GOLD STANDARD DEFENCE ASSOCIATION

THE GOLD STANDARD

1895

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GOLD STANDARD DEFENCE ASSOCIATION.

THE GOLD STANDARD, 1895.

Nos. 1 to 12.

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PREFACE.

Bimetallism means the unlimited purchase of silver at a price materially above, or indeed double, the existing market price. The authors of the twelve papers within have examined this proposal practically—that is, whether in *existing* circumstances it is wise; and also scientifically—that is, whether in *any* circumstance it is practical; and in *all* circumstances they have concluded against it. Their verdict will not improbably be the verdict of the British Public.

GEORGE PEEL.

11, Clement's Lane,
London, E.C.,
November, 1895.

CONTENTS.

The above papers are to be followed by others, furnishing a complete reply to Bimetallism on all points.

No. 1.

GOLD STANDARD DEFENCE ASSOCIATION.

MR. BERTRAM CURRIE
PRESIDENT.
RT. HON. LORD HILLINGDON,
TREASURER.
HON. GEORGE PEEL,
SECRETARY.

11 AND 12, CLEMENT'S LANE,
LOMBARD STREET,
LONDON, E.C.

GENERAL STATEMENT.

1. THE agitation on behalf of silver, both abroad and at home, has assumed such proportions that it is thought desirable to form **an Association to oppose the policy known as Bimetallism, and to unite in defence of the Gold Standard** all those who believe that an adherence to that standard is essential to the commercial position of our country and to the due discharge of contracts.

2. One leading object of the Association will be to explain the principles which should govern a sound currency and a trustworthy standard of value; and to show that whilst our present system is in conformity with those principles, the proposals of the Bimetallists are in conflict with them.

3. Though to do this effectually will require a series of papers, the main issue may be made intelligible in a few words by stating the different forms which an obligation to pay money, such as is contained in every contract, must assume under the two systems.

4. Under our present monometallic system, the form of an obligation to pay is, "I am bound to pay one hundred gold sovereigns." Under the bimetallic system the form of an obligation to pay would be, "I am bound to pay either one hundred gold sovereigns, or as much silver as is equal in weight to some fixed multiple of one hundred gold sovereigns, whichever I find the cheaper." What this fixed multiple should be **our English Bimetallists refuse to answer,** though the question is one of the most vital importance.

5. But the mere statement of this difference condemns Bimetallism. The monometallic form of obligation is simple, clear, and natural. It is the language now used in all our internal dealings, and in most of the International dealings of the world. The bimetallic form of obligation is artificial and forced. Its language is obscure, and its

operation still more obscure. It is a form which no one would use except under compulsion of law.

6. It is **a fatal objection to Bimetallism** that no one can foresee its ultimate results. This only is certain—that at any ratio less than the present market ratio it would entail most serious loss on all gold creditors, and beyond others on the people of the United Kingdom. For it is plain that other nations would take advantage of a bimetallic option to pay us their debts not in gold but in silver. From this point of view, Bimetallism is a policy which favours existing debtors at the expense of creditors, and other countries at the expense of the United Kingdom.

7. It is urged on behalf of Bimetallism that it would raise prices —for instance, the price of wheat or cotton. **If this be so, Bimetallism is a direct attack upon every artisan and labourer in the country,** since their well-being depends, above all things, on the cheapness of the necessaries of life.

8. Again, it is said that there is not enough gold in the world for currency purposes, and that silver should be added to gold to supply that deficiency. But the facts are otherwise: the new supply of gold in recent years has been enormous, and far beyond any currency demand, whilst the output of gold in 1894 was the largest in history.

9. Again, Bimetallism is recommended on the ground that it would remedy fluctuations in International exchange. It seems more likely, however, that, if each man had the option of paying his neighbour either in gold or in silver, the difficulties of exchange would be imported into the daily operations of our national life.

10. The monetary history of all countries in which the law of dual legal tender has been combined with free mintage of both metals shows a continuous record of failure to maintain both concurrently in circulation. Of this the cases of the Latin Union and of the United States are striking examples. In both instances, the option given to the debtor, and the pressure of silver at the Mints, have rendered the attempt impracticable, and have forced these countries to close their Mints against silver, and to resort to a single gold standard.

11. The Association has no connection whatever with Party politics, for it is clear that **men of all shades of political opinion can unite to prevent a revolution in our currency and to resist an attack on our trade and on the well-being of our people.**

12. The first step taken was a memorial from merchants and bankers of the City of London to the Chancellor of the Exchequer. The memorial and the Chancellors' reply are annexed.

13. Since the date of the correspondence referred to, **a memorial**

said to be in favour of Bimetallism has been signed by many distinguished persons and has been sent to the Chancellor of the Exchequer. Upon this memorial and the statements it contains, it may be sufficient to observe:—(*a*) That the monometallic gold standard of England has existed in practice not only from 1816 but from the beginning of the eighteenth century; (*b*) that no such system as Bimetallists now advocate has ever existed; (*c*) that the evils described in the memorial either do not exist or are much exaggerated, and that so far as they do exist they are not due to the gold standard; (*d*) that the interests of foreign nations who are possessed of a large amount of over-valued silver, and who owe debts to this country, are not necessarily the same as the interests of this country; (*e*) that the memorial seeks to involve the Government of this country in negotiations with foreign countries on the subject of our standard of value, without even a hint of the changes which the memorialists desire. Not only do they not indicate what ought to be the ratio between gold and silver, but they do not even advocate what has hitherto been known as Bimetallism. It is clear that the highly respectable signatures attached to the memorial have only been obtained by sinking all specific proposals, and by suggesting "a fixed par of exchange" and a "more stable standard of value" as ideal objects which may be attained by some International arrangement, the nature of which is not even suggested.

If anything were needed to show **the weakness of the bimetallic cause,** it would be such a memorial as this. After years of agitation and discussion, all that its advocates can produce is **an invitation to the Government to throw the English gold sovereign into the crucible of an International Conference,** in the vague hope that out of the conflicting theories and vague interests there represented, by some process as yet undetermined, some cure, equally uncertain, may be found for exaggerated or imaginary evils.

May 20th, 1895.

To the Right Honourable

THE CHANCELLOR OF THE EXCHEQUER.

Sir,

We, the undersigned, Merchants and Bankers in the City of London, desire to address you in reference to the discussion which has lately taken place in Parliament on the question of the Currency.

We have observed with regret the growing agitation in favour of what is called Bimetallism, the more so since this theory has obtained the support of persons of eminence and authority.

As long as it was proposed to apply the bimetallic principle to foreign countries only, we did not feel concerned to offer an opinion thereon, but we are constrained to state that we should view with grave apprehension any change in the system of currency which has prevailed without intermission in this country since 1816.

The experience of nearly eighty years has convinced us that this system is in every respect suited to our wants, and that under it the commercial supremacy of Great Britain and the financial ascendency of London have been established and maintained.

We believe that any serious attempt to modify it by the adoption of silver as a standard of value, either alone or concurrently with gold, would be followed by consequences dangerous to the Trade and Commerce of the Country; and further, that if it were possible that such a measure could not only become law but be made effective in practice, or should become law without becoming effective in practice, it would disturb contracts, injure credit, check enterprise, and thus prove disastrous both to capitalists and to wage-earners.

We venture, therefore, to express our earnest hope that Her Majesty's Government will not only refuse their countenance to any change in our monetary system, but that they will avoid entangling proposals which might lead persons either abroad or at home to believe that England is prepared to depart from the single gold standard which is established by law and sanctioned by custom.

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The reply to the above Memorial was as follows:—

Treasury Chambers,
Whitehall, S.W.,
27th May, 1895.

My Dear Bertram Currie,

I have received with much satisfaction the Address you have forwarded to me, which I recognise as bearing names amongst the most weighty which could be found to represent the judgment of the Merchants and Bankers of the City of London.

I can have no hesitation in giving to that Address, on the part of Her Majesty's Government, the reply which you have a right to expect.

I may briefly recall to your recollection the history of the last International Monetary Conference which was assembled in the year 1892.

The Government of the United States had taken measures to promote a Conference of the European Powers, in order to take into consideration the condition of silver, and expressed a wish to Her Majesty's Government that a ratio might be established by the leading nations for the coinage of silver at their several Mints.

My predecessor in office—Mr. Goschen—while assenting to an inquiry as to the possibility of an enlarged use of silver in the currency of nations, distinctly declined to accept the invitation, couched in terms which involved the adoption of a bimetallic system.

When the Conference met at Brussels, the bimetallic proposals brought forward by the delegates of the United States, owing to their generally unfavourable reception, were not pressed to a division.

