortable under the Suspension, and felt no enthusiasm for a return to a system which did not guarantee it against being asked to pay its debts at a possibly inconvenient moment; and the Government and Parliament were as slack as they usually are after a great war. Moreover the quantity of coin likely to be required for the circulation was enormously overrated, so that a belief prevailed that the Bank would have to accumulate an enormous stock of coin (or bullion ready to be made into coin) before it could safely undertake once more to fulfil the promise (which it had continued throughout the Suspension to make on every note) to pay the bearer on demand such and such number of pounds. Now from February, 1808, to February, 1815, the Bank's "treasure," as its stock of gold and silver bullion and coin was often conveniently called, had fallen very steadily from nearly 8 to very little over 2 millions. The Directors set to work to increase the amount, and for some time were even willing to pay 80s. an ounce for gold for the purpose, which was much the same as giving £1 os. 6*d.* each for sovereigns. It does not seem to have occurred to them that their promises to pay £1 being at the moment worth less than a sovereign, and being certain to be worth as much as a sovereign when Resumption took place, it would be much better to apply their resources to buying in and cancelling their promises to pay. If they had means to buy gold, they obviously had the means to cancel their notes at once, and it would clearly be better to do so at once, and pay £1, than to lay up the means of cancelling them in the future at the cost of £1 os. 6*d.* In short it could not possibly be good policy to give forty-one promises to pay £1 and get in exchange what would soon only suffice to redeem forty of these promises. But this is a truth which many authorities fail to see even now, when they advocate the accumulation of a backing to depreciated incon-

vertible paper instead of asking for the reduction of the paper.

In November, 1816, the price of gold being then 78s. 6d., and the treasure probably over 8 millions, the Directors decided to find out by experiment how much coin the public was likely to ask for on Resumption. In accordance with a provision which had been in the Restriction Acts ever since 1797, they gave notice to the Speaker that they intended on and after December 2, 1816, to pay gold on demand to all holders of notes for £1 and £2 dated earlier than 1812. Very few notes were presented in response to the invitation; the Directors were encouraged to go further, and in April, 1817, the price of gold being 79s. and the treasure probably over 10 millions, they offered repayment in gold on and after May 2 to all holders of £1 and £2 notes dated earlier than 1816. As this too evoked little response and their treasure was near 12 millions, they gave notice in September, 1817, although the price of gold had now risen to 80s., that they would on and after October 1 repay in gold all notes of every denomination issued before January 1, 1817. Their failure to "advert to the price of bullion and the foreign exchanges" on this occasion had its natural effect. Melting and exportation being now profitable, large amounts of notes were sent in for redemption: the depletion was only gradual, presumably owing to the law against export preventing more than a dribble of coin and bullion outwards. Between August, 1817, and February, 1819, the treasure fell 7½ millions; we might expect to find the notes also reduced by that amount, and if they had been, the decrease of notes and the increase, outside the Bank, of gold might well have brought gold and notes to a parity in the market. But while repaying the pre-1817 dated notes, the Bank must have been counteracting the effect of that action by issuing additional new (and

still inconvertible) notes, for while the treasure diminished by  $7\frac{1}{2}$  millions, the total of notes diminished by only  $4\frac{1}{2}$ . About half the difference of 3 millions is accounted for by a greater excess of "securities," public and private, over deposits, and the remainder by a diminution of the Rest or undivided profit which was the consequence of a transaction entered into by the Government and the Bank in 1816. In that year the Bank, which had been steadily increasing its "Rest" for nine years till it stood at over  $8\frac{1}{2}$  millions, capitalised nearly 3 millions of this undivided profit, lending the amount (like the whole of its previous capital) permanently to the State at 3 per cent., and in subsequent years it continued to pay its dividend at the usual 10 per cent., which meant paying its Proprietors nearly £300,000 per annum more than they had been receiving in 1807-15. Now in fact a reduction of the Bank's profits which took place after the war—and which surely could have been foreseen—called for a smaller rather than a larger distribution. The joint action of the loan, the larger distribution, and the smaller profits was to cause the Rest to fall from £8,640,000 at February, 1816, to £5,192,000 in February, 1819, and further to £3,521,000 in February, 1821, which greatly helps to explain the astonishing febleness of the Bank at this important period of its history.

