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SHRINKING THE POUND;
BRITAIN'S SINGLE CURRENCY DEBATE
OF THE LATE 1860's**

John Maloney

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JOINING THE 'EUROPE' AND SHRINKING THE POUND; BRITAIN'S SINGLE CURRENCY DEBATE OF THE LATE 1860's

By John Maloney

Abstract: Though a Royal Commission had rejected Britain joining the Latin Monetary Union, Robert Lowe, the Chancellor of the Exchequer, said he would recommend membership provided three conditions were satisfied. As these included a general adherence to the gold standard, nothing further came of it. But meanwhile there had been a complex public discussion of the subject, and the related topic of shrinking the pound coin so it weighed the same as the 25-france piece. The debate shed much light on the contemporary state of value and monetary theory, and those who supported the changes had much the best of it.

When the euro was launched in 1999, the event quickened the pace of the debate in Britain over whether to join. But even historians of economics were still ignoring the fact that there had been a previous debate, over a century earlier, with uncanny parallels to the current one. Then too the Chancellor of the Exchequer set out some tests that would have to be passed before he could recommend membership. Then too his position caused tension with the prime minister.

The topic was rescued from neglect in a remarkable article by Luca Einaudi (2000). In many ways this paper, and the ensuing book by the same author (Einaudi 2001), are likely to remain the last word on the subject. However, the present article takes an alternative perspective in two ways. In the first place we treat the episode primarily as an issue in the history of economic thought. Both the proposal to join an European currency, and the reduction in the size of the gold sovereign (one-pound coin) which it would have involved, provide major insights into the state of value and monetary theory at the time.

Secondly, while agreeing with Einaudi that the currency reformers' arguments were sometimes careless, inconsistent and slapdash in terminology, we reject the implication that these faults cost them the argument. Nothing in fact could be further from the truth. The 'europhile' alliance of Jevons, Robert Lowe the Chancellor of the Exchequer, and J.T.Smith, ex-Master of the Calcutta Mint, scored a notable and virtually complete victory over the 'no change' party led by Lord Overstone.

I

Despite a broad coalition of curmudgeons – the remnants of the Chartists, Thomas Carlyle (of course), the reactionary MP Colonel Sibthorp and the xenophobic edge of the middle class – London's Great Exhibition of 1851 had been a joyful event. Having goods from so many countries on display, however, did highlight the difficulty of identifying good value when each article was priced in a different currency. British manufacturers, merchants and Chambers of Commerce had learnt this lesson many times over by 1865, the year that France, Belgium, Italy and Switzerland established a common coinage (the Latin Monetary Union). This fell well short of the European Union's post-1999 experiment. Member states continued to issue their own coins, and only fellow-members' governments (not their central banks) were obliged to accept them. The absence of penalties for suspending convertibility meant in effect that members could issue, and over-issue, paper money as and when they pleased. Convergence criteria and stability pacts were unheard of. None of this stopped the French politician and economist Felix Esquirou de Parieu calling for a single European currency, the 'europe', within a 'European Union' which would be run by a 'European Commission' and overseen by a

‘European Parliament.’ (Einaudi 2000: 286). And the following year the French government convened a conference of 20 countries to see the way to a more general common currency. Austria, Russia, Prussia, Turkey and the U.S.A. were among those who went along, while in Britain the Treasury ‘saw no reason to decline’ the invitation. (Report 1868: 13)

The conference eventually recommended that any currency union must have a single (i.e. not bimetallic) gold standard, that its gold coins should have a uniform 90% of fine metal in their composition, and that they should be denominated as five francs and multiples thereof. Britain’s Conservative government then set up a Royal Commission to investigate whether Britain should join in.

Expert witnesses were divided. Businessmen were almost unanimously in favour: they feared that staying outside would divert trade away to countries that had joined. Sir Louis Mallet, the indestructible voice of Cobdenism at the Board of Trade, said only a single unit of account would give exporters the full advantages of free trade, but thought it important to keep the Queen’s head on British-minted coins. (Report 1868: 169-71) It was, as ever, the economists who were sharply split. Jevons was enthusiastically for a common currency, Newmarch against. Bagehot and Goschen took intermediate positions, Bagehot being in favour if and only if the government decimalised the silver and copper coinage at the same time. This proviso made particular sense, given that much of the impetus behind the Latin Monetary Union in the first place was the desire to standardise lower-denomination (token) coins, which differed in purity as well as size. Decimalisation was the necessary first step in this direction for Britain. (1)

If Bagehot was a 'yes, if', Goschen was more of a 'don't know'. In his evidence to the Commission he offered a long and cogent analysis of the proposal to replace the pound with a 'new pound' worth 25 francs. As it happened, the pound was currently worth about 25.2 francs. The 25-franc sovereign would thus have to contain about one per cent less gold than the existing ones.