At the last session of the Conference an adjournment was agreed to, with a view of its re-assembling after an interval of six months, in order to consider some agreement (if any such could be produced) "which should not infringe in any way the fundamental principles of the monetary policies of the different countries." (Report of Brussels Conference, p. 195.)

It was recognised that there would be no advantage in calling the Conference together again except for the purpose of the examination of practical and explicit proposals brought forward on the responsibility of one or more of the Governments there represented, and which should conform to the condition that those proposals should not interfere with the fundamental principles governing the monetary systems of the various States.

When the prescribed time arrived, it appeared that these conditions were not fulfilled, and none of the Governments concerned expressed a desire for the re-assembling of the Conference, which accordingly came to an end.

I concur entirely in the opinion expressed in your Address, that the experience of well nigh a century has proved that our present system of currency is suited to the wants of this great commercial country, and that to depart from it would be disastrous to the trade and credit of the United Kingdom.

Continuity of National Policy is more necessary in this than perhaps any other question. You may rely upon it that Her Majesty's Government will not depart from the course pursued by all the Governments that have preceded them, and will give no countenance to any change in the fundamental principles of our monetary system; nor in any discussions in which they may be called upon to take part will they admit any doubt as to their intention firmly to adhere to the single Gold Standard, which you justly regard as essential to our well-being as a commercial nation.

I remain,

Yours faithfully,

W. V. HARCOURT.

The President of the Association is Mr. Bertram W. Currie, and the Vice-Presidents are as follows:—Earl of Jersey, Earl of Leven and Melville, Lord Wantage, Lord Playfair, Lord Hillingdon, Lord Farrer, Lord Welby, Viscount Duncannon, Right Hon. Sir John Lubbock, Bart., M.P., Right Hon. Sir Mountstuart E. Grant-Duff, Sir H. Seymour King, M.P., Sir George Baden-Powell, M.P., Sir Charles Rivers-Wilson, The Hon. Sir Charles W. Fremantle, Mr. E. Brodie-Hoare, M.P., Mr. R. B. Martin, M.P., Mr. A. H. Brown, M.P., Mr. W. A. M'Arthur, M.P., Mr. B. L. Cohen, M.P., Mr. E. W. Beckett, M.P., Mr. C. E. Tritton, M.P., Mr. H. Cosmo Bonsor, M.P., Mr. H. Kimber, M.P., Mr. William Fowler, Mr. Henry L. Raphael, Mr. W. H. Stone, Mr. D. Meinertzhagen, Mr. J. H. Tritton, Mr. R. B. Wade, Mr. Charles A. Prescott, Mr. D. Larnach, Mr. Robert H. Benson, Mr. S. A. Ralli, Mr. H. G. Kleinwort, Mr. Edward Rae, Mr. E. H. Pember, Q.C.

It is proposed to issue a series of publications upon the currency and the standard of value; and these will be delivered free to Members.

All communications and inquiries should be addressed to the Secretary of the Association, the Hon. George Peel, at 11, Clement's Lane, Lombard Street, London, E.C. Members can be enrolled at any time on payment of one pound annual subscription, and any donations towards the expenses of the Association will be welcomed.

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GOLD STANDARD DEFENCE ASSOCIATION.

11 AND 12, CLEMENT'S LANE,
LOMBARD STREET,
LONDON, E.C.

The Weakness of Bimetallism, and The Folly of a Conference.

BY THE RT. HON. LORD FARRER.

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1. IN face of a General Election it would be idle to explain at length the true principles of currency or the fallacies of Bimetallic theory. But **it is desirable to place before candidates and voters some plain considerations** which affect the present phase of the currency question, and to draw attention to some points of immediate importance.

2. It is the more easy to do this, since the Bimetallists have in their recent Memorial to the Chancellor of the Exchequer themselves limited the field of discussion. Being unable or unwilling to state what they think should be the future fixed ratio between Gold and Silver, they do not in the Memorial even mention that ratio as part of their programme. They do not advocate what has hitherto been known as Bimetallism. The objects they profess to have in view are "a fixed par of exchange between the metals," and "a more stable standard of value than we possess at present;" they suggest no specific measures for attaining these objects, and their only proposal is to throw the whole subject into the crucible of an International Conference, in which other countries, with other interests, will have as potent a voice as our own, and in which, so far as the Bimetallists are concerned, our representatives will have no instructions as to the course which they are to follow.

3. Such stability in the standard of value and such steadiness of exchange as the conditions of trade allow, are of course desirable

objects. But there is nothing more likely to affect them prejudicially than rash and ill-advised attempts to palter with the present Gold Standard. **Any alteration of an existing Standard of value is itself at all times a great evil,** and ought only to be adopted under the most pressing circumstances and with a clear view of probable consequences. It therefore rests with those who propose a Conference for the purpose of altering the Standard of Value, to show not only in what respect our present Standard is defective, and what are the evils which it causes, but also to embody in specific proposals the alterations which they would make and to show in what manner those alterations would work.

4. In support of their case the Bimetallists make certain vague allegations concerning the commerce and industries of the country, and attribute what they are pleased to call the depressed state of those industries to recent monetary changes, coupled with alleged defects in our Gold Standard. It might be sufficient to make the general reply that the evils alleged by the Bimetallists are, to say the least, much exaggerated, and that so far as they exist they are accounted for by causes wholly apart from currency. But some of these alleged evils deserve special notice.

5. Amongst the chief of them are low prices. Now, **low prices are not necessarily an unmixed evil**; on the contrary, the low prices of necessaries of life are a great advantage to the general mass of the people. Nor is there any reason for thinking that the present low prices are due to currency causes. On the contrary, there are ample reasons to account for them in the improvement of the arts of production; in the extension of facilities for transport; in the development of the machinery of exchange, and in the competition of new races and of new countries in the processes of agriculture and of manufacture. With all these changes, with an unprecedented application of human skill and ingenuity to the arts of production transport and exchange, and with labour rendered more and more efficient, the fall which has taken place in the gold price of commodities is exactly the result we should expect, and so far from justifying an attack on our standard of value, is, *pro tanto*, a reason for believing that it has done its duty.

6. To deal completely with the mischiefs alleged in the memorial of the Bimetallists would require a detailed account of the state of this country during the last three or four decades, of its trade, of its profits, of the remuneration of its labour, of its pauperism, and of the state of its people generally. To do this at length is impossible, and reference can only be made here to the many well-known

reports and statistics on this subject. Generally speaking, it may be stated that whilst, for obvious reasons unconnected with currency, English agriculture is depressed, and whilst, in consequence of the Baring crisis and other well-known causes, a boom in commercial profits has been followed by the usual reaction, yet the quantity of production and of trade has been maintained, and progress has on the whole been well maintained. The following figures illustrate the state of the country before and since the alleged demonetisation of silver.

GENERAL STATISTICS.

Year.	Population, in millions.	Income Tax Assessment, in millions.	No. of Scholars in Elementary Schools, in thousands.	Crime—Number of Convictions, in thousands.	Tonnage—Foreign Trade of U.K., in millions.
1870 ...	31·3 ...	£419 ...	1,454 ...	18·4 ...	36 6
1890 ...	37·5 ...	£632 ...	4,236 ...	12·3 ...	74·3

STATISTICS MORE SPECIALLY RELATING TO LABOUR.

Year.	Proportion of Paupers to each Thousand of Population.	Number of Paupers, in thousands.	Savings Banks Deposits, in millions of £s.	Consumption of Tea per head, in lbs.	Consumption of Sugar per head, in lbs.
1870 ...	46·5 ...	1,279 ...	53·1 ...	3·8 ...	47·2
1890 ...	27.3 ...	970 ...	111·3 ...	5·2 ..	73·2

7. As regards Labour, it is clear from the above statistics of pauperism and of consumption that since the alleged demonetisation of silver, there has been no increased lack of employment or diminution of comfort. The evidence of the best statisticians, as given in the reports to the Labour Commission, show that nominal wages from 1870 to 1890, even of agricultural labourers, rose rather than fell, whilst the real wages of the labourer, due to the increased cheapness of all the necessaries of life, rose much more. On the whole the labouring classes are undoubtedly far better off than they were before the fall in silver began. A proof of this has been furnished by a recent careful investigation under the auspices of the Statistical Society. According to that investigation **the annual average money wages of manual labourers in this country increased from £43 8s. 0d. in 1870 to £53 16s. 0d. in 1891,** while the purchasing power of wages, calculated according to Sauerbeck's Table of prices of commodities, increased much more —that is, from 116 in 1870 to 192 in 1891.

