

**OBSERVATIONS**

**ON**

**THE EFFECTS**

**PRODUCED BY THE**

**EXPENDITURE OF GOVERNMENT**

**DURING THE**

**RESTRICTION OF CASH PAYMENTS.**

**BY WILLIAM BLAKE.**

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

PORTLAND-PLACE.

*March 3, 1823.*

## OBSERVATIONS,

&c.

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

To account for these appearances every one has his favourite theory, and believes or assumes the facts that will best support it. One sect of

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

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

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

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

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

Now I have no hesitation in admitting, that

all the symptoms just enumerated are *indications* of an excess of currency, and of depreciation: and further, that an over issue of currency could not exist for any length of time, without producing these symptoms.

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

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

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

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

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

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

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

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

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

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

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

bullion, the latter, if it can be procured at the usual price, will be sent abroad for the purpose of drawing against it, and deriving a profit from the premium on the bill. Before the restriction act, bullion could always be procured at the Bank by exchanging notes for coin: the coin was immediately exported, either in the state of coin, or melted into bullion, and no laws have ever been found effectual to prevent its exportation. An immediate reduction of the currency is the necessary consequence. As the law now stands upon this point, the coin is permitted to be exported, and therefore no alteration whatever would take place in the price of gold so long as the merchant exporter could apply at the Bank and convert the paper currency into exportable coin. If, in consequence of the increased demand for foreign bills, gold were to acquire an increased value, the currency by its contraction would augment in value at the same time, and, keeping pace with it, would prevent any excess of the market price above the mint price of gold. But suppose the currency to consist of paper only, and of paper not convertible into gold, what would then be the effect of this increased demand for foreign bills? In the first place, no gold could be procured at the Bank: the exchange-merchant must apply to the bullion-broker, who would be

perfectly aware of the object of the application, and would, as a matter of course, increase his price in proportion to the profit that could be derived from its exportation. Let us take an instance: suppose the demand of government has continued long enough to raise the premium on foreign bills ten per cent.\*; and that no bullion can be procured but at the bullion-brokers, and at the market price: suppose, too, that to transmit the bullion to the country with which the exchange is unfavourable would cost in freight, insurance, &c. 2 per cent. Is it not evident that the holder of bullion, by transmitting it to the Continent at an expense of 2 per cent., and drawing against it a bill which he could dispose of at a premium of 10 per cent., would gain 8 per cent. profit, and without risk. To conceive it possible, after such an advance had taken place in the price of a foreign bill, that an exchange merchant would think of offering the same price as he would have done before the advance had taken place, or that the bullion-broker would consent to accept it, is to

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

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

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

It is curious to observe, in the examinations of the merchants on this point before the committees of 1810 and 1819, the extreme perplexity they evinced, when pressed to explain how the value of gold could rise partially here, without a corresponding rise on the Continent; and with what complacency the examiners seem

to have regarded the steadiness of its price on the Continent, as a proof that its high price here must have arisen from depreciation dependent upon over issue.

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

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

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

It will be contended, no doubt, that in ac-

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

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

Advantage is taken of the equivocal meaning of the word, and inferences are drawn from it which are not warranted. If this were merely a dispute upon terms, the inquiry would be of little importance; but it is a most essential distinction in fact, and a want of attention to

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

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

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

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

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

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

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

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

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

The price of corn, of cloth, of every other commodity, might remain precisely the same, and nothing alter but the price of gold. Not only might it vary to any extent without altering the price of these articles, but for any length of time too, provided the foreign expenditure continued upon the same scale that first induced the adverse exchange, and was constantly creating a fresh adverse ba-









































































































