OBSERVATIONS

ON

THE EFFECTS

PRODUCED BY THE

EXPENDITURE OF GOVERNMENT

DURING THE

RESTRICTION OF CASH PAYMENTS.

BY WILLIAM BLAKE.

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

PORTLAND-PLACE,
March 3, 1823.

OBSERVATIONS,

&c.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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 failing, 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 balance, as the export of bullion or of other commodities was tending to liquidate it. This would depend on the extent of foreign payment required to meet an extraordinary exertion, and on the difficulties which might be thrown in the way of providing for that payment by the export of goods. For the bullion that could be procured to meet a large foreign expenditure would be very limited, and would disappear almost immediately unless kept in the country by increase of price.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	Bank notes.	Price of gold. £.	s.	d.
April to June, 1815	27 millions	5	4	0
July to Decem. 1817	29 millions	4	0	6
July to Decem. 1818	26 millions	4	2	6
Evidence of Mr. Ward, p. 74.				
1813	24 millions	5	10	0
1817	28 millions	4	6	0
Evidence of Mr. Tooke, p. 129.				
Latter part of 1817	29 millions	4	0	6
1819	25 millions	4	3	0
From July 1815 to Decem. 1816, three half years steadily at	26 millions	4 16 0 to 3 18 6		
Evidence of Mr. Ricardo, p. 134, 135.				

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

of the note is the cause of the adverse exchange, and of the high price of bullion. Whereas, if he had felt at the time a conviction that there would be precisely the same difference in the apparent value of the note from an adverse real exchange, and that the exchange was the cause of the apparent depreciation, his answer would have been—I have never known such a fluctuation but from political causes, and I should refer it to an anticipation of an adverse exchange, which would necessarily follow the large demand of government for foreign expenditure.

After this investigation, I may at least assume that there are two modes of viewing this important question: that there are two modes of accounting for the remarkable fluctuations that occurred, both in the price of bullion and the exchanges.

It is quite clear, at all events, that the high price of gold bullion is not a necessary criterion of the currency having fallen below its proper level; and the reader must decide to which of the causes he will attribute the extraordinary effects that have taken place. In making up his mind, he would do well to reflect, that for the theory of depreciation there is no proof whatever, save that which arises from the symptoms alone. That this proof amounts to little

more than an argument in a circle. The depreciation is assumed as a test of over issue of currency, and the over issue is inferred, because there is a depreciation; whereas, if he takes an increased foreign payment as the cause of an adverse exchange, he takes for his basis an acknowledged fact, and from that fact he traces a demonstrable result. He does not argue from symptoms back to a conjectural cause, but he has an *à priori* demonstration, that a large foreign expenditure must create an adverse exchange. That an adverse exchange must, at all times, and with the most perfect metallic currency, give the appearance of a fall in the value of our circulating medium as compared with that of other countries, and with an *inconvertible* currency, must raise the price of gold, without necessarily interfering with the price of other commodities. Having established this foundation, abstractedly from all practical application, he has the opportunity of comparing how the two theories correspond with the series of events.

If any one will be at the pains of reading the evidence before the Bullion Committee in 1810 and 1819, taking along with him this key, he will find the theory of depreciation opposed at every turn by facts in direct opposition to it. Exchanges favourable when they ought to be adverse; gold high when it ought to be low; and contradictions and inconsistencies without end; while the other theory has no difficulties to overcome, save such as may arise from our ignorance of the operations of government, and the precise amount of the foreign expenditure at any particular period of time. He will find the exchange most adverse, when we were making the greatest exertions abroad, either by our own military operations, or the subsidies to assist the military operations of our allies. He will find the evils aggravated, when obstructions were thrown in the way of our exports by the Milan decrees, or by large importations of corn. He will find the unfavourable aspects assume a different appearance at the close of the war, and be renewed during the hundred days of Buonaparte's return from Elba; and, in short, that general accordance between the events, and the actual or probable expenditure of government*, which could hardly be expected, unless they were connected as cause and effect. When the expenditure of government ceased, the adverse symptoms disappeared, and we passed gradually

* Mr. Rothschild states the expenditure of the British government in the years 1814 and 1815 to have been immense, and that it lowered the exchange nearly 30 per cent, See *Report on Resumption of Cash Payments*, p. 160.

and easily into our natural state, so far, at least, as regarded our relation with foreign countries.

Having disposed of this part of the inquiry, we shall now be better prepared for examining the remaining division of the subject, and for investigating the cause of that general increase of price of almost all consumable commodities which forms such a striking feature in this question, and which has been considered as another decisive proof of the depreciation of our currency.

If I have been successful in convincing my reader, that with a currency in the most uniform state in regard to other commodities, the high price of gold was the unavoidable result of our large foreign expenditure, and no proof whatever of a general depreciation of the currency, his mind will naturally be more disposed to admit any reasoning that may account for the rise of prices, without having recourse to the same theory. I have already stated, that this general increase of prices depended upon causes connected with the war, and the increased internal expenditure of government, and would have occurred although the currency had remained at its natural level. I shall now endeavour to establish this position, without any reference to the previous reasoning respecting the high price of gold. The two parts of the argument being thus conducted upon independent grounds, will re-act upon each other, and tend to the confirmation of both.

The first obvious cause of high prices is the increase of taxation. Upon this point there has been some difference of opinion, but none that has any immediate practical bearing on the question. It has, indeed, been contended, that if taxes could be fairly distributed, so that each person should pay his proportionate share according to the income he possessed, taxation would have but little effect in raising price; it would only tend to diminish the income of those who paid the tax*.

In our present state of society, such a distribution is quite impossible. In the first place, the income of the labourer is not much more than sufficient to keep up the class of labourers; and although I have little doubt that a very large amount of the taxes is paid by this class, yet they could not contribute any thing like their individual proportion, without impairing the funds absolutely necessary for subsistence. Notwithstanding, therefore, that in consequence of their numbers, they probably pay a large share, they do not pay their proportionate share,

* See evidence of Mr. Tooke, Committee on Agriculture, p. 292.

and, considering how limited their enjoyments are, it is to be hoped they never will.

The fact is, that the taxes are chiefly laid upon articles of consumption, and are generally imposed successively and partially. Such taxes, when levied on the producers, are immediately repaid to them in the increased price of the article, and fall upon the consumer; and the result is inevitable, because the producer has the remedy in his own hands. Unless the public will at once consent to pay the increased price, he will lessen the supply till his object is attained, and without which he could not continue his business. Part of the increased prices, therefore, paid for all articles of consumption during the war, has been owing to the increase of taxation, and would be confounded with the increased prices supposed to arise from a depreciation of the currency. Again, there are very few articles consumed by the most indigent classes of society, that are not in some way, more or less remote, dependent on the importation of foreign produce. The raw material of many, even the coarsest manufactures, is imported directly; various articles used in dying, and other processes of manufacture, are not the productions of our climate. Tea, sugar, and other varieties of food, come to us from abroad. Upon all these commodities there is, during war, an increased charge from high freights, insurance, and extraordinary duties of Customs; all these are so many sources of additional cost, and are causes of high prices, totally independent of depreciation. But the increase of prices does not stop here. If the articles consumed by the labouring poor become dear from taxation, and from the other causes just enumerated, the wages of labour will rise; and it becomes a subject of inquiry whether this increase of wages can be charged to the consumer in the same manner as the taxes.

Every manufacturer is aware, that during the pressure of unusual demand, he can well afford to pay higher wages to his workmen; because he not only reimburses himself for the extra advances, but is enabled to increase the price of his articles so as to augment his profits also. In a particular case then, his power of adding wages to the price will depend upon the demand compared with the means of supplying that demand. But the same reasoning will apply to the whole mass of manufacturers, provided a general demand arises for their commodities beyond the customary powers of supply.

The community consists of two classes of persons, one of which consumes and reproduces,

the other consumes without reproduction. If all the society consisted of producers, it would be of little consequence at what price they exchanged their commodities amongst each other; but those who are only consumers form too numerous a class to be overlooked. Their powers of demanding arise from rents, mortgages, annuities, professions, and services of various descriptions rendered to the community. The higher the price at which the class of consumers can be made to buy, the greater will be the profit of the producers upon the mass of commodities which they sell to them; hence it becomes an object of great importance to inquire in what degree the demands of the consumers may vary in relation to the means of production.

Now, amongst the class who are only consumers, government holds the most prominent station; and before the subject can be satisfactorily investigated, we must examine more closely the effects produced by its expenditure. Dr. Hamilton states, that from the year 1793 to 1815, both years inclusive, the sum of nearly 509 millions of *sterling* money was borrowed by the English government*.

If the expenditure of this enormous amount

* Hamilton on the National Debt, Table 3, Appendix.

could be considered as an extra demand, in addition to the ordinary demand of the society, there would be but little difficulty in accounting for the increase of prices during the war; and were I content to build an argument on the opinions generally prevalent, I might assume this extra demand as a truth admitted by all practical men, and by very many able writers. It is a position, however, of too much moment to be thus lightly passed over. Political economists have considered the expenditure of government to be derived from a fund that would have been equally a source of demand if it had been left in the hands of the public; it becomes, therefore, absolutely necessary to inquire a little more scrupulously, whether this immense sum is to be considered as an additional demand, or merely as a transfer of demand.

Five hundred and nine millions, divided amongst the twenty-three years of war, give an average expenditure of about twenty-two millions per annum. Let us assume, for the sake of facility of calculation, that the government required twenty millions per annum. If this sum could be raised at once by taxes out of the income of individuals, it would be a mere transfer of income from the people to the government; it would make no difference in the expenditure or the consumption. The people

would lose the enjoyment which twenty millions of expenditure might have afforded them, and the government, with its subordinate agents, would consume an equal value in their stead.

Considering that at the present moment we actually raise in taxes above fifty millions per annum, it cannot but excite regret that we should ever have had recourse to so improvident a system, as funding; entailing upon us a perpetual charge from which we might have been wholly exempt, if we had submitted to a greater sacrifice, when the country required a greater exertion.