8. Scarcity of gold is a favourite subject with Bimetallists. Their argument is, that because we pay for our goods in gold sovereigns, there is, with increasing trade and increasing population, a constantly increasing demand for sovereigns with which to pay, and that consequently, if gold does not continue to increase at some ratio corresponding to population, or to the production of goods, gold

must become dearer and prices must fall. This, they say, happened when silver was, as they say, demonetised—1870-1874—and when in consequence, according to them, an additional burden was laid on gold. The conclusion they draw is that we must increase the quantity of the standard metal by adding silver to gold. In this argument they altogether overlook the fact that we do not actually pay in gold. We pay for what we buy, not in gold sovereigns, but in promises to pay gold sovereigns, and these promises are scarcely ever performed by actual payment of gold sovereigns. The gold sovereign is always the Standard of Value, but is now very seldom the actual medium of exchange. There is, therefore, no such demand for gold as alleged by Bimetallists.

9. But putting aside this important consideration, **let us see how the truth stands about the actual supplies of gold.** The aggregate new supplies of gold in successive periods have been as follow :—

1493 to 1800 (300 years)	£500,000,000
1800 to 1840 (40 years)	87,000,000
1840 to 1870 (30 years)	600,000,000
1870 to 1893 (23 years)	550,000,000

Gold is not consumed like bread or cotton—it accumulates. Consequently the increase in the world's stock of gold during the last half-century has been enormous, amounting since 1840 to nearly £1,200,000,000, and we now know that the output of 1894 is the largest on record. Against this enormously-increased supply, what is the increased currency demand in consequence of the alleged demonetisation of silver, and the adoption of a gold standard by France and other nations, which, as Bimetallists say, increased the value of gold and lowered prices? Estimates vary, but the lowest estimate is 120 millions and the highest 200 millions. It is scarcely necessary to add to this the notorious fact that the banks and treasuries of the world are overflowing with gold, in order to show how absurd is the argument founded on a scarcity of gold. In fact, there is a plethora of that metal.

10. Under such circumstances it is out of the question to attribute low prices to scarcity of gold. Whether adding silver to gold, and thus increasing the quantity of the standard metal, would have the desired effect of raising prices, as the Bimetallists desire, may be doubted. But let us assume for the moment with them that it would do so. **What would be the effect on the working classes? It would at once increase the price of all the necessaries of life, and would thus rob labour.** The Bimetallists allege that low prices discourage enterprise, prevent the employ-

ment of labour, and thus injure the labourer; and they propose to remedy this evil by increasing the number of counters in which prices and wages are reckoned. Now it may be conceded to the Bimetallists that if prices rise by reason of an increase in demand, more things are wanted, more industrial enterprises are started, there is an increased demand for labour, and in consequence a rise in wages. But if a rise in prices is brought about, not by increased demand, but by doubling the number of counters in which prices are reckoned, in other words by calling sixpence a shilling, the case is very different. Such an increase would cause no increase in demand, no additional production of goods, no improved demand for labour. It would cause a nominal shilling to be paid for every article where sixpence was paid before, and would raise the price of bread, of tea, of sugar, of clothes, of all the necessaries of life. In the course of time nominal wages would probably rise too, but as wages always respond to a change in currency much more slowly and much less effectively than prices, the workman would, for a long time, at any rate, receive little if anything more in the form of nominal wages, whilst he would have to pay much more for all he wants. **To depreciate the currency is to rob labour.**

11. Under the circumstances stated in the above paragraphs the case of the Bimetallists for an alteration of our currency or Standard of Value fails altogether. They abstain, indeed, as above stated, from recommending any specific alteration. But they desire to have an International Conference on the subject which has no meaning unless it is empowered to propose some such alteration. Now, an alteration in the Standard of Value is a very serious thing. Applied to future contracts it means confusion and difficulty—or something worse. Applied to existing contracts it means fraud and robbery. The Standard of Value, like other standards, is the measure and language in which all contracts are made.

12. The first thing, therefore, one would imagine, in consenting to such a Conference as now proposed, would be to know what is the alteration in the Standard of Value which we desire ourselves, and to have **some definite plan and purpose. But the Bimetallists have none.** Under such circumstances a Conference would be idle, if it were not worse. A good illustration of the possible mischief of a Conference entered into under such conditions may be found in the recent Conference on the Rules of the Road at Sea. The present Rules were first framed when Mr. Milner Gibson was President of the Board of Trade. They were settled with great care by our own nautical authorities, they were then submitted to the French and

other maritime nations, and after some discussion were unanimously adopted, and have on the whole worked extremely well. When in more recent years some additions or variations were needed, a different course was taken. The whole subject was remitted to an International Conference, composed of representatives of the different maritime nations, without specific instructions. There was no real conflict of interests, and the Conference, which was composed of very capable men, reported in favour of certain changes. But those changes, whether right or wrong, have not approved themselves to the classes of our own people who are most interested in them; their adoption is successfully resisted, and the result is confusion and difficulty with foreign nations. This is the natural result of going into a Conference without knowing what we want, even in a case where there is no real conflict of interests, but only a difference of opinion. But in the present case, is there no conflict of interests? Are we sure that other countries will see with our eyes? Are we sure that other countries may not have their own axes to grind? **And is it prudent to commit so serious a question as the maintenance of our Standard of Value to a Conference where we shall not be in a majority, and where we may at any time be out-voted or out-manœuvred?**

13. We are, on the whole, a creditor country and our debts are gold debts. It is the interest of our debtors to reduce the real amount of the debts they owe us; and if they have silver to pay with, it is their interest to make their silver go farther in paying us than it does now. If so, are we to go blindfold into a Conference on the subject of the relative values to be attached to gold and silver, where it is our interest to maintain gold values, and where it may be the interest of other members of the Conference to reduce those values.

14. Again, we hold no large stock of silver and we do not produce silver. It is very different with other great countries. France, for instance, holds a stock of silver which for internal purposes is worth about £100,000,000, but for external purposes, *e.g.* trade with England, is worth only half that sum. The United States Government hold a stock of silver which for internal purposes is worth about £125,000,000, but which for external purposes, *e.g.* for payment of gold debts, is worth only about half that amount. If the value of silver could be raised by International Agreement from 30d. an ounce, which is about its present value, to 60d. an ounce, which was about its value under the old rates of 15½ to 1, the value of these stocks of silver would, for the purpose of paying foreign debts, including debts due to England, be doubled.

15. Again, England has no silver mines such as exist in America and elsewhere. The silver production of the world is about 160 millions of ounces a year. This, at the value of 30d. an ounce, would be worth £20,000,000. At the price of 60d. an ounce it would be worth £40,000,000. To this enormous extent are the producers of silver in America and elsewhere interested in raising the value of silver at the expense of their creditors and customers. **Is it desirable that with such interests as these at work England should commit herself blindly to a Conference which would be entrusted with the task of determining how much silver shall be given for an English sovereign?**

16. Conferences are valuable for the purpose of registering settled intentions: they may be useful for the purpose of arranging details. Conferences, however, are often only the resource of weak men who do not know their minds, and who seek to find in a babel of discussion plans and proposals which they are unable to frame themselves. But such persons are apt to find, when they enter upon the discussion, that they become the tools and victims of men who have strong interests of their own and distinct views of the manner in which those interests may best be forwarded. For this country to enter upon a conference on such an invitation as the Bimetallists are making would be to fall into a trap. Let us stand by our Gold Standard until it is shown to need alteration; and let us resist all attempts to tamper with it through the medium of a blind Conference, just as strongly as we should resist a specific change known to be mischievous.

The following Memorial has been forwarded to the Treasury extensively signed by members of the Stock Exchanges of Birmingham, Manchester, Leeds, Liverpool, Edinburgh, Glasgow, and Dublin:—

"We, the undersigned members of the Birmingham (Manchester, Liverpool, Leeds, Glasgow, Dublin, and Edinburgh) Stock Exchange, venture to address you in support of the views recently laid before you by bankers and merchants in the City of London, and to deprecate, with them, any change in the system of currency which has prevailed in this country for nearly eighty years. The proposed change, if effected, would represent, to say the least of it, a vast experiment, the result of which, from an investor's point of view, may to some extent be measured by the esteem in which gold and currency Securities are relatively held in this country. Ten years ago 100 classes of Currency Bonds and 40 classes of Gold Bonds of the United States Railway Companies were officially quoted by the

London Stock Exchange. The quotations of Currency Bonds have now shrunk to 28 classes, whilst those of Gold Bonds have increased to 190 classes, a conclusive evidence of the distrust of Currency Securities entertained by investors. We would point out that investors have embarked some thousands of millions sterling in British Securities on a gold basis, and would urge that any disturbance of the financial system tending to a debasement of British currency would constitute a monetary revolution, of which it is impossible to foresee the effect."