Some of the Commission, notably J.B. Smith MP, saw no problem with this; indeed they managed to make a virtue out of it. One thing that would have to be standardised in a common currency area was the charge for minting coin out of bullion. Britain currently, and uniquely, did this for nothing, and could consequently expect to start coining money for the whole union, and paying for the privilege, unless a common rule were agreed. But the proportionate charge currently made by the French mint happily corresponded to the difference in value between the existing pound and the 'new' one. In other words, charging the French rate for minting new pounds would raise their value to that of the old ones. Gresham's Law would stall in its tracks, and both coins could co-exist happily in circulation (Report 1868: 27).

Goschen took issue with this. No mintage charge, he said, could alter the fact that the 'new pound' would contain less gold than the old. The only fair basis for its introduction was a complete recoinage of the gold sovereign, and an appropriate, legally enforced, surcharge on debts taken out in the old currency. (Report 1868: 156ff.) Jevons agreed all this was necessary, but thought it a cost well worth paying. A recoinage was overdue anyway, he said, while adding 2d. in the pound to all debts was essentially no different to putting 2d. in the pound on income tax. But when he came to the positive advantages of a common currency, Jevons put up a dire performance. Pinned down by

J.G.Hubbard MP, a former Governor of the Bank of England, as to the meaning of some windy remarks about ‘the great general improvement in currencies’ that monetary union would produce, he was unable to define, let alone quantify, the advantage of which he was speaking. Of his two specific arguments for a common currency, he admitted himself that the convenience to travellers was a minor consideration, stressing instead that ‘our merchants will have the means of exactly estimating the value of goods or any money, in any part of the world whatever’, and that if the pound were equated to the 25-franc piece, these merchants would easily make currency conversions in their heads. (Report 1868: 128) Hubbard pounced. In that case, he inquired, what would 23 lbs. of a good at 2s 8 1/2 d. per lb. cost in Frenchmoney? ‘I am not prepared to say’, replied Jevons. ‘I am very bad at mental arithmetic.’ (Report 1868: 134)

The unimpressive performance by the only economist witness wholeheartedly for a common currency may have helped dictate the Commission’s sceptical tone when it reported. The list of advantages it cited are straight out of the early 21st century. Greater price transparency would save time and trouble. Some small firms, currently deterred from trading abroad at all, would begin competing at import and export. Prices on both these fronts would thus fall, benefiting consumers and the labour market alike. The convenience to travellers passing through different countries was ‘too obvious to require remark’, while the dangers of *not* being part of any currency union must be recognised. (Report 1868: 16) Not only would insiders tend to trade with each other, switching their trade away from outsiders, but there was a political dimension too:

England has been forward in urging the policy of free trade on continental nations, and

while her joining any movement originated abroad for promoting and facilitating commercial intercourse would be most favourably received, and would increase her influence among them, her declining to enter upon it might appear to be inconsistent with her general conduct upon such questions. (Report 1868: 14)

Could Britain, in short, afford not to be at the heart of Europe?

These were solid advantages. So why did the Commission come down against British membership? In the first place, they considered the transparency arguments greatly overrated unless currency union were accompanied by metrication and decimalisation, two issues specifically placed outside their terms of reference. Secondly, like Goschen, they took the implications of replacing the pound with a 25-franc piece very seriously, and, unlike Jevons, were not prepared to shrug off as minor inconveniences a general recoinage and legal coercion to change the terms of all existing debts. Their final verdict -- that Britain should reject the franc and instead everyone else should adopt the pound -- shines out as all the more perverse in consequence. The report admitted that more people around the world were using the franc, or currencies linked to it, than the pound, but tried to find compensation in the sovereign 'being more widely known' and 'enter[ing] as an element', whatever that means, into more transactions. (Report 1868: 23) If other countries adopted sterling, said the commission, they would admittedly undergo the inconveniences which had just been pronounced unacceptable to Britain. But foreigners, luckily, were used to this kind of thing:

... we cannot but think, however, that the difficulty and inconvenience of a change would be less serious and less felt where the existing system is of a comparatively

recent date, or is one in which changes have already taken place, within no distant period of time. (Report 1868: 23)

II

In December 1868 the Liberals returned to power with Gladstone prime minister for the first time. The new government, and particularly Robert Lowe, the new Chancellor of the Exchequer, were to draw on Jevons for fairly regular economic advice. And, also in December 1868, Jevons published a long article on international coinage in the *Journal of the Statistical Society of London*. (Jevons 1868). Here he greatly expanded his remarks to the Royal Commission, dismissed its objections to a common currency as either imaginary or pieces of nationalist prejudice, and warned that if Britain stood outside any monetary union she would probably get the 25-franc piece anyway. Since it weighed as much as the many worn sovereigns in circulation, it would rapidly become accepted in their place. Gresham's Law would then come into force as new, heavier sovereigns were melted down to make 25-franc pieces with a little gold left over. The Mint could look forward to coining money expressly so that it could be melted down again. (Jevons 1868: 429) If, instead, Britain joined a monetary union, recoinage would be unnecessary: sovereigns lightened by wear and tear would do admirably as 25-france pieces as they stood. (Jevons 1868: 435-6)