It must be remembered, however, that it is by degrees only we have arrived at that state of opulence which enables us to raise so large a sum within the year, and that at the respective periods when the loans were contracted, the burthens might have been absolutely intolerable. To alleviate the pressure of this burthen, government has been in the habit of borrowing loans from the people, in return for which, annuities have been granted to the contributors, to be raised by taxes out of the future income of the country. This has been usually effected by applying to some banker or merchant of great credit, who contracts to furnish the amount by monthly instalments, or as the immediate wants of government may require.

The loan contractor has not, nor is he supposed to have, any such sum; but he expects by his own exertions, and those of his friends who embark with him in the contract, to be able to dispose of the annuity in smaller annuities among the public, so as to provide for each successive instalment as it becomes due. Supposing then the annuities to be thus parcelled out, it is clear that in whatever manner the contributors had hitherto been employing their capital, they must have made up their mind upon this occasion to lay by a certain portion in the purchase of an annuity, and to withdraw it from active employment. Instead then of distributing that capital amongst their workmen, they transmit it to the loan contractor, who is thus enabled to fulfil his engagement with government. Whilst this process has been going on, the orders have been given for a supply of muskets, swords, cannon, gunpowder, &c.; and upon the receipt of the twenty millions of money by the government, it is immediately reissued, in payment for the warlike stores which the manufacturers have furnished. When returned into their hands, it serves as a repayment for the raw materials, food, clothing, &c., and all the ingredients of circulating capital, which had been left without a demand, when the capitalist who furnished his funds to govern-

ment retired from business. By this circulation, every thing is apparently restored to its former state; except that there has been an extra production of military stores, and a deficient production of the goods that would have been fabricated by the capitalist, if he had not lent his funds to government; and the public have been burthened with the payment of an annuity of one million, to be levied out of their income for ever, and no longer to be enjoyed by the producers, but to be transferred to the annuitants who have now become national creditors.

In examining the links of this chain, it appears, at first view, as if the funds for the maintenance of productive labour had only passed into other hands, and that the aggregate income of the country had not been diminished; inasmuch as the taxes levied to pay the annuity have added to the income of the national creditor precisely the same amount that was taken away from the income of the public. It seems too, as if no destruction of property had taken place, save that which arises from the consumption of the wrought goods, of clothing, and of food fabricated, or raised to meet the demand of government. It must not be overlooked, however, that when government, or its troops, or agents, obtain possession of the commodities thus raised by the exertions of the people, the commodities are consumed without any reproduction.

When the food, clothing, and raw material, which constitute the circulating capital of the country, are distributed amongst the working classes, their consumption is followed by a reproduction of similar materials, together with a surplus value, constituting the fund denominated revenue or income. The latter may be devoted to unproductive consumption, without in any way injuring the productive powers of the community. The efforts of the capitalists will be directed towards the supply of both these funds with such articles as are adapted to the different wants and tastes of the community. The demand of government will disturb the usual course of production; and that portion of goods destined to unproductive consumption must be augmented beyond what is commonly allotted for the ordinary consumption of the society, by all the extra quantity now required by government. If previously to this demand the productive powers of the country were exerted to the utmost, and there was no means of adding to the gross annual produce, then the government could only be

supplied with the commodities it required, at the expense of that fund which had before supplied the capitalist.

If the circulating capital of the country is conceived to be represented by the number 100, the workmen in consuming that amount ought, at a return of 10 per cent., to reproduce a value equivalent to 110. In which case, 10 would represent the amount that might be devoted to unproductive consumption, without injuring the society; and there would remain a value equal to 100, for the purpose of carrying on the same process the following year. If government borrows 10 of that 100 in the form of a loan, and with that loan stimulates the producers to fabricate a quantity of commodities for its own particular use; the value of 110 would be reproduced as before, but under a different form. The surplus fund devoted to unproductive consumption would be represented by 20, and 90 only would remain to supply the labourers with subsistence and raw material for the following year. From the consumption of this quantity of capital, the workmen ought, at the same rate of 10 per cent., to reproduce in the second year a value of 99; of which, if the community consumed 9, and the government as before required 10, there would remain but the value of 80 to be distributed among the working classes, in the third year, and so on.

In this way the capital of the country might be gradually devoted tô consumption. As the process continued, the funds which supplied the working class would disappear, and nothing but impoverishment could ensue. If the capital of the country is always in the fullest activity, and no extra production can take place in any one employment of it, without a corresponding diminution of production in some other; it immediately follows, that the demand of government is no addition to, but merely a transfer of the ordinary demand, with this alarming consequence attached, that in every step of the progress, a certain portion of the powers of production is annihilated for ever. Let us then bring this theory to the test of experiment, and trace the effect that would follow from the expenditure of the actual sums which government has annually been in the habit of borrowing.

Assuming then twenty millions to be wanted for the service of the year, let us suppose that this amount of capital is taken from an employment where it is reproduced with a profit, and that it is transferred to be expended unproductively, so that at the end of the twelvemonth, no traces of it shall appear. This is

precisely what is meant by converting capital into revenue.

Now twenty millions of circulating capital thus borrowed will, of course, throw out of work all the hands employed by the capitalists who lend it. The persons thus deprived of employment would be chiefly artisans, and might, one with another, earn £40 per annum each. At this rate, the twenty millions of capital would give employment to five hundred thousand workmen, and as many of these might be heads of families, there could hardly be (taking workmen and their families together) less than one million of souls depending for subsistence upon their employment. To prevent the convulsion incident to such a diversion of capital, let us suppose that government employs a certain number as soldiers, and that the remainder could find work in manufacturing the warlike stores and accoutrements, all of which are to be consumed, according to the conditions, unproductively. In this way, no inconvenience would be felt; the whole million of souls would be provided for, and it would be a fair representation of the change of productive capital into unproductive revenue.

Thus far the process goes on very smoothly; and were we to stop here, no other difficulty would ensue, except that which attends all violent transitions. But what is to be done the second year? Government requires a further supply of twenty millions, which is to be borrowed in the same manner, and with the same consequences. Five hundred thousand more artisans are thrown out of work, who with their families constitute a second million of persons wanting the means of subsistence, in addition to the million of the former year. Continuing, then, the same supposition, that government could apply, as before, the twenty millions of money in providing work for the discharged artisans, we should still have two millions of persons to support with a fund equal only to the supply of one million: the third year would give three millions of people to be employed by a fund of the same limited power, and thus in succession as long as the war lasted. So that at the end of the late struggle, after twenty-two years of war, there would be a destruction of four hundred and forty millions of capital, and twenty-one millions of souls would have been left without subsistence, or any possibility of finding employment.

A more striking example of a moral *reductio ad absurdum* could hardly be imagined; and

yet, extravagant and preposterous as this conclusion may appear, I am not aware of any exaggeration. It is, as far as I know, a fair representation of what would be called destruction of capital, or a diversion of capital from a productive to an unproductive employment. This view of the process may be rendered less distinct, by distributing the capital over a great extent of country, and a great variety of trades and manufactures; but assuming that the capital of the country is always fully employed, and that the expenditure of government is only a transfer of demand, the conclusion at which we have arrived seems to be inevitable. Forty pounds per annum is assumed as a fair rate of wages, near enough to the truth for the purpose of illustration, and, as a round number, facilitating calculation; if a less sum be taken, the evil would be aggravated, and the consequence still more absurd.

Such a state of affairs is not only utterly inconceivable, but is at absolute variance with all our past experience. The funds which gave subsistence to twenty-two millions of people cannot have disappeared without our being aware of the loss; and during a period when, instead of distress from want of employment, we have witnessed the greatest activity in every department of industry; every symptom of increasing capital, increasing wages, and increasing population, affording the strongest evidence of prosperity and wealth. There must either be some gross and radical error in the theory that leads to such absurd results, or in making the application of the theory to the actual circumstances of the country some material fact must have been overlooked, that has either corrected or mitigated the desolation that would otherwise have ensued.

It appears to me that the error lies in supposing, first, that the whole capital of the country is fully occupied; and, secondly, that there is immediate employment for successive accumulations of capital as it accrues from saving. I believe there are at all times some portions of capital devoted to undertakings that yield very slow returns and slender profits, and some portions lying wholly dormant in the form of goods, for which there is not sufficient demand. I believe, too, that when capital accumulates rapidly from savings, it is not always practicable to find new modes of employing it. Now, if these dormant portions and savings could be transferred into the hands of government in exchange for its annuities, they would become sources of new demand, without encroaching

upon the existing capital. Unless savings were actually accumulating simultaneously with the expenditure of government, it appears to me that all the mischief described in the foregoing pages would have followed, and that long before the expiration of the contest our efforts must have been completely paralysed.

Adam Smith has long since observed, "that the principle which prompts to save, is the desire of bettering our condition; a desire which, though generally calm and dispassionate, comes with us from the womb, and never leaves us till we go into the grave. It is this effort, protected by law, and allowed by liberty to exert itself in the manner that is most advantageous, which has maintained the progress of England towards opulence in all former times. The profusion of government must undoubtedly have retarded its natural progress towards wealth and improvement; but in the midst of all the exactions of government, the capital has been silently and gradually accumulated by the private frugality and good conduct of individuals, by their universal, continual, and uninterrupted efforts to better their own condition."

It will be contended, no doubt, that if the savings had remained in the hands of the capitalist, they would have equally been a source of demand as when transferred to the government; but this is the very point at issue. It is quite clear that the object and the consequence of the demand would be totally different in the two cases. Whatever amount of produce is withdrawn from the market by the demand of the saving capitalist, is poured back again, with addition, in the goods that he reproduces. The government, on the contrary, takes it away for the purpose of consumption without any reproduction whatever. The question then will simply be, What effect will be produced upon the general industry of the country and upon prices, according as the one or the other mode of employing this extra capital prevails?

Now, whenever savings are made from revenue, it is clear that the person entitled to enjoy the portion saved is satisfied without consuming it. It proves that the industry of the country is capable of raising more produce than the wants of the community require. If the quantity saved is employed as capital in reproducing a value equivalent to itself, together with a profit, this new creation, when added to the general fund, can be drawn out by that person alone who made the savings; that is, by the very person who has already shown his disinclination to consume.