The following letter has been addressed by Sir William Harcourt to Mr. H. H. Gibbs in reply to the memorial recently forwarded to the Treasury by the Bimetallic League:—

"As you are aware, it is not possible for me now to reply in an official capacity to the Memorial forwarded to me on behalf of the Executive Council of the Bimetallic League. You know that I do not share the opinion set forth in that Memorial, but this would not be an appropriate occasion on which to enter at length into an argument on this subject. I will only venture on one observation. Your memorial refers to the depreciation of property, the depression of industry and trade, and particularly of agriculture, and attributes all these evils to the action of France in abandoning a bimetallic system which you appear to consider secured, whilst it existed, to the rest of the world the advantages which you believe flowed from that system. You do not, however, advert to the fact that depreciation and depression of a far more serious character occurred during a period when you maintain that a bimetallic system was in practical operation. Take, for instance, the thirty years from 1815 to 1845. In that generation all the evils to which your memorial refers existed in a far more aggravated form than any which we have now experienced. If you doubt my statement I should advise you to study the perpetual Committees on Agricultural Distress which sat during the period to which I have referred, which was also a time of high protective duties. Those inquiries gave a still more despairing picture than any which can now be drawn; and if you compare the condition of the people, whether in the urban or the agricultural districts, at that epoch with their condition at the present time you will find that the wages and employment of the working class contrast most unfavourably during your Bimetallic Elysium with their situation in these monometallic days which you deplore."

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GOLD STANDARD DEFENCE ASSOCIATION.

MR. BERTRAM CURRIE
PRESIDENT.
RT. HON. LORD HILLINGDON,
TREASURER.
HON. GEORGE PEEL,
SECRETARY.

11 AND 12, CLEMENT'S LANE,
LOMBARD STREET,
LONDON, E.C.

To the Electors of the United Kingdom.

The Bimetallists have addressed you; and in the following parallel columns we give their address and our reply.

Case of the Bimetallists.	The Reply.
1. The prolonged depression in trade and agriculture is attributed on all sides to the fall in prices, which is rendering business unprofitable, lowering wages, and contracting employment.	1. The depression in agriculture and in trade—so far as such depression exists—is **not** attributed on all sides to the fall in prices. Since 1873, when the monetary changes began, **business has not been unprofitable, wages have not been lowered, and employment has not been contracted.** Nor is the fall in prices an evil in itself. On the contrary, it is a benefit to the working classes. Would they think it a benefit if bread, tea, sugar, and clothes were doubled in price?
2. In addition to the existing depression, there is taking place a transference of productive industry from Gold Standard to Silver Standard countries, threatening the very existence of many of our most important branches of manufacture.	2. **This is not so.** Our exports to silver-using countries have increased at a greater rate than our exports to gold-using countries, and the competition of gold-using countries is quite as severe as that of silver-using countries.
3. The real cause of these evils is the alterations which have been made in comparatively recent years in the monetary laws of many great countries. The demonetization of silver has caused monetary contraction and the loss of the par of exchange between the gold and silver moneys of the world, resulting in an artificial fall in prices, and a dislocation of trade.	3. The cause of such depression as exists is not to be found in the change of currencies. There is no symptom of monetary contraction, and there has been **no artificial fall of prices** caused by the alleged demonetization of silver.

Case of the Bimetallists.

4. These views are held not only by professors of political economy, and by practical men who occupy the very foremost positions in trade, agriculture, and banking, but also by labour leaders and by many of the most important trades unions.

5. Recent official statements and Parliamentary resolutions show that the Governments of France, Germany, and the United States are anxious to find some mitigation of the evils of the single Gold Standard by joining in an International Agreement for the remonetization of silver. This country alone blocks the way, thus sacrificing her agriculture, her most important industries, her trade with silver-using countries, and her good name in India, to the supposed interest of a misguided section of the capitalist class.

6. In view of the gravity of the present crisis, the serious evils which threaten the trade, commerce, and agriculture of the United Kingdom, and the overwhelming arguments in favour of International Bimetallism, the Bimetallic League calls upon every elector to give monetary reform a foremost place in arriving at the momentous decision which he is now called upon to make.

The Reply.

4. The views stated in the address issued by the advocates of International Bimetallism are not held by the highest authorities either in this country or abroad. **On the contrary, the best authorities are altogether opposed to these views**

5. Governments which are themselves large owners of silver, countries which produce silver largely, and debtors who desire to escape from their contracts, and to pay their gold debts in silver, have a motive for degrading the Gold Standard. But there is no reason for supposing that the best authorities even in the countries above referred to really desire to raise the value of silver artificially or to undervalue gold. And however this may be, it is clearly not the interest of this country to over-value silver or to undervalue gold. **It is wage-earners and creditors, including savings-bank depositors, whose interest it is to maintain the Gold Standard.**

6. The Bimetallists, as usual, merely ask for monetary reform without stating what is the reform they desire. Those who desire to meddle with the standard of value without stating what they want to be done show their own incompetence. The Bimetallists seek a conference for the purpose of raising the value of silver and diminishing the value of gold. **Now as regards other nations it would be suicidal folly to invite them to join us in over-valuing silver and in reducing the amount of the debts they owe us.** As regards our own internal concerns it is absurd to suppose that either agriculture or commerce can be benefited by debasing the Gold Standard and by increasing the quantity of counters in which business is carried on. **To do so would be to break contracts, to cheat creditors,** and **TO ROB LABOUR.**

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No. 4.

GOLD STANDARD DEFENCE ASSOCIATION.

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Bimetallism Briefly Refuted.

1. THE most expeditious way of testing the truth of Bimetallism is to quote what leading Bimetallists have said or written, and then to show immediately that each statement in turn does not tally with fact. In this way **an interesting museum of mis-statements can be presented** for the amusement or enjoyment of the impartial spectator. He will be able to observe at a glance the most ancient fallacies ranged side by side with the newest specimens of economic error, and will be often entertained at the strange permanence of wrong beliefs.

2. In the view of the Bimetallists, if governments assert that one ounce of gold is worth, say, fifteen and a half ounces of silver, and coin the metals at that ratio, people generally will accept fifteen and a half ounces of silver indiscriminately with one ounce of gold. **They appeal to the history of France.** For instance, the official statement of the Bimetallic League opens as follows :—

"Until the year 1873 the ratio at which gold and silver were interchangeable was steady, because the mints of France and other European countries were open to all the world for the unlimited coinage of both metals on the fixed basis of $15\frac{1}{2}$ oz. of silver to 1 oz. of gold."

Professor Foxwell enforces the same idea: "Now, this is precisely the result which Bimetallism, so long as it is maintained, necessarily brings about. By fixing the ratio, and opening the mints freely at the fixed rate to both metals, it creates a demand at that rate for whatever quantity of either metal is produced." (Address at Manchester, April 4th, 1888.)

3. **But this is not so.** The Imperial Commission of France, appointed in 1869, says: "On the general market silver tends to depreciate, while gold is asked for. More than 500 millions in silver five-franc pieces are already accumulated at the Bank of France, and the public is no longer willing to receive these heavy pieces. Thus silver appears to be falling into disfavour, and we must hasten to demonetise it if we do not wish to be left the last to be encumbered with the inconvenient metal." Thus, **open mints did not "create a demand"** in any real sense, for when the silver was coined people did not want it.

4. Bimetallists consider that because we have not adopted Bimetallism, and adhere to the gold standard, therefore the whole country, and especially the working classes, are going steadily to their ruin. Thus Sir Robert Edgcumbe states: "Looking at the last twenty years, we see permanent and persistent changes, working adversely to the working classes and the industrial classes of the community, and on that fact I base my support of Bimetallism." (London Institution, May 22nd, 1895.)

5. **The exact opposite is the case,** for in 1873 the mean number of paupers in each 1,000 of the population was 38·3, while in 1893 it had fallen so low as 25·8; and again, the annual average money wages of manual labourers in this country increased from £43 8s. in 1870 to £53 16s. in 1891.

6. Bimetallists assert that, so long as a Bimetallic system was maintained through the action of France, "the standard of value was comparatively stable"; whereas "it cannot be denied" that, since 1873, "in some of the chief requirements which are expected of a standard of value, such, for instance, as stability, the single gold standard has lamentably failed." (Memorial of the Bimetallic League to Chancellor of Exchequer, June, 1895.)