Early in 1819 secret committees were appointed by both Lords and Commons to consider the whole question of Resumption. Almost immediately both Committees sent in *interim* reports to the effect that the "partial resumption" attempted by the Bank with the exchanges unfavourable was folly and must be stopped. Parliament accordingly inhibited the Bank from going on with it.

But what was to be done? It was all very well for supporters of the Bullion Report to recommend reduction of issue, but how could the Bank reduce

to any considerable extent? In the palmy days of 1810, when the average amount of commercial bills discounted was 20 millions, the Bank could be blamed for not allowing this amount to reduce itself and cancelling notes as they came in. But in 1817 and 1818 the commercial bills were under  $4\frac{1}{2}$  millions. The whole of Private Securities amounted to little more than 9 millions in February, 1819, and this was double what it had averaged in the two preceding half-yearly accounts. Whether notes were to be substantially reduced or a large sum of treasure acquired, it was obvious that the one considerable debtor to the Bank, that is, the State, must repay a large portion of what was under Public Securities. Accordingly both Committees and Parliament agreed to the request of the Bank that 20 millions of Exchequer Bills held by it should be paid off. The result of this, coupled with changes of quite minor importance, was that the Bank, instead of defeating itself by buying gold with additions to its note-issue, was able to accumulate a great quantity of the treasure which it supposed to be required, while at the same time making that small reduction in the note issue, which, as Ricardo had always contended, was all that was necessary. At the end of February, 1821, the circulation was 19 per cent. less than it had been at the highest point (August 1817), while the treasure was a little greater than it was then and  $8\frac{1}{2}$  millions above the low point of August, 1819, though the Bank had not paid more than the coinage price for the addition. (See Table II. p. xlv. below.)

It is not surprising that even the Bank then thought it safe to resume cash payments; it could have paid off in metal half of its note-issue, and the remainder would have been only about equal to the amount which it was able to keep in circulation thirty years earlier, before suspension was ever thought of. An elaborate arrangement sug-

gested by Ricardo as far back as 1811 in the Appendix to his *High Price of Bullion a proof of the depreciation of bank notes*, had been made by Parliament on the recommendation of the Committees. Under this the Bank was for a time to have paid in big ingots of bullion only, first at the rate of an ounce to 81s., then to 79s. 6d., and lastly at the coinage rate of 77s. 10½d. before beginning to pay in coin on May 1, 1823. All was set aside by agreement between the Bank and Parliament, and full Resumption took place on May 1, 1821.

Scarcely any diminution of the treasure took place. Almost, if not quite, to the last, the Bank officially, at any rate, denied the doctrine of the Bullion Report. On March 25, 1819, the Court of Directors could not "refrain from adverting to an opinion, strongly insisted on by some, that the Bank has only to reduce its issues to obtain a favourable turn in the exchanges and a consequent influx of the precious metals," and conceived "it to be its duty to declare that it is unable to discover any solid foundation for such a sentiment" (*Commons Secret Committee on Resumption*, 1819, p. 263). But in 1827 this resolution was rescinded on the motion of a Director, who, five years later, was able to say of the opinion "that the Bank should conduct itself, in its issues, with reference to the state of the foreign exchanges and the bullion market," that he did not "think there was one person in the Bank of England that denies it or is disposed to act in opposition to it" (*Bank-Charter Committee, Evidence*, vol. vi. of 1831-2, qq. 2072-7).

#### § 4. MORAL

We may well conclude by asking how it was that Horner's "great evil" (above, p. xxii.) did not grow much greater than it did. Why was not the incon-

vertible currency increased much above the very moderate amount which it actually attained?

Tooke ascribes the moderation of the issue throughout simply to the 5 per cent. rate charged by the Bank, which he says was a high rate in the circumstances of the time (*History of Prices*, vol. i. p. 161). Doubtless additional money always put on the market by way of loan would be kept from flowing in a very large stream if the issuer charged a very high rate of interest for it. A man with an inexhaustible goldmine workable without expense in his cellar would not issue enough to bring down the value of gold appreciably if he did not sell his gold (or coin and spend it, which is the same thing) and refused to lend it except at 20 per cent. interest. But even if 5 per cent. was sufficiently high to be a nearly adequate check throughout the most of the period and quite adequate after the end of the war, that will not explain the moderation of the issue, inasmuch as the Directors could at any moment, if they had chosen, reduce the rate to 4 or less. Some few years after the Resumption they did so reduce it; why did they not do so during the Suspension? Moreover, it is not the fact that lending at 5 per cent. was the only means the Bank used for issuing its notes: it often lent them to the Government at lower rates, and it paid them away for any property or securities which it bought. The fixed, or rather customary, rate of discount at 5 per cent. hindered but did not absolutely preclude the issue of unlimited amounts of notes.