When once the division of labour has taken place, the efforts of each individual are directed to the fabrication of some specific commodity. He fabricates it in the hopes that there will be a demand for all that he can produce. If every one consumes what he has a right to consume, there must of necessity be a market. Whoever saves from his revenue, foregoes this right, and his share remains undisposed of. Should this spirit of economy be general, the market is necessarily overstocked, and it must depend upon the degree in which this surplus accumulates, whether it can find new employment as capital. For it is quite evident, that to continue to fabricate the same sort of goods that have been already rejected would only tend to increase the evii.

Accordingly, Adam Smith remarks, that " As capitals increase in any country, the profits which can be made by employing them necessarily diminish. It becomes gradually more and more difficult to find within the country a profitable method of employing any new capital. There arises, in consequence, a competition between different capitals, the owner of one endeavouring to get possession of that employment which is occupied by another. But upon most occasions he can hope to jostle that other out of this employment by no other means but by dealing upon more reasonable terms. Their competition raises the wages of labour and sinks the profits of stock."

This opinion of Adam Smith has been controverted by the political economists of the present day, who have endeavoured to show that profits never permanently fall in consequence of the competition of capitalists lowering price by over production. They admit that there may be a partial glut of particular commodities from miscalculation of the wants of the market; but that over production can never induce a general glut, and that profits will not fall from this cause, but will be regulated by the rate of wages, and the rate of wages by the quality of the last land taken into cultivation.

This doctrine, I think, has been pushed a little too far. It proceeds upon the assumption that every addition to capital necessarily creates its own demand; but in applying the theory to the actual circumstances of mankind, some inseparable conditions appear to me to have been overlooked. It takes for granted, that new tastes, new wants, and a new population, increase simultaneously with the new capital; a supposition which is not consonant with the fact. The advocates of this theory contend that demand and

supply are correlative terms, and must always exactly balance each other *. That any commodity being in excess proves the efforts of the capitalists to have been misdirected, and that there must be a corresponding deficiency in other things.

Nothing can be more clear than that in order to make a demand, you must have an equivalent to offer in exchange. Something must be produced to demand with. In other words, the terms demand and supply merely express, that one sort of supply is exchanged against another sort of supply. This is perfectly true as far as both sorts of supply are wanted for consumption. If one set of capitalists produce a given quantity of cloth beyond their own immediate wants, and another set of capitalists produce an equivalent quantity of corn, also beyond their wants, the surplus quantity of corn may be exchanged against the surplus quantity of cloth, and thus afford a profitable market to each other. But this proposition implies that there is not more corn and cloth in the whole than the two classes of capitalists want to consume. If more than that is produced, the surplus is absolute waste on both sides; and all

* This argument has been most ably and adroitly conducted by Mr. Mill, in his Elements of Political Economy, and, granting that new tastes and new wants spring up with the new capital, appears to me unanswerable.

the labour thrown away. I shall be asked, no doubt, does not this arise from miscalculation on the part of the producers? Undoubtedly it does, but it is not an excess of one commodity, and a deficiency in another. It is an excess of both. Why then were the corn and the cloth produced? For this plain reason: neither the corn grower, nor the cloth maker, could know that there would be an excess till the excess occurred. Each depended upon a market, and was mistaken. If every thing could be foreseen, mankind would not miscalculate, and there would be no overstocking of the market. But they do miscalculate, and the market is overstocked. When savings are devoted to reproduction, each manufacturer employs the additional capital in fabricating that class of commodities which he has been in the habit of making. But if there was already more than sufficient, the addition must still farther increase the excess. How is it possible for this process to continue without a fall in prices, and a lower rate of profit to the capitalist?

The difficulty of finding employment for new capital is acknowledged by all practical men. They continually feel and complain that every channel is full. The evidence is brought home to them, by the general accumulation of commodities undisposed of, and stored in the warehouse. These are the records of so much ca-

pital in a state of actual stagnation, neither affording profit to the owner, nor employment to the workman, and discouraging all future exertion. The capital expended in the production can be replaced to the manufacturer in no other way than by the sale of the goods; and until that is effected, both capital and workmen are reduced to a state of inactivity. The difficulty is easily got over theoretically, by supposing the manufacturers to invent immediately new articles to gratify the tastes of consumers. The practical manufacturer, however, knows the risk attendant upon speculations of this description, and is afraid to encounter them. But let a new market be opened, and the impulse is given at once. If when the two sets of capitalists were producing more corn and cloth than could be consumed, a country were to be discovered which afforded other objects of gratification to man; and corn and cloth should be articles of request in the new market, the surplus is at once disposed of in exchange for the new productions: and that which was absolute waste, as corn and cloth, becomes in another form a source of enjoyment, and a stimulus to future exertion. So will it be with savings. Open but a new market, or invent new objects of desire, and either the savings are consumed in another form by the persons who had previously ceased to consume, or they are advanced as capital to workmen, and the revenue arising from that capital is expended in the purchase of the new luxuries.

Now this is precisely what is effected by the increased expenditure of government: a new and immense market is at once opened for consumption.

The immediate means of purchasing which government possesses is derived from the sale of annuities. The power of levying taxes in perpetuity, and of transferring the income arising therefrom to individuals, enables the government to collect all those savings that find no immediate employment as capital, and to devote them to expenditure. The purchasers of these annuities consist chiefly of the class living upon fixed monied incomes, who are disinclined personally to employ their petty savings in business, and who prefer the security of government to that of private borrowers; or they are of the class of capitalists, who finding the returns upon their capital inadequate to the trouble and risk, are glad to receive a stipulated and certain return as interest, rather than an uncertain one in the form of scanty profits. The purchase of an annuity is a complete proof

that the owner of the capital has not the means of employing it advantageously.

The loan contractors thus become the channel through which all the accumulations of capital that are feebly employed, or that are without employment, find their way into the hands of government; whence they immediately pass into a state of complete activity amongst the producers who furnish the warlike stores, or such other commodities as the subordinate agents of government require. Whether this additional consumption be eventually beneficial to the country, is not the present object of inquiry; but there cannot be a doubt, that during its continuance, the effect must be precisely the reverse of what we have been endeavouring to trace during the progress of rapid accumulation of capital. Its tendency would be, to relieve all capitalists from excess of stock; to create a demand for their goods, whilst it diminished the competition of new capitalists, and thus to increase both prices and profits.

That this increase of profits has been the consequence of a war demand, we have all the evidence that historical evidence can afford.

No proposition is more generally admitted, than that the market rate of interest paid for the loan of capital is proportionate to the profits that can be made from the employment of it.

If profits, then, were regulated solely by those made upon the last quality of land taken into cultivation, we should observe in all countries a regular fall in the market rate of interest as the population increased, and was compelled to have recourse to inferior land. Now it is not denied that such has been the usual course of the rate of interest; but it is equally certain that there are very remarkable deviations from this law, and for long periods of time together.

In the twenty-six years of peace that followed the treaty of Utrecht, the market rate of interest ran steadily at 3 per cent., and 3 per cent. stock of government, previously to the war of 1739, sold as high as 107*. During the war, the 3 per cents. fell from 107 to 80, and after the peace of Aix la Chapelle, again rose to 106. In the year 1762, during the seven years war, they fell to 63, and rose during the peace to between 80 and 90. In 1782, during the American war, they fell as low as 54, and in the following peace again rose to 96†. During the French revolutionary war, the market rate of interest rose to 7, 8, 9, and even 10 per cent.,

* Hamilton, p. 317.

† Hamilton, on the National Debt, p. 317, 318.—I am well aware that the price of government securities is not a perfectly correct criterion of the market rate of interest, but it affords a fair approximation, and a scale of comparison for different periods.

although during the whole time lands of the very lowest quality were inclosed and cultivated. Since the termination of the war, the interest of money has again fallen, and the Bank are discounting at 4 per cent.

These facts are in direct opposition to the theory of profits being regulated *always* by the quality of the last land taken into cultivation*; they are a strong confirmation of the opinion of Adam Smith, that the profits of capital are subject to variation, from the proportion which the capitals bear to the existing population, and to the desires or powers of the community to consume. The fact, too, of the low rate of interest paid in the year 1792 is strong evidence, that previously to the breaking out of the French war, capital was accumulating faster than the means of employing it; and warrants me in the assumption, that savings from revenue were then going on, which might afford a fund for the war expenditure of government.

If, then, during the periods of peace, when, probably, there is a rapid accumulation of capital, I find that profits diminish; and that during periods of war there is a great increase

* This point has been very ably urged by Mr. Malthus in his Principles of Political Economy, and has not as yet received any satisfactory answer.

of profit, and that both these results ensue without reference to the quality of the land taken last into cultivation, how can I resist the conclusion, that savings from revenue, when devoted to further production, have a tendency to increase the quantity of commodities beyond the means of consumption, and thereby to lower prices.

When savings from revenue, instead of being devoted to reproduction, are transferred into the hands of government, no productive labourers are thrown out of employment, for the savings have never yet served as capital; the working classes are still fully occupied by the capital previously existing, in providing the gross annual produce for consumption. When government comes into the market with the funds supplied by the loan contractors, it makes a demand upon the producers for an extra quantity of work, to be furnished by the same number of workmen; wages rise, but the master manufacturers, with the certainty of a market for their goods, gladly advance the extra stimulus. The whole industry of the nation is called into action, and new life infused into every employment.

That capital exists in a dormant state, and is capable of being called into increased activity by the application of the proper stimulus, there can-

not be the smallest doubt. Every day's experience affords practical evidence of it. No sooner is a market, or supposed market, opened at Buenos Ayres, or elsewhere, than cargoes to an immense amount are shipped to take advantage of it. The trade with India is thrown open, and instantly the different presidencies are glutted with English goods, without any diminution in the supply of the home market. Ask the manufacturers at Leeds, Manchester, Birmingham, what would be the effect of a certain sale for fifty millions of their respective manufactures? Can there be a moment's hesitation that every workman would be called upon for his utmost exertion. In the evidence before the committee on the Agricultural Distresses, Mr. Attwood states the productive power of Birmingham to be double what its action then was. Examine the evidence of Alderman Rothwell, Mr. Rous, and various other witnesses, who all agree, that during the war there was both greater production, and greater consumption. How could there be greater production from the same number of workmen, without more exertion, and higher wages? The hay season, and the harvest season, offer good illustrations of the quantity of extra work that can be done, under the stimulus of high wages. Every one knows what exertions are sometimes made when artisans are paid by the piece. Machinery may be made to work the whole twenty-four hours instead of twelve. Nothing is wanting to create this activity but high prices, and the confidence of a market*.