The trouble with this position was twofold. First, it contradicted another pro-‘europe’ argument in the same article; namely that the condition of existing coins required a complete recoinage anyway, monetary union or no, so that a new, smaller, sovereign would involve no extra cost. (Jevons 1868: 433) Secondly, Jevons sounded as if he

wanted an outcome where 'good' money was melted down and 'bad' remained in use, a foretaste of the consistent lack of political judgement the europhile camp would show throughout the debate. Enemies of the 'europe' would adeptly pillory its friends as out to defraud the nation by devaluing its currency. The veteran banker and economist Lord Overstone had already gone on to the attack and, while Jevons' article never mentions him by name, much of it reads as a response to Overstone's theory of value and the defence of the existing, undiminished pound he had built on it.

Overstone had distinguished between the intrinsic and the exchange value of a coin. A charge for coinage, he said, might or might not raise the exchange value of gold coins above that of bullion of the same weight. It depended who held the coins. As soon as they passed to someone who didn't want them as coins, their exchange value fell back to that of the bar gold they contained. (O'Brien 1971: vol.3, 1140-1)

This cannot be true. The introduction of a coinage charge will raise the exchange value of *all* coins because buying them ready-made will now avoid incurring this charge. Who is currently holding them is irrelevant. Given that Overstone thought the question of exchange value was a secondary one anyway, it was particularly infelicitous for him to descend to subjective value theory and then get it wrong.

But Overstone also argued that anyone who held gold coin had the right to melt it down and sell it. No amount of sleight-of-hand via mintage charges could alter the fact such people would now receive one per cent less gold than before. If a country with a paper currency suddenly announced that its notes would exchange for less gold, the fraud would be blatant and universally condemned. What Jevons and his friends were proposing came to exactly the same thing. (O'Brien 1971: vol.3, 1145)

So what? was the essence of Jevons's response. 'There is no such thing as value intrinsic in a thing ... in an economical sense, the values of two things merely express the ratio in which they do as a fact exchange for each other.' (Jevons 1868: 431). If the mint sets 100 ounces of gold as the price of 99 ounces of coin this will fix their relative values. Should this not correspond to subjective values, one or the other will be in excess supply until it does. As for individuals being 'robbed' when they melt coin into bullion, said Jevons, it was a cardinal virtue of an international currency that people would no longer have to do this, as the sovereign became acceptable abroad as well as at home. (2)

Jevons reiterated J.B.Smith's point that recoinage and mintage would dovetail so as to make the new sovereign worth as much as the old. He even seemed to say that a legal upgrading of debts would not after all be necessary: 'all inconvenience or injustice arising from the change in the sovereign might be entirely avoided by the imposition of a seignorage, or mint charge, equal in amount to the value of the gold subtracted.' (Jevons 1868: 430)

In the second half of 1869 Overstone replied to these arguments in the course of a memorandum and two 'Papers on Gold Coinage.' (O'Brien 1971: vol.3, 1179-87) To make purchasing power the standard was confused and confusing: purchasing power was irrelevant. 'The quantity of gold to which the Creditor is entitled is absolute -- it does not depend on anything so uncertain and variable as the purchasing power of gold.' (O'Brien 1971: vol.3, 1179). Overstone accepted that gold bullion, as an alternative to gold coin, might be seen as the standard of value, and if so a mintage charge was permissible. (O'Brien 1971: vol.3, 1187) (3) But it must not take the form of shrinking or debasing the coin returned to the bullionist, and it must be 'rigidly limited by the real cost of

coinage.’ Anything above this and ‘the coin ... wholly changes its character – it becomes a Token coin.’ Moreover, once seignorage was accepted, what were to be the limits on it? ‘Why not deduct 10 per cent or 50 per cent of the gold in the coin?’ (O’Brien 1971: vol.3, 1180) (4)

The gulf between Jevons’ and Overstone’s notions of value was as wide as ever. But Overstone’s concession -- that a charge for mintage might raise the value of the coin -- was an important one. The Master of the Mint had already estimated that mintage costs more than covered the shrinkage of the pound to 25-franc proportions. The research was by Jevons, who had actually worked in a mint. The conclusion was seized on by Lowe in a memorandum he sent the Cabinet in June 1869. (Lowe 1869) Here, however, the ‘europe’ made a decidedly oblique entry as Lowe put the case for a mintage charge, merely noting along the way that this would be a necessary condition for joining any international currency scheme. But he left his Cabinet colleagues in no doubt of where he stood:

... it is highly probable, from the rapid progress that it is making all over the world, that one system of coinage will within no distant period be almost universally adopted, from which it will be impossible for great Britain to stand aloof. (Lowe 1869: f.83)

At the end of July Lowe told the French government Britain could join no monetary union that did not adopt the gold standard (Einaudi 2000: 299). In Parliament a few days later he responded to a speech by J.B.Smith MP, who had added a much more enthusiastic personal rider to the Commission’s report. Smith now compared his continental tour of 1844, when he had had to change his money 14 times, with a recent

trip to Italy when he had to change it just once. Was it not time for ‘a common identical unit of account known to all the world, in the same way as notes representing musical sound could be interpreted by any musician, no matter what his nationality?’ (*Hansard*, 3rd series, 198, 1408-9, 6 August 1869).

Replying, Lowe approved the idea in principle, but put forward three tests that would have to be passed before Britain could join. Would France abandon her bimetallic standard? Could the weight and fineness of British and European coins be standardised? Finally, could the national mints involved agree on a common charge for minting coin from bullion brought in by the public? The onus, again, appeared to be on the rest of Europe to adapt to British ways.

I think it very probable, if France would meet us in this way ... we might come to some arrangement by which we should get the blessing of one coinage throughout Europe, a great step in civilisation. (*Hansard*, 198, 1421, 6 August 1869).

Placing the burden on France in this way was particularly striking, given that Lowe had moments earlier proclaimed that France was right to charge its citizens for coining bullion, and Britain wrong not to: ‘this useless piece of generosity’ as Adam Smith had called it. Lowe went on to cite the further authority of J.S.Mill and McCulloch, but then unwisely parted company with Jevons. A complete recoinage and a mintage charge, Lowe opined, would *do away with* the need to write up all debts by law; gold coins by any criterion of value would be worth as much as in the past. The *bullion* they contained would be worth less, as they were smaller, but this was all to the good as it would stop people melting them down. (*Hansard*, 198, 1533, 10 August 1869). (6)

The Times now stepped in. Unwilling to be too harsh on Lowe, who had only just resigned as one of its leader-writers after 17 years, but sounding particularly English for the occasion, it complained that

the embarrassing word ‘value’ – most absurd of economic terms occurs much too often in his exposition, while ‘currency’, ‘seignorage’, ‘double standard’, balance of exchanges’ and other well-known occasions of despair chase one another through the columns devoted to the report of his speech. (*Times*, 9 August 1869, p.)

It is not clear exactly which monetary terms, if any, *The Times* would have allowed in a debate about money, but it did extract an assurance from Lowe the following day that ‘I do not know what “intrinsic” value means ... As far as I know there is no such thing as intrinsic value.’ (*Hansard*, 198, 1533, 10 August 1869). But the ‘europhiles’ were now badly split. Smith thought neither a recoinage nor the legal writing up of debts was needed, Lowe was now advocating the former and Jevons the latter. Politically, Lowe’s position was the least tenable of the three. Opponents swiftly cast him as the author of a reckless, economically illiterate plan to defraud the Englishman of his savings. ‘The Chancellor of the Exchequer must be taught Political Economy’ was the headline in the *Morning Advertiser*, which went on to call Lowe a ‘chartered libertine’ uttering ‘great absurdity.’ (Crawford 1870:) (7) If Lowe had miscalculated politically it was, paradoxically, from his conviction that legal tampering with debts would have been seen as the real interference with the value of the pound. As it was he found himself facing violent opposition in Cabinet as well as in the country at large. To Cardwell, the Secretary for War, Lowe responded that Jevons was right. All value was exchange value

and, in the case of money, exchange value depended on quantity not quality. Lowe drew on Jevons' census of worn and lightweight sovereigns to argue that value could not reside in quantity of gold. If it did, then

The nuisance of our system would be utterly unbearable, and no one could give or receive change without a pair of scales to determine the amount of depreciation ... It follows from this fact that there is no necessary connection between the determination of the weight of the sovereign and its depreciation. (8)

The underlining was Gladstone's, after Cardwell had forwarded Lowe's memorandum with the comment that an Englishman in Paris, pocketing English dividends, would hardly see it that way when he started getting less gold.(9) Gladstone replied that 'I am also in favour of a mint charge but am no f.a. to Lowe and I am astonished.' (10) Exactly what astonished him is unclear, and after this the issue seems to have died down at Cabinet level. (11)

III

In the letters column of *The Times*, however, it was still going strong. The correspondence had begun when Lowe restated the Jevonian position in his speech on 6 August. If, he said, the subjective values placed in coin and bullion did not correspond to the price ratio set by the mint with its charge for coining, people would coin, or fail to coin, bullion until they did. (The law of diminishing marginal utility had reached the Treasury!) Hubbard wrote in to retort that this would take for ever. Most of the bullion

brought into the country was to settle trade accounts and there was no question of coining it in the first place. (*Times*, 17 August 1869, p.7)