The solution seems to be this. In the earlier part and again during the last part of the Suspension, the Directors expected Resumption to take place very soon; and this naturally led them to act as if it were necessary that the Bank should be "strong" in the sense of easily able to meet its liabilities in gold if required to do so, and strength in this sense



was clearly incompatible with reckless issue. In the early years of the Suspension moderation was made easier by the Government's demands on the Bank being held in check by the alarm which the crisis of 1797 had created in the minds of ministers who knew what had happened to the assignats in France. In the post-war period, while the conduct of the Government was much less creditable, Resumption was a more insistent monitor.

In the middle period, after the failure of the Peace of Amiens had accustomed men's minds to the idea of perpetual war, and the spectre of Resumption faded away, the Directors did become somewhat slacker, but they were sharply pulled up by the criticism to which they were subjected in the Bullion controversy. For in spite of all their protestations that the currency was not excessive and that the doctrine of the Bullion Report was without foundation, there is good reason to believe that they were to some important extent influenced by it.

In the first place it seems *primâ facie* altogether improbable that the Bank Directors could fail to be to some extent influenced in the direction of caution by all the criticism of the Report and parliamentary debates, and equally improbable that some at least of the twenty-four would not only feel that their Governor and Deputy-Governor had made out a poor case before the Committee, (see *Report*, pp. 32-4, 46-8) but also be inclined to doubt whether, after all, there was not "something in" the idea that the price of gold and the exchanges must be considered in determining how much to advance.

Secondly, even in the parliamentary debates on the Report there are some indications of a change of opinion in the Bank. Embedded in the vast mass of unimportant matter of which Rose's speech is composed, there is a parenthesis of considerable interest. "I am desirous here of saying a word

in extenuation of answers given suddenly on points on which witnesses have not been previously apprised that they were to be examined upon: I mean that if the Governor and Deputy-Governor had been apprised of the question respecting their discounting at a low interest, they would have given a different answer; which I am led to believe from a conversation with the former." (*Hansard*, May, 1811, p. 863.) This retraction by the Governor refers to the evidence (part of which is quoted on p. 48 of the Report) in which the Governor, supported by the Deputy-Governor, who was before the Committee at the same time, contended that the requirement of good security in each individual case would be a sufficient limitation of the issue of notes, however low the rate of discount might be. Rose failed to see that the withdrawal made it impossible to claim, as the Bank had claimed, that the regulation of the inconvertible currency was automatic, requiring no exercise of judgment on the part of the Directors. It amounted to an admission that the rate of discount might be too low to limit advances sufficiently, in which case the Directors' duty would be to raise it, or if that were impossible owing to the maximum legal rate of interest (fixed at 5 per cent. by a statute of Anne) being already reached, to add some further check: in either case they would have to exercise their judgment on the question whether the total of advances required further limitation or not, and Rose and his friends were as unable as the Governor to suggest any criterion other than that proposed by the Bullion Committee. Henry Thornton's brother Samuel, who was as well entitled to speak for the Bank as any one, having been Director for over thirty years (he was in office from 1780-1833), also seems to have been inclined to jettison the Governor's answer, as *Hansard* says (p. 1163) he "disclaimed the idea that the Bank issued paper to an unlimited amount. Every one of the twenty-

four gentlemen at its head had a vote whether each sum was or was not too high." This distinctly admits that the total of advances was not beyond the control of the Directors: they were obliged to exercise their judgment about it, and it is certainly difficult to see how they could do so without directly or indirectly being consciously or unconsciously influenced by, or "adverting to," as the phrase was, the price of bullion and the exchanges.