If savings are to be employed as capital, they must be distributed amongst a population not more numerous than before, and higher wages must be given; but, I contend, that there will be a disinclination to give the higher wages, or to employ workmen at any wages, when the goods produced have to seek for a doubtful consumption by competition in a market already fully supplied. When the savings are expended by government, the manufacturers feel the market

* The following information was obtained from an intelligent woollen manufacturer in the neighbourhood of Leeds. He occupies a large mill, and has the necessary proportion of manual labour for the power of his engine. He was very much pressed for the kind of goods he manufactures, and in order to meet the increased demand, called on his labourers for their utmost exertions. The ordinary day's work is from six o'clock in the morning to six in the evening, allowing time for meals. He overworked his hands from two to three hours per day, thereby making from seven to seven and a half days work per week for each hand; and although for a few months in summer under such circumstances, he is of opinion that an increase of ¼th *in production* might be obtained in his mill; yet to continue to extract as much as possible from manual labour for any considerable length of time, would not produce an increase of more than one-seventh.

to be declared and manifest, the demand urgent, and the customer prodigal and improvident in his bargains. It is to be remembered also, that the demand of government is not only for goods, but for men. The army and the navy must be recruited. Whilst more commodities are required, government withdraws a part of the power that is to produce them, and wages are still more enhanced by this new competition. The natural consequence that results from this increased activity is, a very great extra demand for agricultural produce, and for sustenance of every description. That part of the loan which is distributed in pay to the troops is mostly expended in provisions for their maintenance. Probably a greater quantity may be consumed by them as soldiers, than if they continued in their usual occupation; and this is much dwelt upon by some writers, as the great cause of extra consumption during war; but, I think, more importance has been attached to this species of waste than can be justly ascribed to it. The demand, however, of a large manufacturing population, receiving high instead of low wages, and *in full employment*, is an efficient and powerful cause, that must produce an immediate effect upon consumption, more especially of food and the raw materials of coarse clothing.

The numbers in the higher classes of society bear no sort of proportion to that of the working class. We are apt to dwell upon the expenditure of the former, as if their revenues were the great source of national demand; forgetting that the bulk of the gross annual produce is consumed by workmen whilst preparing commodities to gratify the tastes of capitalists. A return of 10 per cent. has been thought a fair profit to the possessor of capital. For every £100, then, of circulating capital that is distributed amongst workmen as wages, which is the measure of their consumption, the possessor himself can consume but to the extent of £10.

If, in consequence of brisk markets, the artisans are employed fourteen hours a day instead of twelve, and they receive wages in proportion, the demand for goods suited to their consumption will be increased in the same ratio as the wages. An increased exertion amounting to one-sixth would be tantamount to an increase of population to the same extent; and a population, too, possessing the means of effective demand.

It has been said, that the "desire of food in every man is limited by the narrow capacity of the human stomach." I am satisfied, however, that the consumption of a labouring man and his family, when in the receipt of high wages,

admits of considerable latitude; and that one can hardly form a definite idea of the increase of demand for agricultural produce, for coarse goods, and the homely luxuries of the poor, that might be created by a manufacturing population suddenly enjoying a great augmentation of revenue from full employment.

When more work is performed, more wages must be given to the labourer. If the increased wages are exactly proportioned to the increased quantity of work, his rate of payment remains the same, although the actual amount he receives is greater. An artisan, working six days, at twelve hours per day, and receiving 18*s.* for his weekly wages, would, by working fourteen hours, be entitled to 21*s.* per week. In this case, without altering the rate of wages, his demand on the market would be increased one-sixth.

The same may be observed in regard to profits. When the capitalist furnishes an extra quantity of goods, he acquires a greater amount of profits, but not a greater rate of profits. If, however, in consequence of a great demand from unproductive consumers, and the difficulty of obtaining the extra produce to meet it, he can obtain higher prices for the work done than the extra cost of production from higher wages would entitle him to; he would receive not only more profits, but a higher rate of profits.

There cannot be a doubt that during the war more produce was raised, and more work done. This would be a source of greater profits and greater wages, even without any alteration in the rate of either, and would create an increased demand in the markets. But it does appear to me, that not only was there an increased amount of wages and profits from the extra work done, but also an increased rate of both, and that this was effected through the medium of prices.

With a greater demand for work, and a part of the workmen withdrawn for the army and navy, I cannot conceive it possible that the rate of wages should not be enhanced by the competition. If one hundred pieces of cloth were required instead of fifty, not only more looms would be employed, but more would be paid by the piece to the weaver. I am, therefore, disposed to concur with Mr. Malthus, that the rise of wages which took place during the war did actually afford a greater remuneration to the labourers.

Whatever doubt there may be on this point, there can be none respecting the rate of profits. For the market rate of interest rose to 6, 8, 10, and even 12 per cent. at some periods of the

war; and I would ask, how it is possible to account for this rise in the sum paid for the use of capital, unless a greater profit was to be derived from its employment.

The depreciation of money, supposing it to exist, could in no way affect the interest paid for its use. If £200 of currency became of no more value than £100, ten pounds paid as interest for the £200 would be of no more value than five pounds. Whatever affected the value of the principal, would equally affect the value of the interest. Whatever affected the value of the capital, would equally affect the value of the profits. It could not alter the ratio between the two. Some other cause then, besides depreciation, must have raised the rate of interest, which is the index of the rate of profits.

It has been contended, that the rise of wages, if general, would diminish profits, but not raise prices, and that if it did raise them, no producer would be benefited; because he would lose as much upon all that he bought, as he gained upon that which he sold. But this reasoning is not applicable to a state of society in which a large class are not producers. If A, having a certain capital, and employing a certain number of labourers in raising corn, has to exchange his produce with B, who, with a similar capital and number of workmen, is fabricating cloth, it is evident that no advantage could accrue to either of them by increasing the price at which they interchanged the corn and the cloth. But if both A and B have to contribute a fixed sum for the expenses of government, for the payment of public creditors, for the interest on capital borrowed, for the support of the clergy, it is their interest to interchange commodities at the highest prices that can be obtained. Wherever there exists a large class living upon fixed incomes derived out of the produce raised by the industrious classes, the sum that is levied upon the producers becomes virtually diminished in proportion as the prices of commodities are increased. Thus a new distribution of the annual produce takes place. More than the just share is obtained by the producers at the expense of that portion, which of right belongs to the class who are only consumers.

In times of peace when more is produced than finds a ready consumption, there is a difficulty in raising prices as wages rise. But in time of war, when there is an unusual demand, when the markets are more scantily supplied in proportion to the extent of consumption, when the supply can only be obtained by in-

creased exertion on the part of the capitalists and the labourers, then it is that the working classes reap their harvest, and acquire not only the increased wages and profits to which they are entitled from the addition to the annual produce, which their extra exertion has created, but an increased rate both of wages and profits.

It is an acknowledged fact, that the money value of wages rose during the war, and the market rate of interest proves that the rate of profits also rose. Now, how could the capitalist, having more to pay to his workmen, realize even the same rate of profits, except from an advance in the money price of commodities?

A given number of workmen, and a given number of capitalists employing them, are called upon to furnish an extra quantity of work. Is it possible to conceive that they will not take advantage of the urgent necessities of the buyer, even if they could produce the articles wanted without additional sacrifices? But if the men are to work thirteen hours a day instead of twelve, and the machinery is to be watched night and day, and the employers to devote more time to superintendence, are they not entitled to a greater remuneration? The sacrifice of personal comfort is greater, and must be paid for, or the commodity will not be produced.

In the comparison of these two modes of employing the savings from revenue, we have taken for granted that the savings devoted to capital would still remain within the country. Now this is granting more than the facts will justify. When the capital accumulates rapidly, and profits fall, it will have a tendency to remove to Spain, to Naples, to Columbia. It will be engaged in the carrying trade, or in employments that do not set much labour in motion; in all which cases but little stimulus will be given to the home producer. When the savings are employed as loans to the government, the demand finds its way immediately into the market, and either relieves it by taking off the produce that remains on hand, or stimulates to the production of more.

During the progress of the war, five hundred and nine millions sterling were in this way devoted to the purchase of commodities intended for consumption, instead of being devoted to reproduction. And I ask whether it be necessary to resort to depreciation, in order to account for the high prices which such a market for consumption must have occasioned? It is to be observed, too, that though in the first instance the demand might be for the materials of war, it would gradually extend to almost every commodity ordinarily consumed by man.

When once the loan is in the hands of government, it is distributed in a thousand different channels. When paid to the troops, it passes into the market for provision, for necessaries, and for clothing; when to the Admiralty, part of it is applied to the purchase of hemp, tar, tallow, timber, and part for provisions of every kind for victualling the navy: when to the Ordnance, it is expended in accoutrements of all descriptions: when to the Civil Departments of the State, it would form a source of demand in the same manner as the income of private families. Whatever direction the expenditure took, it would be a call upon the capitalists to exert themselves, and to produce the commodities wanted for consumption. The war had scarcely commenced before its effects were made manifest. Nothing more was wanting to stimulate the industry of the country than a new market, where the producer was certain of a sale for his goods. It not only afforded a source of extra profit to all the capital then in existence, but offered the strongest temptation for the accumulation of more. There cannot be a more decisive proof of this than the immediate change in the rate of interest. If sucl a demand had arisen at once, no ingenuity in the application of the powers of machinery, and no increased exertion of the physical powers of the industrious classes, could have provided the means of meeting it. But it was diffused through twenty-two years of war, in the very mode most likely to produce the effects we have witnessed. In the commencement the extent of our operations was not upon the scale they assumed towards the conclusion of the contest; during the last four years of which, the expenditure of government, independently of the supplies raised by the property, and other war taxes, was not less than a hundred and forty-seven millions sterling.

This increase of expenditure, therefore, came upon the country when it was more prepared to meet it. For, although five hundred and nine millions sterling was the amount distributed amongst the working capitalists of the country, the value received by government in return would be charged with the extra profits of those capitalists, and the extra wages of their workmen. These profits and wages would, therefore, form a part of the increase made to the general income of the country, and be an additional fund to contribute to the enjoyments of the people, if destined to consumption; or, if not so consumed, would offer a further source for the accumulation of capital.