Hubbard was wrong of course: as long as *some* bullion is on the margin between being coined and not being coined, Lowe's predicted adjustment will eventually happen. This did not affect the stern resolve of the *Bullionist*, which pronounced the quantity of gold in the pound 'sacred.' (Crawford 1870:) Hubbard himself compared Lowe's denial of the existence of intrinsic value with 'a clever casuist' demonstrating that there was no such thing as 'truth' or 'matter', and went on to stress gold's uniqueness as 'the almost universal standard or measure of value.' (*Times*, 17 August 1869, p.7) But this merely raised the question of whether it was the coin or the bullion which constituted the standard. Hubbard saw this as crucial: if bar gold were the standard, there could be no objection to a token coinage because it would leave this standard unaltered. But in his next letter Hubbard asserted that gold coin was the standard, as the Act of 1816, restoring the gold standard after the Napoleonic Wars, had made clear. (*Times*, 1 September 1869, p.4)

This brought in Colonel J.T.Smith, former Master of the Calcutta Mint and a keen europhile, who contended that Hubbard was quoting from the *preamble* to the Act. All the Act itself had done was make gold the sole legal tender. (*Times*, 9 September 1869, p.4) And this proved nothing about its value compared with a token coin or a banknote, said 'Aliquis', who now took over the baton from Smith. A sovereign and a £1 note were equally effective ways of discharging a debt, and nor could the latter derive its powers from the former as they had survived the suspension of convertibility in the Napoleonic Wars. Add the fact that existing sovereigns already varied by more than 2d. in the value

of the gold they contained, and the conclusion was plain; ‘we must look for the standard of value elsewhere than in the sovereign as defined by law.’ (*Times*, 28 September 1869, p.7)

One point on which both sides agreed was that a smaller gold coin must possess less value abroad whatever happened to it at home. Hubbard used this to try and prove it must be worth less at home as well – how could a sovereign have two values at once, depending on which side of the Channel it was? (*Times*, 17 August 1869, p.77) Why not? responded Smith: the English half-crown was famous for being worth a mere 2s 3d when it travelled to France. (*Times*, 17 August 1869, p.5) Hubbard gleefully riposted that Smith had given himself away: ‘Colonel Smith has unconsciously admitted that he proposes to treat the standard coin (at once the measure and equivalent of value) as a mere token.’ (*Times*, 3 September 1869, p.4) (12)

Had the debate over the value of the pound gone no further than this, it would have settled nothing. Overstone and Hubbard’s party would no doubt have continued to contest whether the ‘new’ pound could have the same exchange value as the old, while simultaneously denying that exchange value was the main concern anyway. The Jevonians doubtless would have gone on steering the debate away from notions of ‘intrinsic’ value and back to the subjective territory they preferred. What sharpened the debate and prevented the two sides talking past each other was the issue of what a mintage charge would do to the sovereign’s value.

To some of the ‘antis’ this was not an issue. The principle of free coinage was sacrosanct and what a mintage charge would do to the value of the coin was irrelevant. (13). But a less uncompromising position was stated concisely by Hubbard:

- (1) A mintage is desirable.
- (2) A mintage cannot safely be carried beyond the cost of coining.
- (3) It should be levied as a charge upon the owner of the bullion, whether by deduction from the gold when coined or by a corresponding payment from himself is, of course, unimportant. (*Times*, 21 August 1869, p.9) (14)

(What *was* important was that it shouldn't be levied by making the coins smaller.) But Hubbard's fourth and most contentious proposition was that a mintage could not raise the value of a coin. In this connection he extended to Colonel Smith an unusual invitation. Let them go out to India together. There Hubbard would hand over 100,000 Australian sovereigns in exchange for 100,500 English ones. Since Australia was currently charging 1% for mintage, its coins must, according to Smith be worth 1% more than the British ones. Smith must therefore accept his offer or retire from the fray. (*Times*, 16 August 1869, p.8)

Smith's reply was that a mintage charge could confer value only if it were unavoidable. The Australian charge, certainly in India, was avoidable by the simple expedient of holding onto the English sovereigns. (*Times*, 26 August 1869, p.4)

Hubbard's next letter can be summarised as 'I can't think of an answer to this.' But he also now presented his proposition in more general terms. Mintage, he said, does indeed open up a gap between the value of bullion and that of the same weight of coin, but does so by depressing the former, not raising the latter. Clearly a tax on the import of bullion

would have that effect; so, therefore must a mintage charge, which is the equivalent of a tax in every respect. (*Times*, 1 September 1869, p.4)