The effect of the report is suggested much less strongly by the mere inspection of the total of notes in circulation than by an examination of the details which account for that total. The Directors, with some justice, always contended that they had little control over the issue so far as it was occasioned by the demands of the Government, and wished to be judged by their policy in regard to discounts, so that whether they were on the restrictive or the expansive tack is to be decided chiefly by their control over "private securities," and especially over that portion of this item which consisted of commercial bills discounted. Now the Bank would not give the Bullion Committee a plain statement of the annual amount of this last item, and would not allow them to publish the "scale" which it did furnish, showing only the percentage increases from year to year (See *Report* below, pp. 56-7). The actual figures were obtained by the Bank-Charter Committee of 1832 and are given in Table II. below. It is not surprising that the Bullion Committee were much impressed by the "scale" and that the Bank did not care to publish the fact that the average amount of commercial paper under discount had increased from under 3 millions in 1795 and just over 3½ in 1796 to 15½ in 1809. In 1810, the year of the Bullion Report, it was further up to over 20 millions, after which it fell like a stone to £14,355,000 in 1811, £14,292,000 in 1812, and £12,330,000 in 1813, which is actually less than it was in any of the four years preceding the Bullion

Report. After recovering to 15 millions in 1815, it collapsed altogether, being in 1817 lower than in any previous year since the Suspension. Of course the rise immediately before 1810 and the fall immediately after were due chiefly to the "speculation" and depression after the speculation on which Tooke insists, and the later collapse was due to the end of the war, but it is scarcely credible that the Directors would not have withstood with greater success this enormous diminution in the cream of their business if they had been as impervious to the teachings of the Report as they professed themselves to be.

Whatever may be the precise explanation, there can in these days be no doubt that the experiment of entrusting what no community should entrust to any institution, the power of creating money without limit, to the Bank of England compares very favourably with the modern plan of entrusting it to the Government itself or to a State bank completely under the control of the Government. In the comparatively short war of 1914-18 currencies "not convertible at will into a coin which is exportable" (*Report*, p. 17) were issued by Governments and Government banks in amounts compared with which the 100 per cent. increase in thirteen years, which made the Bullion Committee complain so vigorously in 1810, looks absolutely trifling. The British Government brought out an entirely new issue of £1 and 10s. notes and increased it to 293 millions at the date of the armistice: the Bank of France increased its issue from 6,000 million francs to 30,500 millions: the Italian increase was from 2,500 millions to over 8,000. The precise increase in Germany and Austria-Hungary is obscure but understood to have been much greater. The record since the armistice is still less of a kind to give the present day Europeans ground for boasting themselves better than their fathers. In twenty-three weeks

the British Government had increased the note issue by 59 millions more, and the total still stood on October 1, 1919, at 335 millions. The French issue on October 2 was 36,250 millions, the Italian in July 1919 was about 10,000 millions and the Russian rouble is being manufactured in numbers which suggest astronomers' calculations rather than anything terrestrial.

The result is what Horner and the Bullion Committee feared. The pound in October 1919 will buy just about the same amount of gold as it would when the Bullion Committee sat in 1810, that is, about 107 grains instead of the normal 123½, but it is respectable compared with its colleagues in Europe: the franc will buy about 3½ instead of nearly 5 grains: the case of the lira is rather worse; the mark will buy little more than 1 grain instead of 6; the Austrian krone and the Russian rouble are worse. Politicians have certainly egregiously failed to "advert to the foreign exchanges and the price of bullion in regulating their issues": instead they amuse their ignorant subjects with fantastic explanations of the perversity of the exchanges and chimerical schemes for "correcting" them by stopping imports or borrowing still more from abroad.

No one can contend that these paper standards are superior to the gold standard. In the first place they are all different, and in the second the one common property that they possess in all making prices much higher than they would be if paper and gold had not diverged, marks them as all inferior. Gold has been produced in almost the usual quantities throughout the war, it is almost alone among metals in not having been used in the manufacture of munitions of war, and it has been thrown out of currency use over a wide area. Consequently it is greatly depreciated as against commodities: that is, 123½ grains of gold or any freely exportable gold

coin will buy far less of ordinary commodities than before the war—perhaps scarcely half. Consequently each of the particular local divergencies between paper and gold simply constitutes a local aggravation of a world-wide rise of prices, a great part of which is itself produced by the general introduction of the paper currencies.