When commodities become high priced, and continue so for a length of time, it is sometimes argued that this circumstance of itself is proof of a depreciation of the currency. I have no other objection to this phraseology, if it be consistently adhered to, than that its tendency is to mislead. Commodities are higher priced, and *therefore* money is no longer able to purchase the same quantity as before. Be it so: but let us understand each other. Let us not wander so far from common sense as to affirm, that the altered value of money is the cause of the high prices, instead of the effect. Let us not invalidate the fixed contracts between man and man; and when commodities fall back from high prices to their level, be allowed to resist the stipulated payment under the pretence that the money has altered in value, and not the goods. Well might Locke say, "Words being intended for signs of ideas to make them known to others, not by any natural signification, but by a voluntary imposition; it is plain cheat and abuse when I make them stand sometimes for one thing and sometimes for another, the wilful doing whereof can be imputed to nothing but great folly, or great dishonesty."

If every increase of price is to be designated as a depreciation of money, let us revise our language; and when a bad season, or difficulty of production, or taxation, has raised the price of corn, of cloth, of leather, and of any other article that we consume; let us say that corn, cloth, and leather have not risen, but that money has *fallen in value from depreciation*. If the object be to confound all our conceptions, and all our reasonings on this subject, there cannot be any more certain mode of effectuating the purpose than by adopting this equivocating language.

There is great difficulty, I admit, in defining what is meant by currency remaining at its level; but supposing the quantity of circulating medium to be at any period whatever in its due proportion to commodities, I should say it remained at its level, *if its increase or diminution* corresponded exactly with the increase or diminution of the value of commodities to be circulated by it; that is to say, if the circulation of commodities of four hundred millions required a currency of forty millions, and that this proportion of one-tenth was the due level, estimating both currency and commodities in gold; then, if the value of commodities to be circulated increased to four hundred and fifty millions, from natural causes independent of depreciation, I should say the currency, *in order* to continue at its level, must be increased to forty-five millions; or that the forty millions

must be made to circulate with such increased rapidity, by banking or other improvements, as to perform the functions of forty-five millions.

If, then, more business was done, more commodities produced, more interchanges made, and those interchanges made at higher prices, more circulating medium would be required, or a greater rapidity of circulation. Such an augmentation, or such rapidity would be the consequence, and not the cause, of the increase of prices. Accordingly, we find on examination of the evidence before the committee on the agricultural distresses, that as far as any increase or diminution of the circulating medium can be connected with prices, such was the order of precedence.

There is scarcely a shade of difference in any of the evidences respecting the time when the advance in prices began. It does not correspond with the increased issues of the Bank, nor with the high price of gold bullion, which latter effect indeed did not even show itself till the year 1800; whereas the prices paid by Greenwich Hospital, as given in the Appendix to the Report on the Resumption of Cash Payments, denote an increase before the year 1797; notwithstanding the remarkable contraction of the currency, both of the country banks, and the Bank of England, during the years 1795 and

1796. Prices, too, began to fall immediately after the termination of the war. Although the Bank issues were, upon an average, constantly increasing from the year 1813 to the year 1819; and since that period, and since the resumption of cash payments, there really does not appear to have been any material diminution of the circulating medium, as far at least as the issues of the Bank of England form any criterion by which to judge of the amount; inasmuch as the quantity of coin and bank notes together form a larger amount than when Mr. Peel's bill passed into a law.

It seems to be generally admitted, indeed, that since the year 1813, there has been a considerable diminution of country bank paper; but here again we must take care not to confound the cause and the effect; for, as Mr. Malthus observes, " it is of the utmost importance to recollect, that at the end of the war prices failed, before the contraction of currency began. It was, in fact, the failure of prices which destroyed the country banks, and showed us the frail foundations on which the excess of our paper currency rested *."

I have no intention of pushing this argument farther than it will fairly bear, but it is quite

* I may be allowed to quote the fact, without admitting the implied inference of an excess.

clear, that with no other criterion for depreciation than a rise in prices, and with a demonstration that a rise of prices must have been induced from natural causes, such as increased taxation, increased wages of labour, and increased demand for consumption, in proportion to the means of supply, we shall be venturing to sea without helm or compass if we suffer ourselves to guess what part of the increase has been owing to depreciation, and what part to the natural causes just referred to.

It is of no avail to argue, that such a state of things could not have existed if the Bank had been paying in specie. Of that I admit there can scarcely be a doubt; but in what way would the increase of price have been prevented? By a contraction of the circulating medium, that would have reduced prices below their natural level; would really have altered the value of currency, and have given it an unusual elevation. The foreign expenditure and adverse exchange must necessarily have forced the Bank to reduce the amount of its paper, and the prices at which commodities would have settled would have been some intermediate point between the high prices occasioned by the influence of the war, and the low prices occasioned by the contraction. Prices acted upon by these opposite causes might have varied, as either the one or the other predominated, or have remained nearly stationary.

The Bank restriction has, in fact, unfolded what would have been the consequence if the act of 1797 had never passed. The currency must have been reduced, until it was raised to a par with gold; I have no hesitation in saying, such ought to have been the consequences. The community having established gold for their standard, should never have departed from it. But I think it by no means improbable, that with the immense and continued expenditure that has occurred, the fluctuation of the currency, without a restriction, might have been very considerable; and, that in consequence of that measure, its level may in reality have been less disturbed.

It would be idle to affirm, that during the period of the restriction act, the currency had been so nicely adjusted by the Bank directors, as never to exceed or fall short of the due proportion it ought to bear to the value of commodities; it is probable, that in the course of the period they have erred sometimes on one side, and sometimes on the other. But it is evident, that in assuming the price of gold as the measure by which to estimate the deviations of currency from its level, we should be adopting a criterion that would afford but little insight

into the real fluctuations of an inconvertible currency, and would expose us to every degree of exaggeration.

It may be thought, perhaps, that with these views, I consider the Bank restriction to have been practically beneficial: I am glad to have this opportunity of entering my protest against any such inference. The measure appears to me to have been fraught with extreme danger to the public; to have occasioned a considerable loss to the government, entailed additional taxation on the subject, and to have been attended with great injustice to all creditors. Most dangerous; inasmuch as it was giving to the Bank directors a power of controlling the circulating medium of the country, which was liable to the greatest abuse. Most impolitic; because the loans required by government would have been less, in exact proportion to the increased value of the currency, if it had been allowed to contract, as of necessity it must have done without a restriction on specie payments. The whole debt incurred would consequently have been less, and the future taxation diminished in the same ratio. It has interfered, too, with all contracts between debtor and creditor; for as the creditor is subject to the fluctuations that occur in the value of gold, and must submit to receive, in liquidation of his claim, the same nominal amount, whatever be the diminution in the value of the metal itself, he is justly entitled to receive the same nominal amount of gold, when any accidental circumstances occur to raise its value.

I therefore hail the measure of resuming cash payments as one of the greatest boons that could be conferred; and, more particularly, as it took place at a time when from the progress already made in the fall of the price of gold, any contraction in the amount of the currency was rendered unnecessary.

In settling the rights of debtor and creditor, it is of great importance to determine, clearly, what were the actual changes that took place in the value of our money; such a question never could have arisen, but for the restriction of specie payments, and is another proof, if more were wanting, to show the mischief of tampering with the currency of the country. At the present moment, there is a strong feeling against the claim of the public creditor. It is contended, that the debt was contracted in a depreciated currency, and the dividends are henceforward to be paid in an undepreciated currency. Now granting, in the first place, this supposition to be true, if the contract were made between the creditor and the public,

under an express provision that he was to have a specific dividend, and that that dividend was to be paid in the legitimate currency; and farther, that during the whole period of borrowing, there was a law in force, that the dividends should be paid in specie within six months after the conclusion of the war, there is no pretence whatever for flying from the terms, even if they were to become more oppressive than they really are. But if the currency has not been depreciated, if the value of gold has arisen from the accidental cause of a large foreign expenditure, and on the cessation of that expenditure has returned to its original level; then the public debt was contracted in money of the same value as it is at present, and there is no pretence in law or equity that we should relieve ourselves from paying what is justly due. The very raising of this objection to the claims of the public creditor demonstrates unequivocally that it is no longer a dispute upon terms, or whether this meaning or that shall be attached to the word depreciation; but whether the rights of a large class of individuals are, or are not, to be violated. We have already done them one wrong, in passing an act that prevented the currency from rising; and instead of giving them any redress, there is a strong feeling to commit a second wrong under the pretence that not rising has the same signification as falling.

I have now brought to a conclusion the observations I proposed to make on national expenditure, and its effects on currency and produce. No person can reflect upon the points that have been discussed in the forgoing pages, without anticipating the few remarks that remain to be made on the causes of our past and present difficulties. It appears to me, that in whatever degree minor circumstances may have co-operated, the great and mighty source of the distresses felt by all classes of producers has been the transition that took place at the termination of the war. Not the transition from war to peace, in the usual acceptation of those terms; not the transition that arises from the diversion of capital from one employment to another employment; not the transition from the waste occasioned by the extra consumption of troops, either at home or engaged in actual warfare; but the transition from an immense, unremitting, protracted, effectual demand, for almost every article of consumption, to a comparative cessation of that demand. And this change, too, accompanied with almost every circumstance that could aggravate the evil. For the producers had been so long habituated to the extraordinary call

made upon them by the increased expenditure of so many millions, that their means of supply has been formed with a reference to the system and an expectation of its continuance.

Hence, no sooner had the large profits which their exertions enabled them to obtain exceeded their immediate wants, than they began to multiply the sources of production. The savings from these increased profits, as soon as realized, were vested in new and more powerful machinery, or improvements of the old. There appeared to be no limits to the extension of these powers, yet, were they kept in full and active employment. Machinery, which under ordinary circumstances always throws out of employment the greater part of those who had been supported by the circulating capital before it became fixed, seemed to be deprived of its temporary noxious effect upon the condition of the labourer; for the rate of wages never fell from the high level it reached soon after the commencement of the war, and proved that the increased demand would admit of no relaxation, and still outstripped the ordinary rate of production.