Not so, said Smith. After a mintage charge, bullion will continue to buy the same value of goods at home as abroad. A tax on bullion imports will reduce its purchasing power at home, though not abroad. So a mintage charge is not the same as an import tax. It leaves the value of bullion unchanged and thus, on Hubbard's own reasoning, must raise the value of the coinage. 'We have at last arrived at a demonstration, out of Mr Hubbard's writings, that a Mint charge does add to the commercial or exchangeable value of coin.' (*Times*, 9 September 1869, p.4)

At this Hubbard retired hurt, and the challenge of demolishing Jevons and Smith was taken up by 'Par'. The tax closest to mintage, he said, was the medieval tariff system whereby the flour importer paid the tariff by giving some of the flour to the government. This would raise the price of flour only if the government then destroyed its share. Otherwise supply and demand alike are unaltered, and so therefore is the price. (*Times*, 19 October 1869, p.7) An exact parallel would arise if the Mint started withholding a portion of the bullion as the fee for coining the rest of it.

'Par' was wrong on one point: the supply of flour (bullion) *will* fall because of the additional disincentive to import it in the first place. But he was right to point out that what a mintage charge did to prices might depend on what the mint did with the gold it held back for its own fee. The point was taken up by Smith in a memorandum he sent Gladstone in November. 'The gold reserved by the Government as seignorage', he said, didn't have to be turned into coin; it might be sold on the open market. But, in any case,

the specie-flow mechanism tied a country's price level to the global, not the national, quantity of gold. (Smith 1869: 3)

This last point was unanswerable, but Smith's sudden import of the term 'seignorage' into the discussion underlines Einaudi's (2000, 2001) point that the currency reformers did themselves damage with their careless interchange of 'mintage' and 'seignorage'. Hubbard, in contrast, had taken the trouble to split mintage into 'brassage', the fee to cover the mint's own cost of coinage, and 'seignorage', any profit on the operation (*Times*, 16 August 1869, p.8). The contrast between the lexicographical standards of the two sides, however, is perhaps less important than Einaudi suggests. Jevons, Lowe and Smith were perfectly, and visibly, aware that the distinction between brassage and seignorage was a crucial one, or they would hardly have spent so much effort trying to show that a 1% mintage charge would do no more than cover the true cost of coinage to the mint.

This issue too surfaced on the *Times* letters page. Jevons' estimate, as we have seen, was that the cost of coining each sovereign came to 1.5% of its value. A 1% mintage charge would actually mean negative seignorage. But Jevons arrived at his figure only by lumping in the cost of recoining worn coins with the cost of coining bullion into new ones. Opponents objected that it was unjust for the owner of bullion to shoulder this imposition on society's behalf. (15)

But that is an issue of incidence which does not alter Jevons' basic point that a 1% mintage would not allow the Mint to make a profit from its coinage activities as a whole. How, then, could there be any seignorage as Hubbard defined it? The issue was an important one, given Overstone's claim that, once seignorage, as opposed to brassage,

was deemed acceptable, why should there be any limit on it? Ricardo had already answered this question: the limit would come when forgery became profitable.

It was the common currency proposal that had started the debate over shrinking the pound, but it will be obvious from the account above that the ‘europe’ fell out of sight for long stretches of the argument. This caused little grief to most opponents of international coinage, who were only too glad to get the issue off the agenda. By contrast the actuary F.Hendriks, who had launched the debate in 1866 with his proposal that Britain join a common currency, complained in the *Economist* that its opponents appeared to regard the issue as ‘greatly subordinate to the importance of settling various theories of intrinsic value, and of the special perfection of the pound sterling over all foreign coins.’

(Crawford 1870: 289)

This is certainly the impression given by Overstone’s and Hubbard’s contributions, but it is less than fair to ‘Par’, who weighed in repeatedly with denunciations of the idea that a common currency would make trade or travel significantly more convenient.

(*Times*, 16, 20 & 28 September 1869). On the other side, J.B. Smith MP was assiduous in keeping the subject alive, claiming at one point that an international money would be ‘the greatest triumph civilisation has yet achieved.’ (*Times*, 26 October 1869, p.4) And the Royal Commission’s proposal that the rest of the world should adopt sterling continued to be debated. (16) Hubbard himself, while ruling out ‘an international coinage, meaning thereby a system under which every coin of all consenting nations should have an international legal currency’, recommended ‘an international valuator’ whereby a common, stipulated quantity of gold was incorporated into one of the coins of

each country. 'A 25-france piece assimilated to the sovereign would answer the purpose.'
(*Times*, 7 October 1869, p.11)

But Hubbard's main purpose on this occasion was to insist, like the 1867 Paris conference, that any international currency must be based on the gold standard. This, he thought, would be no sacrifice to France, where an inappropriate bimetallic ratio had drained out most of the silver anyway.