7. **This is not so,** since between 1850 and 1873, the period of alleged stability, prices actually varied more than between 1873 and 1890, the period of alleged instability. Soetbeer shows that, whereas the principal articles of trade and consumption

cost in 1847–50	100
they cost in 1873	138·28
and in 1890	108·13

8. Another favourite assertion of the Bimetallists is that, now that silver is not coined so freely as before, there is a lack of money. Perhaps this has been most authoritatively stated by Mr. R. L. Everett in a prize essay on Bimetallism (Cable, Oct. 27th,

1894):—"But in country after country, beginning with Germany in 1873, and finishing with India in 1893, mints have been wholly or partially closed against silver. One half of the old source of supply of money has been cut off." He adds that the people "should demand to have free coinage restored to them, and so put an end to the present artificial famine of money."

9. **These statements are equally incorrect, whether applied to the world generally or to ourselves.** As regards the world generally, the director of the United States Mint (Report of 1894) estimates that the stock of the world's coin was 3,400 millions of dollars in 1860, against 8,021 millions of dollars in 1894. He also estimates that the present annual output of gold alone is more than the annual output of gold and silver together thirty years ago. Thus, even if money consisted solely of coin, which it does not, it is a fallacy to say that the world is suffering from an "artificial famine of money." As regards this country, Mr. Everett's statement is also inaccurate. Anyone can bring gold to our mint, and have it turned into coin. As for silver, the Government alone has a right to present silver for coinage, but whenever it is apprised that more silver currency is needed, it orders more silver to be coined, and as it makes a considerable profit on the transaction, we cannot suppose that it is backward in undertaking that duty.

10. Another statement frequently made is that, somehow or other, the fall in the price of silver is ruining our trade with the East. Sir William Houldsworth has said that, owing to this cause, "in a very short time your export trade to India will be not only reduced, but will be simply destroyed" (Bimetallism and the Depression in Trade, Preston, Jan. 30th, 1895). This is the information which is given to the artisans and mechanics of Lancashire.

11. **What are the facts?** The Secretary to the South and North-East Lancashire Cotton Spinners and Manufacturers Association, comparing the fatal year of 1873 with 1894, estimates that the quantity of cotton cloth exported to India in the former year was 990 millions of yards. But in 1894 the total had risen to the enormous amount of 2,279 millions of yards (*Economist*, Nov. 17th, 1894). Could a reply be more conclusive? But there is more to be added. The Secretary proceeds to analyse the Bimetallic argument that owing to the fluctuation and fall of silver, our trade with silver-using countries "will be simply destroyed." He finds, on investigation of the facts, that while **silver countries have since 1873 increased their consumption of our cotton cloth by**

100 per cent., gold countries have only increased it by 17 per cent., and India has, notwithstanding the increase in Indian mills, increased its consumption of our cotton manufactures by 130 per cent. **Such is the amazing contrast of Bimetallic statements and of solid facts!**

12. Bimetallists are continually asking us to imitate the Bimetallic system adopted in 1803 by France, and to abandon the folly of a single gold standard. For instance, our system has been talked of as the absurd system under which it is our present misfortune to live; and Mr. Herbert Gibbs says that, in regard to Bimetallism, "the French law adopted in 1803 is usually taken as the most suitable example, partly because its provisions are entirely approved by modern Bimetallists, and partly because it operated without interruption till 1873." (A Bimetallic Primer, pp. 13, 14.)

13. But we have on record what France herself thought as to her own Bimetallism, and as to our policy. The preamble of the French Currency Act of 1876 says:—"From 1815 Great Britain has laid down principles which have attracted round her an ever-increasing circle of nations"; and, further on, "From 1857 the French Government has studied the question, and it may be stated that since that date the principle of the gold standard has won increasing favour through our several Administrations." **France abandoned Bimetallism, and shall we be so very foolish as to take on the cast-off experiment of France?**

14. If, then, the Bimetallists are so incorrect as to the past and the present, shall we trust them as regards the gigantic speculation in currency upon which they recommend us to embark? If, as would appear, they wish to procure high prices at the expense of making the currency unsound, our answer is easily and concisely given. **We will not barter sound currency for high prices. That is not the price we would pay, nor is this the thing we would purchase.**

Since the last list was published, the following gentlemen have become Vice-Presidents of the Association:—Viscount PEEL, Lord BRASSEY, Lord GRIMTHORPE, Lord IVEAGH, Lord LINGEN, and Mr. L. J. BAKER.

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GOLD STANDARD DEFENCE ASSOCIATION.

MR BERTRAM CURRIE,
PRESIDENT.
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TREASURER.
HON. GEORGE PEEL,
SECRETARY.

11 AND 12, CLEMENT'S LANE,
LOMBARD STREET,
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An Answer to the Bimetallic League.

1. THE Bimetallic League have replied to the general statement of the Gold Standard Defence Association, by a letter from their President, Mr. H. H. Gibbs, which appeared in the *Times* of the 13th July last. On the principal points in that letter, which contains much detail, the Gold Association desire to make the following observations.

2. The President quotes the Association as saying that under our present system the form of an obligation to pay money is, "I am bound to pay 100 gold sovereigns;" while, under a Bimetallic system, the form would be "I am bound to pay either 100 gold sovereigns or as much silver as is equal in weight to some fixed multiple of 100 gold sovereigns, whichever I find the cheaper." He then states that the words, "whichever I find the cheaper," are an unjustifiable interpolation, and merely beg the question at issue so as to raise a prejudice against Bimetallism.

3. The words in question are perfectly justifiable, for they only express the fact. If the payer has an option to pay in either of two metals and the option has any meaning, he will of course pay in the metal which is cheaper. **Payment in whichever is the cheaper metal is the very essence of the Bimetallic theory.** That theory rests on the assumption that with free mintage of both metals at a fixed ratio any cause which would naturally make one metal dearer than the other will be counteracted by bringing the cheaper metal to be coined, or by the knowledge that it can be so coined.

4. As the mints will coin all silver brought for coinage, those who own silver will have it coined, and will use it when coined in payment of obligations. This is the only mode in which Bimetallism has ever operated or can operate so as to maintain the fixed ratio; and as it has been in the past so would it be in the future. If, for instance.

at the present moment, when the market ratio of silver to gold is as 30 to 1, the proposals of the Bimetallists were adopted, and if, as many of them desire, there were to be free mintage of both metals at a legal ratio of 15½ to 1, the only way in which the legal ratio could be made effectual would be by the use of the cheaper metal in payment of obligations at that ratio. **An admirable thing, no doubt, for the possessors of silver!**

5. The President of the Bimetallic League also asserts that "the gold sovereign is the creation of law, and that the Bimetallic system is not more artificial than the monometallic system, since both depend on Statute for their existence." This is an entire mistake, and betrays **the confusion of thought which underlies the Bimetallic theory.** The gold sovereign is not the creation of law in the sense in which the Bimetallic dual standard would be the creation of law. All that the law does in the case of the gold sovereign is to stamp it with a certificate that it is a piece of gold of a certain weight and fineness, in fact to do just what it does in the case of other weights and measures. In saying that gold sovereigns shall be legal tender to any amount, it merely says that contracts to pay in sovereigns shall be discharged by payment in sovereigns, in fact that the law of contract shall be observed. The law says nothing about the value of the sovereign. It leaves that value to be determined as the value of everything else is determined —viz. by the higgling of the market. But the Bimetallic system proposes to fix the value of gold in terms of silver, and the value of silver in terms of gold. It proposes to do that which no wise Government attempts, and which all sound economists condemn, viz. to fix by law the value of one thing in terms of another.

6. The President of the Bimetallic League admits that the ratio is a matter of importance, but **declines, as other Bimetallists have done, to give the least inkling of what he and his colleagues think that ratio should be.** He does not even advert to the tremendous consequences to the owners of silver and to their creditors and customers, of doubling the value of silver throughout the world, which would be practically the case if a ratio of 15½ to 1 were substituted for the present market ratio. Nor does he appear to see that the fixing of a ratio is not only a present difficulty, but is an excellent illustration of the difficulty— or impossibility—of maintaining a fixed ratio in future. Nor is it, as he suggests, for the Gold Association to state what ratio they would accept as equitable. **The Gold Association do not believe in a ratio to be fixed by law,** and they leave to those who do believe in it the responsibility of stating what it should be.