The excitement was not confined to manufactures. It extended to the producers of the raw material in every branch of employment:

the mines of copper, tin, lead, iron, coals, were all in activity.

The farmers felt the immediate influence of the demand, in a still greater degree than the manufacturers: food and raw material were in great request, but they had not the power of resorting to machinery. Whatever could be effected by drainage and permanent improvements, by manure and dressing, and what has been called high farming, was done; but the produce from the old lands could not keep pace with the demands of government, and of manufacturers of all descriptions in full employment. The price of corn, therefore, rose more in proportion than that of any other article.

Notwithstanding that one thousand seven hundred and ninety-eight inclosure bills passed the House of Commons, during the twenty years, between 1795 and 1815, giving an average of eighty-eight for each year, the supply was still found to be inadequate; and foreign countries were put in requisition to make good the deficiency. The resources of our machinery were brought into action not only to furnish commodities for our own immediate consumption, but to supply a surplus quantity to be exported in return for corn.

They enabled us to search every quarter of the globe to procure the means of subsistence, and to obtain the effective ingredients of circulating capital, by the importation of food and raw material from every country within the circuit of commercial intercourse.

In the midst of this excitement, and with all the powers physical and moral in full action, the war ceases, and with it the demand of government and its subordinate agents. What other result could follow than distress throughout every employment in which productive capital was engaged? The reservoir intended to supply the national consumption was filled as before, but the great mains that were to carry off this supply were stopped. Every market overflowed with commodities, and gave no encouragement for further production*.

There cannot perhaps be a more striking con-

* It has been said that the increase of revenue is of itself sufficient proof that there is no falling off in demand and consumption. I would merely observe in reply, that when once the demand has so far diminished as to cause produce to sell at what may be called a glut price, the same consumption, or even an increased consumption, may take place, and add very considerably to the revenue, without affording any benefit to the producers; the consumption then goes on at their expense, and without repaying to them the costs of production. The cheapness of food, too, would enable the lower classes, who are the chief consumers, to expend a larger amount in beer and spirits, snuff, tobacco, and other excisable articles.

firmation of the opinion here enforced than the change that has taken place with regard to the importation of corn. At the time of passing the Corn Bill, it was universally believed that we did *not* grow enough for our own consumption. The promoters and opposers of the bill were alike impressed with the idea, and they acted upon this impression. The promoters expected that the price must necessarily be sustained at 80*s*., and the opposers thought it never could be less. Both parties were borne out in their conclusions by the necessity of a constant importation; and I have no doubt that such necessity then actually existed. No sooner, however, did the war cease, and with it the great expenditure of government, than the discovery was *suddenly* made that we *did* grow enough for our own consumption. Can any body conceive this change to have arisen from the mere cessation of the wasteful consumption of war? Can any body believe that from that moment we should have had a succession of abundant harvests? Is it not clear that the great superfluity of all produce was the effect of the diminished demand? First, the diminution of the actual demand of government itself in the corn market, and, secondly, the diminution of demand from all the subordinate agents, and from the manufacturers and their workmen, to whom

the expenditure of government had given full employment. It seems probable that the effect of this demand was felt through all countries from which we imported corn; for we find similar complaints of glut and low prices at the same period in almost every part of Europe, Canada, and the United States. This might arise partly from the cessation of our own demand, and partly from the cessation of demand which the war expenditure of other governments had created

The universality of this distress is not to be accounted for on any other supposition, and can hardly be attributed to abundant harvests for so many years together, in all the different quarters of the globe. More especially as there does not appear to be any conclusive evidence of such abundance, except what is inferred from the lowness of price. Moreover, the low prices are not confined to corn alone. It is well known that manufactures are less in quantity, and less in price also. A simultaneous fall of price takes place in almost every commodity, and in almost all countries. It cannot be abundant harvests; for it affects articles with which harvests have no connexion. It cannot be alteration in the currency; for it is felt in those countries where no change in the currency has taken place*. To what then can we attribute this universal effect, but to the general diminution of demand? There still remains the capital, and the labourers, and the commodities, but no longer the same market for consumption.

To those who imagine consumption not to be a necessary ingredient of demand, and that in order to make a market for commodities, it is only necessary to produce more, these phenomena offer problems not very easy of solution; nor is the difficulty less for those who conceive the previously existing capital to have been diminished by being converted into revenue. Accordingly, every drowning theorist has caught at the various straws that crossed him. It was the preparation for cash payments, or the raising the value of the currency 25 or 30 per cent., or adopting gold as a standard, instead of silver, or the importation of corn, or the blessings of

* A gentleman from Piedmont informs me, that the same measure of corn raised upon his own estate, which during the war sold at 9 francs, now sells at 3, and has done so ever since the peace, although, during the whole period, the circulating medium of Piedmont has consisted of coined money in its most perfect state. A letter was shown to me, written by a merchant in Holland to his correspondent here, stating that the rent of land about Utrecht had sunk to one-third of its former amount, owing to the great fall in prices.

a good harvest, or taxation, or the want of reform in parliament, or any thing but the obvious cause, that the supply was too great for the demand.

I would put this single question. Was there ever an instance of a *permanently* low price, that is, a price which would not remunerate the producer, except from the supply continuing too great for the demand? Why then are we to busy ourselves in finding out remedies for an evil which, if left to itself, must always work its own cure? The producer has the remedy in his own hands. No man will continue to carry on a business that is attended with loss, or even with less than the ordinary profit of capital. If the capital is generally redundant, from the falling off of consumption, the capitalist must submit to receive a lower rate of profit, until new markets, or the growth of new tastes, and new sources of enjoyment, offer further motives for increasing employment and consumption.

The distress that has pervaded all classes of producers, since the termination of the war, has been greater perhaps than ever was known before. The manufacturers are said to be recovering; and it may be so: but I suspect the masters can only find a market by selling their goods at a very low rate of profit, and the artisans can only find employment by working at a low rate of wages.

The state of the agriculturist is calamitous beyond all former example; and the extent of capital embarked in this pursuit, together with the extent of country over which it is distributed, brings it home to every man's feelings. One cannot contemplate a situation more distressing than that of an industrious and honest class of the community embarking their capital in a pursuit which for years has been attended with the greatest possible encouragement, and, without any fault or negligence on their part, suddenly finding their commodities without a market, and themselves reduced to comparative poverty.

It is a hard doctrine to preach to men in this situation, that their only remedy is to produce less. They naturally ask, Will this restore our capital? How are we to recover what we have invested in the permanent improvement of the land, if we are to give up its cultivation? Who is to begin? Will not every one endeavour to obtain the greatest possible produce? I have no wish to bruise the broken reed, but I fear there is but one answer to these melancholy questions. Those who are the least able to bear the pressure, must be the first to submit to the hard terms of necessity. It is the lot of

all who embark their capitals in any enterprise, to take the risk of its success or failure. Such distressing fluctuations are continually occurring in trade, from circumstances over which the parties have had no control. At one time the West India planters were reduced to the verge of ruin, and many have suffered most severely. They are suffering now perhaps more than any other class, yet without exciting much commiseration. Sometimes the Baltic trade is distressed; then the Canada trade; or that in silk or foreign wool. Instances of this kind might be adduced without end. But it never has been, or can be expected, that the parliament or the public can guarantee individuals from the uncertainty incident to all human speculations. Nor can they, with any justice, be called upon to make good the loss which different interests have suffered, or may suffer.

The farmers, as a body, merit every consideration; and nothing should be left untried that is likely to afford assistance, or palliate their misfortunes. But let us beware of the empirical nostrums that are offered in such profusion, by the country gentlemen assembled at our county meetings. Let us beware of holding out the prospect of relief, by loans or purchases of corn by government; or increasing the currency, with a view to raise prices. Such remedies, if they were practicable, which they are not, would never reach the seat of the disorder. The farmers are suffering from over-production. They are not producing more, perhaps, than at the time of the high-prices; but the great demand has ceased, and the same quantity becomes relatively an excess. Nothing, therefore, can be attended with more fatal consequences, than to adopt any measure which by leading them to continue the production, will only perpetuate the disease.

For above twenty years they have had a golden harvest, and many have gathered largely into their garners. But they have not been prepared for, nor did they foresee the sad reverse; and they find themselves suddenly, by the fall of prices, and the lessened value of their stock, bereft of half their capitals.

I do not apprehend, however, that the change will have the effect of throwing any great extent of land out of cultivation. The lessened production will principally arise from an abandonment of what has been called high farming. This will have a two-fold operation: the expenses of cultivation will be diminished, and there will be less produce from the same extent of land. Such lessened produce will be sold at

higher prices; and this appears to me to be the natural and the only remedy.

The inevitable consequence of this remedy must be a general fall in the nominal amount of the whole landed rental of the kingdom. This appears to be a momentous result, but will not eventually be attended with so much pressure as is commonly imagined. I have examined this subject with some care, and have come to the conclusion, that taking past and present times together, the class of landholders have not much reason to complain. In expressing therefore my opinion on the state of the agriculturists, I must confine my commiseration to the farmer alone, whose interests I consider to be essentially different from that of the landlord, although for a particular purpose it has of late been found politic to represent them as the same.

There is so much difference of opinion in the evidence of the land-agents examined before the committee on the agricultural distresses, that it would be unwise to place implicit reliance on any one. It may be safely assumed, however, that in the course of the last thirty years, the rental of the landed proprietors has, *at least*, doubled; and taking this fact along with daily experience as to their mode of living, there can hardly be a doubt, that during the whole period of the arduous struggle in which we have been engaged, they have scarcely suffered a single privation; whilst the receiver of a nominal income was actually sinking under the pressure of increasing taxation, and increasing prices; the landed proprietor was enabled with every rise of price to augment his rental proportionally, and to indulge in all the enjoyment that a constantly improving income could afford.

During the whole period of the war, speculations were entered into with borrowed money, under a full persuasion that land could scarcely be bought too dear*. No price, however extravagant, but what was found to repay the speculator by the increasing rent; and now when the accident that gave rise to this artificial value has ceased to operate, and prices are returning to their level, the landholder, grafting his application on distresses which more immediately relate to the farmer, appeals to the legislature for protection, as if the accidental high value was to be guaranteed to him by the state.

* I believe that the great clamour respecting agricultural distresses has arisen chiefly from the ruin that has attended these speculations.