When the scales at last fall from the eyes of the people of Europe, groaning under the rise of prices, they will no longer cry to their Governments "Hang the profiteers!" but "Burn your paper money, and go on burning it till it will buy as much gold as it used to do!"

It only remains to add here a few details which could not be conveniently introduced into the sketch given above.

The Bullion Report was, of course, originally printed in the usual parliamentary folio (in vol. III. of 1810, which includes also the reports of the 1797 Lords Secret Committee on the Bank and of the 1804 Commons Committee on the Irish Currency frequently referred to by the Bullion Committee). The Report itself occupies 33 pages, the Minutes of Evidence 118, and the appendix of Accounts and Tables 81. Though it was only published in August, it was out of print by November (Horner's *Memoirs*, vol. II. p. 59), and an octavo edition dated 1810 was published by J. Johnson and Co. in which the Report occupies 78 pages, the Evidence 237 in smaller print, and the Accounts 115 in very small print. This is much more often met with than the original folio edition, and it is therefore hoped that readers who wish to consult the evidence will be assisted by the fact that it has been followed in the present reprint of the Report, so that the page-references to the Evidence are to it and not to the folio edition.

(If necessary, they can easily be converted into almost exact references to the folio by dividing them by 2 and adding 33 to the result.) The printers of the octavo show intelligence on p. 47 by suggesting that "security" in the folio should be amended to "scarcity," which is certainly true.

The list of members of the Committee given in the octavo edition is defective in not containing Charles Long, Joint Paymaster of the Forces, who was appointed, as the Journals of the House of Commons record, as an additional member on March 12, and who distinguished himself by being the only member of the Committee who spoke against its report in the Commons debate. Twelve of the members have obtained admission to that rather wide-open temple of fame, the Dictionary of National Biography. These are Alexander Baring, J. Leslie Forster, Davies Giddy (vice Rose, who declined), Pascoe Grenfell, Francis Horner, W. Huskisson, H. Parnell, Rt. Hon. Spencer Perceval, R. Sharp, Rt. Hon. R. B. Sheridan, G. Tierney, and Henry Thornton: the other ten are Hon. J. Abercrombie, T. Brand, W. Dickinson, J. Irving, G. Johnstone, Charles Long, D. M. Magens, W. Manning, Earl Temple, and Thomas Thompson.

If it be asked who was the "very eminent Continental Merchant" (p. 19) "intimately acquainted with the trade between this Country and the Continent" (p. 25), the answer is that in the Evidence he, alone among the witnesses, appears as "Mr. — a Continental Merchant." Ricardo, who says that one of his answers led the Committee (p. 5) to put the exchange with Hamburg at 9 per cent. below par when it was really 17 below, refers to him as "Mr. —" simply (*Works*, p. 322, and p. 311 note). An obvious conjecture is that this modest Mr. Blank was the great N. M. Rothschild.

The two tables which follow will, it is hoped, elucidate both parts of the present volume.

\* TABLE I. VARIOUS STATISTICS

	* Kingdom of Great Britain and Ireland.			Jevons' index number of prices. 1782 as 100.	Bank of England.	
	Expenditure.	Revenue.	Excess expended (col. i. less col. ii.)		Average amount of commercial bills under discount. Million £.	Average amount of public deposits. Million £.
1792	17.4	19.3	-1.9	93		
1793	24.2	19.8	4.4	99		
1794	29.6	20.2	9.4	98		
1795	51.7	19.9	31.8	117	2.9	
1796	57.7	21.5	36.2	125	3.5	
1797	50.5	23.1	27.4	110	5.3	
1798	50.9	31.0	19.9	118	4.5	
1799	55.4	35.6	19.8	130	5.4	
1800	56.5	34.1	22.4	141	6.4	
1801	60.6	34.1	26.5	153	7.9	
1802	49.5	36.4	13.1	119	7.5	
1803	49.0	38.6	10.4	128	10.7	
1804	58.6	46.2	12.4	122	10.0	
1805	66.9	50.9	16.0	136	11.4	
1806	68.5	55.8	12.7	133	12.4	
1807	67.3	59.3	8.0	132	13.5	12.7
1808	73.0	63.0	10.0	149	13.0	11.8
1809	76.5	63.7	12.8	161	15.5	11.1
1810	76.8	67.1	9.7	164	20.1	12.0
1811	83.6	65.2	18.4	147	14.4	10.2
1812	86.2	65.0	21.2	148	14.3	10.4
1813	105.4	68.7	36.7	149	12.3	10.4
1814	106.3	71.1	35.2	153	13.3	12.2
1815	92.1	72.2	19.9	132	14.9	11.7
1816	64.8	62.3	2.5	109	11.4	10.8
1817	53.5	52.0	1.5	120	4.0	8.7
1818	51.7	53.7	-2.0	135	4.3	7.1
1819	52.2	52.6	-0.4	117	6.5	4.5
1820	52.4	54.3	-1.9	106	3.9	3.7
1821	53.0	55.8	-2.8	94	2.7	3.9