Hubbard might have usefully extended this to the rest of the Latin Monetary Union. Most bimetallic systems, most of the time, have a dominant currency – the one at an official premium, compared with its market rate, over the other. The Latin Monetary Union was no exception. The question which historians still dispute is why France clung so firmly to a *de jure* bimetallicism. Einaudi (2000, 2001) underlines the fact that different sections of the French polity had different strengths of commitment to silver, and different reasons for not wanting a gold standard. Wilson (2000) praises French bimetallicism for its stabilising influence on prices and the business cycle, and not just in France itself. In this Wilson joins the twentieth century's most distinguished bimetallicist, Milton Friedman. The standard bimetallicist argument was, and is, that the joint supply of two metals will be less volatile than the supply of just one of them. (This is not just down to the law of random numbers: a shortage of either metal will inspire a search for more of both of them.) Wilson deems this argument vindicated by the French experience. He is, however, notably cautious in attributing it as a motivation to French bimetallicists at the time.

But the fact that the LMU was in practice close to a gold standard cut no ice with Lowe. Within recent memory gold had been the metal in short supply and hence driven out by the fixed bimetallic ratio. It could easily happen again (as indeed it shortly did.) In February 1870 Lowe told the Commons that his first test for membership of a common currency had not been passed. France seemed unable to resolve on a single gold standard, so that ‘the matter must stand over until the French Government shall have arrived at a conclusion on that all-important subject.’(*Hansard*, 199, 153 (10 February 1870.)) (17)

So was it the gold standard that wrecked the proposal? Einaudi (2000, 2001) rightly dismisses the idea that Lowe was simply looking for excuses to discard it. There is no reason to believe that his three tests (unlike a later Chancellor’s five) were designed to be failed. But Lowe was isolated in the Cabinet. No one else there had had any enthusiasm for a common currency in the first place, while Lowe did little to bring them round. When he had first become Chancellor in 1868, Gladstone had advised him to spare no effort in getting the rest of the Cabinet on his side, whatever he was doing. (18) Lowe was to ignore this advice consistently (most notoriously in his ill-fated attempt to bring in a tax on matches.) On this occasion, however, there is no reason to think he could have done anything to make converts.

IV

The reformers may have expressed themselves carelessly at times, but the damage done was slight compared with the conservatives’ own-goal of insisting the exchange value of the pound was irrelevant and then trying, and failing, to show that a smaller coin with a compensating coinage charge would exchange for less. Overstone and Hubbard had an

unenviable choice: accept that exchange value would dominate the argument and thus risk losing it, or stick to an absolute notion of value-in-itself and risk losing their audience. Probably the latter risk should have been taken – after all the *Economist*, the *Telegraph* and *The Times* were unanimous that, however astutely Lowe and the two Smiths might argue that a smaller sovereign plus a coinage charge was worth the same as the old one, the general public would never believe them. *The Times* specifically took up Lowe’s contention that people who accepted worn coins would not mind new ones of the same weight.

The British public ... do not often ask how much a sovereign has lost by honest use, and they do not know how often the coin is really short of its proper value by several pence. But ... we... might become more sceptical if the State seriously attempted to pass upon us a coin which made no secret of a small deduction to pay ... for the costs of the Mint. (19)

If so, the British public would have been at least as receptive to ‘absolute value’ arguments as to ‘exchange value ones.’ But, as it was, the Overstone camp did not stick to this high ground. Like the king’s army at the battle of Hastings, they were lured down the hill into enemy territory with fatal results.

But it all soon ceased to be topical. With the ‘europe’ off the agenda, so was the case for shrinking the sovereign. There was still a case for leaving it the same size and charging a mintage, backed with the authority of the third Smith (Adam) and Ricardo. But, without the prospect of monetary union, no one felt like making it. Nor is it easy to

assess how far Jevons' contribution laid the ground for the eventual extension of the marginal revolution to macroeconomics. To hear Lowe, who was not just Chancellor but also the most stridently classical economist in the country, talking about stock adjustments between coin and bullion until marginal utilities corresponded to prices, may have sown a few seeds even if he did not put the proposition in such explicit language. And certainly Jevons' revenge on Hubbard, after that embarrassing cross-examination at the 1867 Royal Commission, was complete. But the eclipse of the 'europa' also signalled the eclipse, for the time being, of fundamental monetary debate and the next such controversy, the bimetallic contest of the 1880s, was silent on the implications for international currencies.

NOTES

- 1 Bagehot later proposed an Anglo-American monetary union which he believed Germany would want to join too, but the idea attracted very little support anywhere.
- 2 Jevons' ally Colonel J.T. Smith picked up a point originally made by McCulloch, arguing that a mintage charge would also discourage people from turning sovereigns back into bullion and thus wasting the Mint's time. McCulloch and Smith were wrong about this -- once the quantities of bullion and coin have adjusted to equate supply with demand for both, any further shift in demand will, depending on its direction, lead to all coining and no melting, or all melting and no coining. The existence or size of a mintage charge will have no effect on this. It is likely that Jevons' neoclassical perspective, incomplete though it was at this stage, enabled him to see this and refrain from cashing in what would have been a politically useful point. (J.T. Smith, 'Gold

Coinage', letter to *The Times*, 26 August 1869, p.4)

3 Overstone started and ended in this position but in the second of his three contributions he condemned all mintage as 'charg[ing] the creditor with the expense necessarily incident to the preparing or manufacturing that to which he has an absolute right.'