I do not mean to deny that there are many landholders who are at this moment suffering from the fall of rents, and from farms being thrown upon their hands; but I do contend that their sufferings are attributable in a great measure to their own want of foresight. Without any merit or exertion on their part, they were supplied with the means of providing against any reverse that might occur: if, instead of that, they preferred present enjoyment, they must take the sweet and the bitter together: but can hardly be allowed to allege their former good fortune as the ground of relief, to be obtained at the expense of the other classes of the community.

It is universally admitted, that even now, farms are let at higher rents than in the year 1792; but the increase of taxation, and the pressure of the national debt, are dwelt upon as more than counterbalancing the advantage. Does not the observation imply, that up to the time of the fall of rents, the landholder had escaped from the increasing pressure of taxation? Why is the possessor of landed property to be exempt from paying his share of the public burthen? Have not all annuitants and receivers of a nominal income been paying these increasing taxes during the whole period of the war, without any means of relieving themselves?

In the midst of all the present complaints of injustice and distress, there is not, I firmly believe, a single landholder in the kingdom that would fairly change places with a fundholder of 1792; that is to say, if his estate were to be sold at thirty years purchase upon the rental of 1792, and vested in the funds at the then price of the day. I believe that no landholder would consent to give the present value of his estate, and the rents that he has received since 1792, for the amount of the stock it would then have purchased, together with all the dividends since that time.

It requires more than ordinary patience to examine, with temper, the various sophistries that have been resorted to, in order to uphold the system of high prices and high rents. I shall not enter into the arguments that occupied the public attention during the passing of the Corn Bill; but no man in his senses has ever doubted, that the object of the bill was to keep up the price of corn, and to afford what was called a remuneration to the grower.

That measure has entirely failed, because we have ceased for the present to be an importing nation. The great object which the advocates

of that measure professed to have in view is attained. We *do* now grow enough for our own consumption. Still it is affirmed, that the grower has not a remunerating price. What is to be done? Higher protecting duties would be of no avail. The farmers have already the monopoly of the home market. The phraseology has therefore taken a new turn; as prices cannot be kept up, they must be rendered remunerating, by diminishing the expenses of cultivation; and as taxation is alleged to be one great source of this expense, the farmers are to be relieved by diminishing taxation. Was it not the general cry of all the landholders, that we could not meet the competition of foreign corn, because taxation had so raised prices, that it was impossible to cultivate upon the same terms as the foreigner? Be it so. What is this but admitting that taxation does raise prices? And without such admission, can any one doubt the fact? Must it not then raise the price of corn as well as of every other manufacture? With all this taxation upon its cultivation, corn has settled to its present price. If there had been no taxation, would it not have settled to a still lower price, and have left as little for remuneration as before? There is no escaping from the horns of this dilemma.

I have looked through the evidence of the witnesses examined before the committee on the agricultural distresses, with the view of ascertaining what part of the expenses of cultivation arise from taxation; and the result is not only curious and amusing, but shows how little reliance is to be placed upon the estimates of men, whose minds are strongly biassed in favour of some special measure. It was the object of most of these witnesses to represent the expenses of cultivation as high as possible. In their statements, which were professedly derived from practical experience, they were at liberty to rate the expenses of manuring, wear and tear, and various other items, at a vague estimate: but the taxes were capable of exact calculation, being a certain amount on their windows and farm horses. The result is, that in magnifying the gross amount without the power of magnifying the actual taxes, they have left the proportion which the direct taxation bears to the whole expense of cultivation so exceedingly small, as scarcely to produce any perceptible effect either upon prices or expenses. Taking the average of Mr. Ellman, jun., Mr. Ilott, and Mr. Edmonds, the present direct taxation, now that the horse tax is abolished, does not amount to more than $\frac{1}{220}$th

of the expense of cultivation, or about nine shillings of tax in every 100*l.* of gross expense*.

The landholders complain too of tithes and poor rates, as taxes that fall partially on the land, and from which the other classes of the community are exempt. It is perfectly well known, that no partial tax can ultimately fall upon a producer. Are there not partial taxes laid upon almost every branch of industry? If the brewer were to complain, that he could not continue his business on account of the tax upon beer, would not the landholder be one of the first to tell him, that the tax was repaid to him in the higher price charged to the consumer? Take the tax upon salt, the highest in proportion to the value of the article, and in that sense the most partial that can be conceived:—Is any one simple enough to imagine, that this tax falls upon the preparer of salt? How then does it happen, that the farmer alone is an exception to the general rule, and has not

* See Mr. Ellman's Evidence, pp. 112 and 113.

Direct taxes - -	£2	16	0	
Gross expense - -	379	0	0	is $\frac{1}{135}$th.

Mr. Ilott's Evidence, p. 140. Direct taxes 6*d.* on a gross expense of 6*l.* 17*s.* is $\frac{1}{274}$th.

Mr. Edmond's Evidence, p. 184.

Gross expense -	£3988	0	0	
Direct taxes -	9	4	0	is $\frac{1}{440}$th.

the means of repaying himself for any partial tax that may be laid upon his produce.

Sometimes the tithes are represented as a charge upon the landlord, and as a deduction from rent. Now I would ask, did ever any man pay the same price for an estate chargeable with tithes, that he would give for an equally productive estate tithe free? Does it not form a part of his calculation when he estimates the rent, and the number of years purchase that he means to give? And if he buy an estate subject to tithes, does he not make a proportionate deduction? In truth, he buys the right to nine-tenths of the produce, the remaining tenth never has belonged to him. It is quite a different question, whether tithes be an eligible mode of providing for the clergy; but such being the law, the clergy have as good a title to *their* portion as the proprietor has to the remainder. In point of fact, the clergy scarcely ever receive their full right. Tithes, therefore, as now collected, are practically a benefit to the landlord, inasmuch as he obtains a part of that portion which belongs to the church; and for which, at the time of purchasing the land, he never paid. There is a very effectual remedy, however, against the burthen of tithes, both as it affects the landlord and the farmer; although, I admit

its practical application would be attended with some difficulty. Let the land be divided between the landlord and the clergyman according to their respective rights, and each might let his portion tithe-free. But, how many landlords, even in those cases where the remedy was practicable, would accede to this equitable division?

The poor-rates are not exactly upon the same footing with the tithe, because, when estates were purchased, there was no foreseeing the height to which they would rise. It could not, therefore, form a definite item in the calculation; but even in this case, all estates purchased since the establishment of poor-rates have been subject to the contingency, and a less price paid in consequence. The poor-rates have, in fact, increased to their present enormous amount, in a great measure through the contrivance of the landholders and the tenants, who have upon all occasions endeavoured to keep down the wages of labour, by paying a portion of them out of the poor-rates. In this way, they have been used as the means of making the proprietors of houses contribute towards the payment of the farmer's labourer. If the poor-rates had been less, the wages of agricultural labour must have been higher. It has been urged, too, on the part of the land-owners, that they have not only their own agricultural poor to support, but the manufacturing poor also. That the greater part of the poor-rate is paid by the land, there can be no doubt; but it is equally true, that a very large amount is paid by the towns; and falls upon houses and manufacturing capital*. The charge against the manufacturers of not supporting the whole of their own poor has some foundation; but it must be remembered, that the landowners have derived the greatest possible advantage from the augmented numbers of the manufacturers, who have afforded the principal market for their produce, and must be considered as the original source of their wealth. The steam-engine has done more for agriculture than any bounty that ever was offered; and I have little doubt, if the subject was closely followed up, that the great change which took place when we were converted from a nation exporting corn to one requiring its importation might be traced to the perfecting of that stupendous instrument of manufacturing power.

* The rental of lands is estimated by Mr. Lowe at forty-five millions, and that of houses at sixteen millions.—State of England, by Joseph Lowe, Esq. p. 66. This publication exhibits a variety of facts and tables, collected apparently with great care and industry; and is a valuable contribution to our stock of statistical knowledge.

When any particular produce comes into competition with that of foreign countries, then, undoubtedly it becomes a question, what sacrifices the government will make to encourage or protect the home growth, or the home manufacture. And if the partial tax that has been levied has so raised the price that the commodity will no longer bear the competition, it may be and often has been found advisable, to impose a countervailing duty on the imported corresponding articles.

Taking then this principle for a basis, what ought to be the countervailing duty on imported corn, so as to balance the partial tax of tithe and poor-rates.

The evidence before the committee on the corn laws, and the agricultural distresses, furnishes the data for this calculation. On referring to the table, published by the Lords' committee on the Corn Laws in 1813, I find, that on an average taken from forty-two counties, the tithe and poor-rates, and all other rates, are together less than half the rent. Upon land of twenty shillings rent, the tithe and rates would be about nine shillings. Mr. Ellman states, that the produce of wheat on land of this value is three quarters per acre; consequently, this would give three shillings per quarter as the countervailing duty to balance the tithe and poor rates.

As land, however, does not produce wheat above once in four years, some allowance must be made for the lower value of the other crops, which, when estimated correctly, gives an average produce of wheat per acre of about one quarter and a half, and therefore 6*s.* per quarter for the countervailing duty*. Such would be the claim to which the farmer would be entitled, in order to protect his corn from foreign competition, as far as regards the direct taxes of tithe and poor-rate.

In respect to the indirect taxes, inasmuch as

* Mr. Ellman's calculation of three quarters per acre on land of 20*s.* seems rather too high; taking the produce at twenty bushels per acre, the countervailing duty will still be less than 7*s.* per quarter. Mr. Ilott gives the following crops as the produce of land paying 25*s.* per acre rent, and about 12*s.* tithe and rates.

	£.	s.	d.
Turnips, per acre	2	0	0
Barley, four quarters per acre, at 24*s.*	4	16	0
Clover, one ton and a quarter, per acre	3	0	0
Wheat, twenty bushels at 7*s.* per acre	7	0	0
Gross produce of four years	[illegible]	16	0
Average produce per annum	1	4	0

which estimated in wheat at 7*s.* per bushel, gives an average wheat produce per annum of twelve bushels per acre; the tithe and rates are therefors 1*s.* per bushel, or 8*s.* per quarter.

they are incapable of being calculated, and further, that all other articles are alike subject to them, no manufactures could be sent out to pay for the corn that had not been liable to these indirect taxes in the course of their fabrication. Now, as the corn imported must pay for the manufactures sent out in exchange, the imported corn is thus, in fact, subjected to all the indirect taxes that are levied upon the home corn*, besides the additional charges of freight and insurance upon so bulky an article, which from Dantzic to London does not amount to less than 10*s.* 6*d.* per quarter.