7. The President of the Bimetallic League finds fault with the statement of the Gold Association that under a Bimetallic ratio less favourable to gold than the present market ratio gold creditors would suffer. The precise mode in which international debts are settled is too intricate a matter to discuss at length on the present

occasion. It is sufficient to point out the obvious fact that where one man or one country owns silver and has payments to make, and the value of silver is artificially doubled, that man or that country will undoubtedly gain largely at the expense of those with whom he or they have dealings.

8. The President of the Bimetallic League quotes the assertion of the Gold Association that, **if Bimetallism would raise prices, as is stated, it involves a direct attack upon every artisan and labourer in the country**, since their well-being depends above all things on the cheapness of the necessaries of life; and he states that his League gives the assertion an emphatic denial. The Gold Association adhere to their statement that if the price of the necessaries of life is raised by such an alteration of the currency as the Bimetallists propose, the workman will be necessarily injured; since, as all experience shows, wages in such cases rise much more slowly than prices.

9. The Gold Association make no such confusion as is attributed to them with respect to the causes of low prices. They assert that low prices due to improved methods of production, transport, and exchange, are a good thing, and they assert further that this is what has happened. They deny that low prices have been caused by a scarcity of the standard metal, for they deny that there is any such scarcity.

10. **What the Bimetallic League think on this subject is far from clear.** The President says that "the object of International Bimetallism is not to raise prices," whilst in other sentences he implies that gold has appreciated in consequence of its comparative scarcity, and that Bimetallism is a remedy for the consequent fall of prices. Let us understand distinctly what the Bimetallists mean. Are the scarcity of Gold, the consequent appreciation of the Standard, and the consequent fall in prices which have played so large a part in the Bimetallic agitation, still to be articles of their creed, or are they not? If they are still to be articles of the Bimetallic creed, then the Gold Association meet them with a direct negative. If they are no longer articles of the Bimetallic creed let them be dropped; and with them will drop that large proportion of popular support which Bimetallism has received from the people who believe that it is its object and intention to raise prices.

11. Mr. Gibbs concludes with a repetition of the grounds on which his League think that monetary reform is necessary, and distinctly advocates Bimetallism, thus going beyond the prayer of the recent memorial to the Chancellor of the Exchequer. In so doing he merely reiterates the assertions that have repeatedly been made and as repeatedly answered. But it is to be observed that, notwithstanding the time and labour already spent on this controversy, **the Bimetallic League are silent on any specific plan** in which the Bimetallic theory is to be embodied; on the ratio which

is to obtain between gold and silver ; on the methods of establishing and enforcing that ratio ; and on the consequences which would follow from its establishment.

12. In the absence of any satisfactory evidence of evils due to the present system of currency ; of any such definite plan as would enable the public to judge what it is proposed to substitute for that system ; and of any proof that the substituted plan would be an improvement on that system, **the Bimetallists must be regarded as enthusiastic and ill-advised agitators rather than as practical reformers.**

The following gentlemen are Vice-Presidents of the Gold Standard Defence Association :—Earl of Jersey, Earl of Leven and Melville, Viscount Peel, Lord Wantage, Lord Brassey, Lord Farrer, Lord Grimthorpe, Lord Hillingdon, Lord Iveagh, Lord Lingen, Lord Playfair, Lord Welby, Viscount Duncannon, Right Hon. Sir John Lubbock, Bart., M.P., Right Hon. Sir Mountstuart E. Grant-Duff, Sir F. Dixon-Hartland, Bart., M.P., Sir H. Seymour King, M.P., Sir George Baden-Powell, M.P., The Hon. Sir Charles W. Fremantle, Sir Charles Rivers-Wilson, Right Hon. G. Shaw-Lefevre, Mr. E. W. Beckett, M.P., Mr. E. Brodie-Hoare, M.P., Mr. A. H. Brown, M.P., Mr. H. Cosmo Bonsor, M.P., Mr. B. L. Cohen, M.P., Mr. H. Kimber, M.P., Mr. R. B. Martin, M.P., Mr. W. A. M'Arthur, M.P., Mr. C. E. Tritton, M.P., Mr. J. L. Baker, Mr. Robert H. Benson, Mr. William Fowler, Mr. H. G. Kleinwort, Mr. D. Larnach, Mr. D. Meinertzhagen, Mr. E. H. Pember, Q.C., Mr. Charles A. Prescott, Mr. Edward Rae, Mr. S. A. Ralli, Mr. Henry L. Raphael, Mr. W. H. Stone, Mr. J. H. Tritton, and Mr. R. B. Wade.

All communications and inquiries should be addressed to the Secretary of the Association, the Hon. George Peel, at 11, Clement's Lane, Lombard Street, London, E.C. Members can be enrolled at any time on payment of one pound annual subscription, and any donations towards the expenses of the Association will be welcomed. Publications will be sent free to Members.

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No. 6.

GOLD STANDARD DEFENCE ASSOCIATION.

MR. BERTRAM CURRIE
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11 AND 12, CLEMENT'S LANE,
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The Old Bimetallism and the New.

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1. **International Bimetallism, such as the Bimetallic League now advocate, is a wholly new thing both in theory and practice.**

2. Bimetallic theory of any sort is itself almost entirely novel. When there was much Bimetallic practice in the world there was no Bimetallic theory. Governments had Bimetallic laws because the expedient of token money with which we are now so familiar had not then been devised. Two, and even three, metals are required for currency purposes, according to the magnitude of the payments which have to be made. For some purposes gold is the most convenient metal, for others silver, for others copper, just as for other purposes again, paper, *i.e.* promises to pay, is more convenient than any metal. It has been found by experience that for these purposes it is best not to make the tokens other than representative. Token coins, in other words, are not full valued, but are promises to pay in which the medium on which the promise is made is also worth a large part of the value promised; but in the days when Bimetallic practice prevailed, before the plan of token money had been devised, the only way in which it was thought two metals could be used in coinage was to rate the one to the other, and to use both at the ratio as long as market conditions rendered that course possible. **A new ratio was applied when market conditions changed.** The coins of two metals were full-valued at the ratio, because the idea

of charging a heavy seigniorage on the one and giving a monopoly of its coinage to Government, which has since been found so convenient in practice, had not then occurred to men's minds. **Such was the practice of Bimetallism in ancient times.** There was no theory as to the desirability or practicability of maintaining a fixed ratio by the method of rating the one metal to the other, and having full-valued coins of both. In fact, down to recent times, legislatures and Governments were occupied with incessant changes in the ratio, and had no idea that there could be fixity.

3. During the long period, also, when there was Bimetallic practice, the monometallic theory of money arose, and received the assent of Oresme, Copernicus, Sir William Petty, Locke, Newton, Adam Smith, Ricardo, the Bullion Committee, Sir Robert Peel and many more, and was embodied explicitly in the English Monetary system, viz. that a standard for money could only be composed of one metal, because there could not be a fixed ratio between two, and the expedient of token money was devised in order to employ and use two or more metals in coinage consistently with this principle.

4. When any theory of Bimetallism such as we now have began it is difficult to say; but even as late as the French Law of 1803 the only reasons assigned for rating one metal to the other were the convenience to business of having two metals available for the different payments required, the object now perfectly accomplished by token coins, and the desirability of having plenty of money in a country which it was thought would be hindered by coining one metal only. **A system of standard and token money such as we now have thus fulfils all the objects intended by the practical Bimetallism of those times when Bimetallism existed in practice.**

5. In the present century a theory grew up which M. Wolowski and other economists of some repute advocated, viz. that the system of having full-valued coins of two metals had some effect in making the legal ratio established effective in the market, and that it was worth while keeping up the system for that reason, although it was recognised that any country attempting to maintain it would have to submit to alternations in the use of the one metal and the other, according to changes in the market ratio from the legal ratio. It was argued, however, that such alternation was not

injurious to the countries submitting to it, and was, indeed, rather a good thing. It was not denied, however, that there might and would be alternations.

6. The new Bimetallism for which arguments are now employed is of an entirely different nature. It is now maintained in theory that although Bimetallism was not good for any one nation, and no one nation could make it effective, yet if all Governments were to agree upon a ratio within certain limits not stated that ratio would be effective. Governments are accordingly called upon to agree upon international Bimetallism, and to fix upon a ratio by mutual agreement, on the ground not merely that such an agreement might have some effect in making the market ratio conform—the argument of the first Bimetallic theorists—and that alternations, though they would be inevitable, would not be very injurious; but on the ground that Government action would necessarily make the ratio effective, and that alternations are not to be feared.