For notes to this table see page xlv.



TABLE II. BANK OF ENGLAND, 1792-1821

Year and month.	1 Notes in circula- tion.	2 Deposits	3 Rest	4 Coin and bullion.	5 Private Secur- ities.	6 Public Secur- ities.	7 Col. 6 less col. 2 see note.
1792 F	11.3	5.5	2.7	6.5	3.1	9.9	4.4
A	11.0	5.5	2.7	5.4	3.2	10.7	5.2
1793 F	11.9	5.3	2.8	4.0	6.5	9.5	4.2
A	10.9	6.4	2.8	5.3	4.4	10.4	4.0
1794 F	10.7	7.9	2.9	7.0	4.6	10.0	2.1
A	10.3	5.9	3.0	6.8	3.6	8.9	3.0
1795 F	14.0	6.0	2.9	6.1	3.6	13.2	7.2
A	10.9	8.2	3.1	5.1	3.7	13.3	5.1
1796 F	10.7	5.7	3.2	2.5	4.2	13.0	7.3
A	9.2	6.7	3.2	2.1	6.2	10.9	4.2
1797 F	9.7	4.9	3.4	1.1	5.1	11.7	6.8
A	11.1	7.8	3.5	4.1	9.5	8.8	1.0
1798 F	13.1	6.1	3.4	5.8	5.6	11.2	5.1
A	12.2	8.3	3.4	6.5	6.4	10.9	2.6
1799 F	13.0	8.1	3.5	7.6	5.5	11.5	3.4
A	13.4	7.6	2.9	7.0	7.5	9.5	1.9
1800 F	16.8	7.1	3.7	6.1	7.4	14.0	6.9
A	15.0	8.3	3.9	5.2	8.6	13.6	5.3
1801 F	16.2	10.7	4.1	4.6	10.5	16.0	5.3
A	14.6	8.1	3.9	4.3	10.3	11.9	3.8
1802 F	15.2	6.9	4.1	4.2	7.8	14.2	7.3
A	17.1	9.7	4.2	3.9	13.6	13.5	3.8
1803 F	15.3	8.1	4.3	3.8	14.5	9.4	1.3
A	16.0	9.8	4.7	3.6	13.6	13.3	3.5
1804 F	17.1	8.7	4.6	3.4	12.3	14.7	6.0
A	17.2	9.7	4.8	5.9	10.8	15.0	5.3
1805 F	17.9	12.1	4.6	5.9	11.8	16.9	4.8
A	16.4	14.0	5.0	7.6	16.4	11.4	-2.6
1806 F	17.7	10.0	4.9	6.0	11.8	14.8	4.8
A	21.0	9.6	5.0	6.2	15.3	14.2	4.6
1807 F	17.0	11.8	4.8	6.1	14.0	13.5	1.7
A	19.7	11.8	5.0	6.5	16.5	13.4	1.6
1808 F	18.2	12.0	5.1	7.9	13.2	14.1	2.1
A	17.1	13.0	5.1	6.0	14.3	15.9	2.0
1809 F	18.5	10.0	5.1	4.5	14.4	14.7	4.7
A	19.6	12.3	5.3	3.7	18.1	15.3	3.0
1810 F	21.0	12.5	5.4	3.5	21.1	14.3	1.8
A	24.8	13.6	5.8	3.2	23.8	17.2	3.6