It has been necessary to dwell somewhat longer upon this point, because we have heard such extravagant opinions respecting the amount of duty necessary to protect the home grower. If we are to keep up a scale of artificial prices that shall remunerate the cultivation of

* As the indirect taxation bears more heavily on produce raised by circulating capital or human labour than on that fabricated by fixed capital or by machinery, it is a question open to discussion, how far agricultural produce is or is not more affected than manufactures? I am inclined to think, that the quantity of human labour employed in raising corn bears a larger proportion to the amount of fixed capital than it does in manufactures; and that on this principle the agriculturist might fairly claim some additional protection. But the point is doubtful, and could not be ascertained without very minute and precise investigation.

our most barren soils, there is no limit to the amount of duty that must be imposed; but there is a limit to the sacrifice which those who are to pay the duty will submit to. The great difficulty of the present moment is, to prevent our capital from flying to other countries where corn is cheap, and the wages of labour low. Infinitely more danger, as it strikes me, is to be apprehended from the flight of capital, than from the risk of having our supply of food interrupted, supposing we were to depend more than at present on corn of foreign growth.

The whole question of the degree of protection to be given to the landed interest rests upon this point. The most sanguine agriculturist would think it absolute madness to encourage the cultivation of Bagshot Heath. Where to draw the line, and to what degree the country shall submit to the disadvantage of wasting its capital and productive powers on barren land must be left to the discretion of the legislature. In deciding, however, it would be well to remember, that there is at present a strong tendency to remove capital to foreign countries, and that personal property is already subjected to a very severe pressure in the form of legacy duty, from which the landowner is entirely exempt. On every succession to personal property, even to that of a parent, 1 per

cent. legacy duty is paid, and for more remote relations from 3 to 10 per cent. By inquiry at the Stamp Office, I find that these duties are, upon the average, very nearly 3 per cent.*; and the average duty upon probates and letters of administration is about 2 per cent. more, making together nearly 5 per cent. This tax is levied upon the amount of *capital*, and is repeated at every succession. Now it has been ascertained, that where property passes in a direct line from father to son, there will be a succession about once in thirty years; and where collateral descent is included, the succession takes place about once in twenty years. As the succession to property by will, in this country, not only includes collateral relations, but absolute strangers, the succession might be still more rapid; let us assume it, however, to take place once in twenty years †; then 5 per cent. upon capital once in twenty years, is the same as 5 per cent. upon the income of that capital every year, and the legacy duty and probate are, in fact, equivalent to a perpetual income tax of 5 per cent. upon all personal

* The average duty is 2*l.* 18*s.* 3*d.* per cent.

† Many copyholds are held upon payment of a fine at the death of the tenant. The value of these fines is calculated, at the insurance offices, upon the basis that there will be a succession once in twenty years; and the fact is found to correspond with the calculation.

property. If any one possessing land should be disposed to underrate the pressure of this tax, I beg him to consider what his feelings would be, if upon every succession by death one twentieth of his estate should pass into the hands of government.

The expenditure of government has been so intimately connected with the changes in the value of property, that I could not conclude my observations, without taking a short review of the relative situations of persons enjoying landed property, and those possessing personal property. A spirit has of late manifested itself, which I can hardly designate by any less qualified term than that of fraudulent, but which has been awed and checked by the strong feeling of integrity that still pervades the great bulk of society. Opinions have been delivered on the necessity of breaking faith with the public creditor, which, twenty years ago, no man of character would ever have ventured to hazard, and to which no audience of English gentlemen would have listened without indignation. Paley defines the law of honour to be a system of rules, calculated to facilitate the intercourse of gentlemen with one another; and he adds, "That injuries done to tradesmen by insolvency, or delay of payment, with numberless examples of the same kind, are accounted

no breaches of honour; because a man is not a less agreeable companion for these vices, nor the worse to deal with in those concerns which are usually transacted between one gentleman and another." I trust it is not reserved for some future moralist to adduce the instance of a breach of national faith, as one of those departures from common honesty which is sanctioned by the law of honour. Great allowance may be made for the soreness that men feel when the brilliant prospects of increasing wealth fade before them; but it never can justify an attempt to relieve themselves by the sacrifice of the general interests of society.

If the positions I have endeavoured to establish be correct, the possessor of personal property has derived no more advantage by the return of prices to their former level than he was justly entitled to; and the landholder, after twenty years of increased enjoyment, still finds his situation better than it was in the year 1792. Of those who, near the conclusion of the war, changed their property from the funds to land, or from land to the funds, probably neither the one nor the other foresaw the consequences, and they have experienced very opposite turns of fortune. With their speculations and the result of them, the public have no concern.

During the war the profits of farming capital have been far above the general average, and the great demand for agricultural produce kept the prices at so high a level, that many were tempted to invest their property in the purchase of land, and many to embark in its cultivation. At the present moment there is a great pressure upon the agricultural interest. But I have no doubt when production shall have gradually accommodated itself to consumption, the difficulties will disappear, and the land, as heretofore, afford a due remuneration to those who will estimate their stock fairly at the present prices. In the course of the last six or seven years, farming capital has sunk to nearly half its value, and this loss must be submitted to. If the owner expects that the present produce is to yield the usual rate of profit upon the former estimate, it can only end in disappointment.

But it is unnecessary to pursue this subject further, and I shall take my leave, by recapitulating, as briefly as possible, the conclusions which the preceding investigation tends to establish.

It appears to me, that the expenditure of government, through its various channels and subordinate agents, has occasioned a demand for almost every species of produce. That the supply required to meet this demand could only be obtained by the increased activity of the ca-

pitalists and working classes. That the savings of the community, when borrowed by government in the form of loans, became the fund which, being distributed amongst the capitalists and their workmen, stimulated them to this extra exertion. That the markets were relieved from all superfluity in consequence of the demand for consumption exceeding the ordinary supply. That in consequence thereof prices began to rise at the commencement of the war, previously to the restriction on cash-payments, even during a period of considerable contraction of currency. That when the expenditure ceased, prices fell, before any contraction of currency took place, and that consequently the contraction was the effect and not the cause of the low prices. That agricultural produce increased in price more than manufactured goods, because machinery could not be brought in aid, and because we were compelled to have recourse to inferior lands, and to importation, with high freights and high war charges. That the full employment of the working class augments greatly the demand for coarse goods, and for corn; and that the least excess of demand for corn beyond what the home growth could supply would of necessity raise its price above the limit of 80*s*. That when the demand ceased, and the labouring classes had no longer full employment, the same quantity of produce became a glut, whilst the artificial state induced by our corn laws precluded all relief from exportation. That the foreign corn growers felt the influence of our demand, at the same time that the war expenditure of other governments contributed to the same results, and that consequently the distresses of the agriculturists have been nearly universal. Such a change could scarcely have occurred from abundant harvests in distant countries, and under different climates, and still less from alteration in the value of their currencies; for the fall in prices was felt in countries where there had constantly been a metallic circulation; and in commodities, the supply of which did not depend upon harvests or seasons.

That the foreign expenditure contributed equally with the internal expenditure in giving full employment to the artisans, inasmuch as there is no mode of providing for a foreign expenditure of such extent and continuance but by the export of some valuable commodity. That although under ordinary circumstances goods can only be exported when higher prices abroad afford a profit to the merchant, the export may be considerably enlarged under the operation of an adverse exchange, since the

merchant obtains an advantage from the premium on foreign bills, in the same degree that the exchange is depressed. That when the currency consists of paper not convertible into bullion, and the export of goods is insufficient to keep pace with the foreign expenditure, the high premium on foreign bills advances the price of bullion, without interfering with the prices of other commodities. That if there had been no restriction on specie payments, the contraction of currency induced by the adverse exchange would have raised its value above the natural level, and created a fluctuation in favour of all creditors, to which they were justly entitled, and of which they were deprived by the Bank Restriction Act. That all contracts for purchases and sales were regulated by prices estimated in currency, and not in gold; and that to invalidate those contracts, under the pretence that currency had fallen rather than that gold had risen, would be to commit a second wrong instead of redressing the first. That if an *inconvertible* currency could have been so regulated as neither to be in excess nor deficiency, but to be a perfect measure of the rise and fall in the value of commodities, the internal and foreign expenditure of government would, with such a currency, have induced higher prices both of commodities and gold.

That, consequently, these symptoms are not necessarily proofs of an alteration in the value of currency. That as far as we can judge from facts, the symptoms cannot be traced to excess of circulating medium, but are immediately connected both in time and circumstance with the increased expenditure of government; and we are warranted in concluding, that the expenditure and consumption occasioned by the war have been the chief causes of the increased production during its continuance, and of the distress that has prevailed since its termination.

It has not fallen within the limits of my inquiry to examine how far it is ultimately beneficial to the country, that the capital should gradually increase by saving, rather than be prevented from accumulating by the expenditure of government. This is more a question for the legislator than the political economist. My object has been confined to tracing its effect on prices. If the view which I have taken should lead to the inference, that war is not immediately attended with the calamitous effects usually ascribed to it, I beg to warn my reader, that whatever encouragement the expenditure of government gives to production, no permanent benefit arises to the country if the increased production is all destroyed by a corresponding consumption. Notwithstanding the

excitement occasioned by a sudden and immense demand, there will still remain the perpetual burthen of increased taxation as a clog upon all future exertion, and for which I fear no remedy will be found available.

I am well aware of the errors into which a theorist may be led by attempting to generalise too far, and by referring moral effects, as he would physical, to unmixed causes; neither do I wish to exclude the influence of collateral causes, if they should be thought necessary. The one pointed out seems adequately to account for many of the difficulties that have presented themselves. It cannot be denied that the expenditure has taken place: that the symptoms may have arisen from this source is matter of demonstration. The reader must decide whether that which is proved to be the possible, is not also the probable, nay, the actual cause of the phænomena to be explained.

THE END.