7. **The new Bimetallism is thus entirely different from the old, and was unheard of in the world either in theory or in practice until now. The new theory may be right, but surely its extreme novelty should be recognised, and strict proof of the validity of so novel a theory called for, before people stake the fortunes of their monetary systems upon it.**

8. The significance of the fact that since any Bimetallic theory was constructed its form has changed so rapidly is also very great. Bimetallic theory, as distinguished from Bimetallic practice, is hardly half a century old, but already its advocates have advanced from the position that the legal ratio would have some effect (of unknown degree) in making the market ratio conform, and that inevitable alternations would not be injurious to the nations enduring them, to the position that if all nations agree the legal ratio will be certainly effective, and that there will be no alternations. That the latter arguments began to be used because the former arguments were found unconvincing, and for no other reason, is also a matter of history. Bimetallists proper, before the exigencies of controversy forced them to resort to the idea of international Bimetallism and the certainty of maintaining a ratio, were all for particular Bimetallism and not merely international Bimetallism; and their special arguments for the latter, including the assertion of

the certainty of maintaining a ratio, are for the gallery only, and not for those who have made any study of the subject. No economist of any repute, except Professors Nicholson and Foxwell—perhaps we should now include Mr. Courtney with them—has ever gone so far as to maintain that a fixed ratio between gold and silver can be established by one or more nations.

9. It is not proposed to discuss here the theory of the new Bimetallism. That is done elsewhere. **But the importance of the history of the theory is obvious, and goes a long way to discredit the theory itself.**

THE following Memorial, signed by the most influential members of **the Stock Exchange, London,** has been forwarded to the Chancellor of the Exchequer:—

"THE DEFENCE OF THE GOLD STANDARD.

"*To the Right Honourable*

"SIR MICHAEL E. HICKS BEACH, Bart., M.P.,

"Her Majesty's Chancellor of the Exchequer.

"We, the undersigned members of the Stock Exchange, London, venture to address you in support of the views recently laid before your predecessor in office by Merchants and Bankers in the City of London; and also by members of the Stock Exchanges of Birmingham, Manchester, Liverpool, Leeds, Edinburgh, Glasgow, and Dublin.

"We deprecate, with them, the adoption of the policy known as Bimetallism, which aims, in effect, at the depreciation and debasement of the gold standard of this country.

"We believe that such a policy would inflict injury on all classes, and we are satisfied that whoever might gain by it, such gain would be at the expense of all who invest, of all who save, and of all who earn wages.

"We regard the entire proposal as made in the interests of debtors who seek to be relieved from their engagements, and as a direct attack upon the commercial prosperity of the United Kingdom."

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No. 7.

GOLD STANDARD DEFENCE ASSOCIATION.

11 AND 12, CLEMENT'S LANE,
LOMBARD STREET,
LONDON, E.C.

The Measure of Value and the Metallic Currency.

BY THE RT. HON. LORD FARRER.

1. **It is a function of every civilised State to settle the terms in which trading transactions are carried on.** The State does this in two ways. First, it prescribes certain measures of weight and size in which the quantities of articles bought and sold are to be described, and it gives the means of ascertaining that these measures are accurate. Secondly, it both determines and stamps and issues the coin in which the value of all goods bought and sold is measured, and by means of which, as a medium, they may be exchanged. The utility of this function is obvious. In the simplest and rudest form of trading, one article would be exchanged against another, without any description or definition except such as would arise out of the direct impression made by the particular articles on the senses of the two parties. An apronful of corn would be exchanged against an armful of meat or against a hewn tree or stone, or a day's labour would be exchanged against some handfuls of wheat; but there would be nothing by which the quantities of any of these articles could be known, or by which, in the absence of the articles themselves, any of

the parties could tell what he was giving or getting. Nor would there be any common measure of value to which each could be referred. The person possessing the corn, and wanting meat, wood, or stone, must wait until he could find a person possessing the requisite piece of meat, or wood, or stone, and at the same time wanting corn; or the person able to labour and wanting corn must wait until he could find a person possessing corn and wanting labour; and then the two parties must come together, and compare their respective articles by the use of their unassisted senses.

2. Contrast this with the sale of 100 quarters of corn at so many pounds sterling a quarter; or the purchase of so many pounds of beef at so many pence a pound; or the wages for an eight-hour day's labour at 2s. 6d. per hour. The facilities of dealing in the latter cases, as compared with the former, are obvious. But these facilities would be impossible if we did not know accurately and universally what was meant by a quarter, and by a pound weight, and by a £ sterling, and by a shilling, and by a penny; and in order that they may be accurately and universally known, they must be determined in such a way that all persons must accept them; and this can only be done by the authority of the State. It has therefore been admitted in all civilised societies that the State must determine measures of weight, size, and value. **The State accordingly provides certain standards of weight and size**—viz. a standard pound weight and a standard yard measure—which are kept at Westminster; and by reference to these standards all the measures of weight, length, and capacity used in ordinary dealings are, under carefully prepared regulations, verified and tested.

3. The determination of the standard or measure of value is a less simple affair than the determination of the standard pound weight or yard. The value of any given thing is the quantity of other things for which it will exchange; and that quantity is, of course, constantly changing, and changing differently in the case of different things. It is, of course, in such a case impossible to have any fixed standard or measure of value such as are the standard pound weight and the standard yard measure of length.

The only thing which can be done is to select some object which varies as little as may be in its relation to other things, and to make a given quantity of this the standard by which the value of other things is measured. For this purpose mankind has for ages used gold and silver. Out of these metals have been fashioned the coins in which payments have been made, and by means of which exchanges have been effected. In other words, **gold and silver coins have not only been standards of value, but means of exchange**; and their true position and character as standards of value have been secured by making them also the actual media by which purchases and sales have been effected. For instance, suppose that a quarter of wheat, a coat, and a day's labour will all exchange one for the other, and that each will also exchange for the quantity of gold contained in an English sovereign. Then the gold contained in the sovereign or pound sterling will be the measure of value of the quarter of wheat, of the coat, and of the day's labour; and an actual gold sovereign may also be the medium by the use of which these things are exchanged for one another.

4. But though standard coins are thus both measures of value and media of exchange, it is very important to distinguish between the two functions. In any sound system of currency the metal coin which is the measure of value must also be *a* medium of exchange: but there are many media of exchange besides the standard coin. Indeed, in this country, and in the greater part of the civilised world, **the standard coin plays an insignificant part as a medium of exchange compared with other more convenient media,** such as subsidiary token-coins, bank-notes, bills of exchange, bankers' cheques, and other forms of credit. It is from a neglect of this important distinction, and of the actual facts of common business, that many errors and much confusion arise. We find, for instance, the word "money" used—even by accurate writers like Lord Liverpool—as synonymous with standard coin; whereas, in the daily language of the market, of the press, and of common life, "money" means and includes not only gold sovereigns, but silver, shillings, and pence, as well as all the various instruments of credit with which we buy

and sell, and which are probably at least a hundred times as great at any given moment as all the gold sovereigns in the country.*

5. Of the coins used in our currency, the pound sterling or gold sovereign is the real standard of value, and gold sovereigns are the only coin which are legal tender for debts exceeding forty shillings.† The gold sovereign consists of a certain fixed fraction of an ounce of pure gold combined with a certain quantity of alloy.‡ **The essential function of the Mint consists in ascertaining that its weight and purity are what the law requires, and in stamping and issuing it so that it may be known everywhere as certified by the Government to possess these qualities. Beyond this the Government does nothing to determine its value, which is simply the value of that quantity of gold in the open market.** But, it may be said,

* The following passage from Lord Liverpool's well-known treatise on the "Coins of the Realm" contains so good a description of the standard coin that I quote it here, merely adding the correct expression "standard coin" where Lord Liverpool uses the word "money":—

"The [money] standard coin of a country is the measure by which the value of all things bought and sold is regulated and ascertained, and it is itself, at the same time, the value, or equivalent, for which goods are exchanged, and in which contracts are generally made payable. In this last respect, the [money] standard coin, as a measure, differs from all others, and to the combination of the two qualities before defined, which constitute the essence of this [money] standard coin, the principal difficulties that attend it in speculation and practice, both as a measure and an equivalent, are to be ascribed. These two qualities can never be brought perfectly to unite and agree; for if the [money] standard coin were a measure alone, and made, like all other measures, of a material of little or no value, it would not answer the purpose of an equivalent. And if it is made, in order to answer the purpose of an equivalent, of a material of value, subject to frequent variations, according to the price at which such material sells at the market, it fails on that account in the quality of a standard or measure, and will not continue to be perfectly uniform and at all times the same. Civilised nations have generally adopted gold and silver as the material of their [money] standard coin, because these metals are costly and difficult to procure, little subject to variation in value, durable, divisible, and easily stamped or marked."