(O'Brien 1971: vol.3, 1182)

4 It was one of Overstone's objections to Jevons that he used 'mintage' (the cost of coining) and 'seignorage' (any profit above this) interchangeably.

5 The Mint's report is printed in full here.

6 Lowe was alleging that new sovereigns differed enough in weight for it to be profitable (under free coinage) to melt the heavier ones down and get them recoinced. Both Lowe and Jevons purported to know of continental 'melting establishments' set up to do just this. However J.T.Smith claimed this would never be profitable, the bullionist Ernest Seyd poured scorn on the idea of such establishments and the *Observer* wanted to know why they would have to be located abroad. (Lowe 1869: fo.83; Smith 1869: 6; Ernest Seyd, 'Gold Coinage', letter to *The Times*, 14 September 1869, p.10 ;*Observer*, 12 September 1869)

7 It was almost inevitable that someone would propose calling the new coin the 'Lowe', and now someone did (letter to *The Times* by 'Par', 13 September 1869, p.6).

8 Lowe to Cardwell, 7 September 1869, Gladstone Papers Add. Mss. 44611, f.54

9 Cardwell to Gladstone, 19 September 1869, Gladstone Papers Add. Mss. 44119, f.66

10 Gladstone to Cardwell, 20 September 1869, Gladstone Papers Add. Mss. 44537, f.66

11 Lowe's next letter to Gladstone was to request the abolition of the post of Master of the Mint, to save money. It is unclear why Einaudi sees Gladstone's reply, which is

entirely about the affairs of the Mint, as an order to Lowe to ‘calm down’ on the European currency; though Gladstone’s scrawl, which has caused Einaudi to read ‘establishment’ as ‘sovereign’s weight’, is not helpful. (Lowe to Gladstone, 11 October 1869, Gladstone Papers Add. Mss. 44301 ff.84-5; Gladstone to Lowe, 12 October 1869, *ibid.* Add. Mss. 44537, f.92v.; Einaudi 2000: 299)

12 Einaudi (2001, p.149) accuses the reformers of taking a position which implied that a coin could have two different values at the same time and in the same place. None of them implied any such thing, and the only person who apparently believed it was Lord Overstone, who was on the other side (see above).

13 ‘We agree with Peel in his definition of a pound – that it its nothing more or less than a certain weight of gold of a certain fineness, stamped by the State, and at the expense of the State, as a certification of its weight and fineness. [Mintage would] interfere with a principle of our currency on which Sir Robert Peel laid so much stress.’ (‘Mr Lowe’s Seignorage Scheme’, *Morning Advertiser* 23 August 1869, reprinted Crawford 1870: 79.)

14 Several people pointed out that the Mint did *not* currently provide free coinage, given the considerable lag, and attendant opportunity cost, between its taking your bullion and returning it as coin. That was why the Bank of England could charge for exchanging coin for bullion and still get more custom than the Mint did. See James Aytoun, ‘The Chancellor of the Exchequer Must Be Taught Political Economy’, *Morning Advertiser*, 14 August 1869, reprinted Crawford 1870: 37

15 See for instance ‘H.M.H.’, ‘The Gold Coinage’, letter to *The Daily Telegraph*, 9 October 1869, reprinted Crawford 1870: 219. The *Telegraph* itself went further and

maintained that *any* mintage charge was unjust: ‘The cost of our Mint is simply the tax which the nation contributes for supplying itself with one of the best coinages in the world. An impost more universal in its application, more fair in its incidence, it is difficult to imagine.’ (editorial, 21 October 1869, reprinted Crawford 1870: 200-2)

16 L.Bruton, ‘The Gold Coinage’, letter to the *Daily Telegraph*, 13 October 1869, reprinted Crawford 1870: 251-3; F.Hendriks, ‘Mr Lowe on the Coinage’, *Economist*, 20 November 1869, reprinted Crawford 1870: 295-6

17 The Banque de France remained solidly in favour of bimetallism, the Senate voted against a gold standard, and the French government itself was split on the subject. See Einaudi 2000 *passim*

18 Gladstone to Lowe, Gladstone Papers, British Library, Add. Mss. 44301 ff.35-36

19 *Economist*, 21 August 1869, reprinted Crawford 1870: 68-71; *Daily Telegraph* 21 September 1869, reprinted Crawford 1870: 278; *Times* 19 October 1869, p.8; Lowe to Cardwell 7 September 1869, Gladstone Papers Add.Mss.44611 fo.54

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