## INTRODUCTION

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TABLE II—Continued

Year and month.	1 Notes in cir- culation.	2 Deposits.	3 Rest.	4 Coin and bullion.	4 Private Securi- ties.	6 Public Securi- ties.	7 Col. 6 less col. 2 see note.
1811 F	23·4	11·4	5·7	3·4	19·9	17·2	5·8
A	23·3	11·1	6·0	3·2	15·2	21·9	10·8
1812 F	23·4	11·6	6·0	3·0	15·9	22·1	10·5
A	23·0	11·8	6·4	3·1	17·0	21·2	9·4
1813 F	23·2	11·3	6·3	2·9	12·9	25·0	13·7
A	24·8	11·2	6·8	2·7	14·5	25·6	14·4
1814 F	24·8	12·5	6·9	2·2	18·4	23·6	11·1
A	28·4	14·8	7·2	2·1	13·4	35·0	20·2
1815 F	27·3	11·7	7·6	2·0	17·0	27·5	15·8
A	27·2	12·7	8·3	3·4	20·7	24·2	11·5
1816 F	27·0	12·4	8·6	4·6	24·0	19·4	7·0
A	26·8	11·9	6·2	7·6	11·2	26·1	14·2
1817 F	27·4	10·8	5·7	9·7	8·7	25·5	14·7
A	29·5	9·1	5·6	11·7	5·5	27·1	18·0
1818 F	27·8	8·0	5·2	10·1	4·0	26·9	18·9
A	26·2	7·9	4·6	6·4	5·1	27·3	19·4
1819 F	25·1	6·4	4·1	4·2	9·1	22·4	16·0
A	25·3	6·3	3·8	3·6	6·3	25·4	19·1
1820 F	23·5	4·1	3·5	4·9	4·5	21·7	17·6
A	24·3	4·4	3·3	8·2	4·7	19·2	14·8
1821 F	23·9	5·6	3·2	11·9	4·8	16·0	10·4
A	20·3	5·8	3·6	11·2	2·7	15·8	10·0

## NOTE TO TABLE I.

Cols. 1 and 2, Expenditure and Revenue, are taken from the 4th Report of the Commons' Committee on Public Income and Expenditure, 1828 (vol. v. of that session), Appx. Nos. 13, 14, 15. Col. 2 includes besides "ordinary Revenue" certain "other receipts" such as voluntary contributions and repayments of monies advanced for relief of merchants and other public objects. Col. 1 includes monies advanced for the same purposes, and also money raised for Austria £4,600,000 in 1795.

Col. 3 is obtained by deducting the amounts in col. 2 from those in col. 1, so that it shows how much money the State required to raise by some form of borrowing; the total is, of course, much smaller than the addition to the national debt made during the period, on account of the practice of raising loans in stock paying a low rate of interest and therefore issued at a very large discount.

Col. 4 is taken from Jevons' *Investigations in Currency and Finance*, p. 144. It relates to the actual prices in pounds sterling. Jevons gives another column in which he corrects these to allow for the depreciation of the paper pound, but it is not possible to deduce from the fact that the price of gold is 25 per cent. more than it would be if paper were convertible, that prices would be at that moment less exactly in that proportion. All that can be safely said is that they would be less.

Col. 5, Commercial paper under Discount, is from the Report of the Bank Charter Committee 1831-2 (in vol. vi. of that session), App. No. 59.

Col. 6, average aggregate amount of public deposits, is from the same, App. No. 24. The Committee asked for figures from 1800, but the Bank returned the reply: "The Bank is unable to furnish correctly the aggregate amounts of Public Deposits previous to the year 1807; the Public Accounts prior to that period not being required generally to be kept at the Bank, and many public accounts at that time were in the names of individuals, without reference to that part of the Public Service to which the Accounts applied."

#### NOTE TO TABLE II.

The figures are from the Bank-Charter Committee's Report, 1831-2, Appendix No. 5. The figures of the average of Public Deposits given in Table I., last col., show that from 1807-1821, and especially in the earlier years of that period, private deposits must have been almost negligible, and suggest that throughout the war we should probably get a better estimate of the fluctuations in the assistance rendered to Government by the Bank if we took the figures of Public Securities less the whole of Deposits than by simply accepting the figures of public securities as they stand. It is done in the last column of the table above, which contains the excess of col. 6 over col. 2.

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# INFLATION

BY

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*Professor of Political Economy in the University of  
Edinburgh.*

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