† 33 Vict. cap. 10, s. 4.

‡ 123.27447 grains in weight: 11/12ths fine gold, 1/12th alloy (33 Vict. cap. 10, first schedule). The reason for this special quantity is historical, and is founded on the quantity of gold contained in the guinea

how can this be the case when the Mint price of an ounce of gold is fixed by law at £3 17s. 10½d.? The answer is, that by the *Mint price* of gold is only meant the quantity of sovereigns and fractions of a sovereign into which the Mint divides an ounce of gold which is brought to it for coinage; and it is important to remember that by the shillings and pence which form part of the *Mint price* are meant, not given quantities of silver or bronze, but the fractions of a gold sovereign which are known by these names. An ounce of gold is divided into three whole sovereigns and 17/20ths and 10/240ths and 1/480th of a gold sovereign; and this is what is meant when it is said that the *Mint price* of gold is £3 17s. 10½d. So long, therefore, as the gold currency is in a sound condition, there can be no permanent or important variation between the market price and what is called the Mint price.

6. But we could not be sure that the gold sovereign would be of the value of the gold contained in it, if the Government had the power to increase or diminish the quantity of coined sovereigns at their own discretion, and thus to determine what quantity of currency the people shall use. It is therefore made incumbent on the Mint to coin into sovereigns all the gold which is brought to it for coinage. The quantity of coins in circulation must, therefore, depend entirely on the demand for them, and not on the action of the Government. If more coins are needed, gold is brought to the Mint and turned into coins. If fewer coins are needed, existing sovereigns are melted down, and exported or otherwise used. The value of the coin must therefore be that of the gold used in making it, with nothing added but the value of the Government certificate of its weight and purity. **It is this self-acting character of the Mint which is the great safeguard of the coinage.** If it were in the power of the Government to refuse to coin, they would be able to restrict the coinage, and thus to add to its exchangeable value. If they were able to alter the quantity and purity of the metal contained in the sovereign, they would be able to depreciate its value, as has in former times often been done. In either case they would be able to derange markets and alter existing contracts, which are

made in terms of the sovereign or pound sterling. The self-acting character of the Mint operations reduces the function of the State in issuing money to that of a verifier in weights and measures.

7. With regard to the silver coinage the case is different. The gold sovereign, it is obvious, or even the gold half-sovereign, is not suited for small payments; and attempts to issue a smaller gold coin, such as the gold 5-franc piece in France, have not been attended with success. In many countries paper money is largely used for the purpose of small payments, *e.g.* the paper dollar in the United States. But it is less convenient—or, at any rate, less suited to English habits—than metallic coin; and there is an advantage in having a subsidiary coin made of a substance which has some value of its own. For these reasons, amongst others, it has been found desirable to use a metal of larger bulk and smaller value than gold; and silver is the metal used for the purpose.

8. By royal proclamation the gold sovereign is equivalent to twenty shillings, or, in other words, is divided into twenty parts called shillings. Previously to 1816 the weight of standard silver contained in a shilling was 92·90 grains, making the relative value of a given weight of silver to the same weight of gold as 15·21 to 1. In 1816 the weight of standard silver contained in a shilling was reduced to 87·27272 grains—a reduction of about 6 per cent.*

9. The effect of this alteration was, at the then market value between gold and silver, to make the value of the shilling measured in gold rather more than the value of the silver of which it was composed. In other words, the shilling became a token-coin, the currency value of which was no longer the value of the silver contained in it, but the value of 1/20th of a gold sovereign. There could, therefore, be no longer any motive for melting it down or exporting it. But since with free mintage of silver it would have been greatly to the advantage of the owners of silver to bring it to the Mint—to get it coined into shillings—and to pay their debts with the shillings so coined,

* See the present Coinage Act, 33 Vict. cap. 10, s. 3, first schedule. According to this Act, the weight of silver in a shilling is, as above stated, 87·27272 grains; the fineness 37/40ths of fine silver to 3/40ths of alloy.

two precautions were taken. The right of private persons to have silver freely minted for them, which had been actually suspended for many years, was finally put an end to, and **the right to mint silver coins was confined to the Government.** The second precaution was to limit the operation of the law of legal tender. Under that law, as it formerly existed, either gold or silver coined by the king's authority could be offered in payment to any amount. But under the Act of 1816 silver was allowed to be legal tender for the amount of 40s., but for no greater amount. Under this state of law new supplies of silver coin cannot be procured except with the consent and by the act of the Government, and silver coin cannot be used for the purposes of large payments.

10. **The immediate effect of the Act of 1816 was the resumption of the coinage of silver, which it had been found necessary to suspend under the mischievous operation of the old Bimetallic Law**, and thus to provide the country with an adequate supply of small change, the want of which under that law had proved to be a very serious evil. Very large amounts of silver were coined in 1816 and the years immediately following, and there has been a fairly steady coinage ever since; in fact, just as much as was wanted to supply the needs of the people for small coin.*

11. Since 1816 the gold value of silver has declined, and the ratio —which was then about 15½ to 1—is now about 30 to 1 : so that the difference between the value of the silver contained in a shilling and the value of 1/20th of a gold sovereign, is far greater than it was at the time when silver was first made into a token-coin. One consequence of this is that the Government makes a very large profit on the coinage of silver, since every ounce of silver—which they now

* Continued by the present Coinage Act, 33 Vict. cap. 10, s. 4. Under the operation of the Bimetallic Law, which permitted free coinage of both metals, very little silver was coined during the eighteenth century. The coinage of silver was suspended by law in 1798, and was not resumed till 1816. Since 1816 the aggregate coinage of silver has been about £41,000,000, or, on an average, over £500,000 a year.

buy for about 2s. 6d. an ounce—they issue, when turned into silver coins, at 5s. 6d.

12. The silver coins are not, therefore, a measure of value at all; they are a token-coinage, only used for small transactions. And when a silver coin is spoken of as denoting the price of any article, what is meant by it is the fraction of the gold sovereign to which it corresponds. If we say that mutton is worth a shilling a pound, we mean that a pound of mutton is worth 1/20th of a gold sovereign. If we say that wheat is 50s. a quarter, we mean that a quarter of wheat is worth two gold sovereigns and a half. Under this system the action of the Government in respect to silver coins differs entirely from its action in respect to gold coins. **In the case of gold coins the Mint is obliged to coin all the gold which is brought to it; in short, to turn all the gold brought to it into gold coins. In the case of silver it is not under any such obligation.**

13. The supply of silver coins needed for the retail dealings of the country is easily effected through the banks. When they find that their customers want silver, they demand it through the Bank of England from the Mint, and pay for it in gold coins. They have no motive to ask for more than is really wanted by the country as silver currency; for the silver in the coins would be worth less if melted down for use in the arts or for exportation than it is worth as silver coin. The Mint buys the silver needed to make the required coin, and gains a profit by the difference between the market value of the silver and the price in gold given for it. But, as they only issue it in accordance with the demands made for it by the bankers, they do not issue more silver coins than the people need.

14. In order that the Mint may perform its function of verifying the quality of the gold and silver used in coinage, there must be a standard of quality. This is found in certain plates of gold and silver which are kept with other standards by the Board of Trade, and which are produced annually on what is known as the Trial of the Pyx, when a jury of the Goldsmiths' Company compares samples of the metals used by the Mint in coinage with the standard plates.

These standard plates were formerly kept in a chapel opening into the cloisters of Westminster Abbey, called the Chapel of the Pyx, in which the king's treasures used to be stored, and on the door of which is still to be seen a trace of the skin of a malefactor flayed alive for trying to rob the king's treasury. The Board of Trade wished to hand this chapel over to the Dean and Chapter, within whose precincts it lies; but the late Dean Stanley characteristically refused to receive it, on the ground that the retention of this interesting spot in the precincts of the Abbey by a department of the State which has to do with the regulation of trade was a symbolic link in the relations of the State to the Church.

15. What is true of silver is also generally true of the copper —or, rather, the bronze—coinage. The metal employed in the bronze coin is worth less than the fraction of the gold sovereign which it is used to express, and it is not a legal tender for more than 12d. The Mint issues it from time to time in different districts, and contracts the issue when it is found to be superabundant.

16. It will therefore be seen that **gold is the sole ultimate measure of value in this country,** and that its value as compared with other commodities is determined precisely in the same way as that of other commodities, viz. by supply and demand; in other words, its value is the value which people will give for it. The sole function of the Government is to ascertain the quality and weight of the gold, and to give it a stamp denoting that quality and weight. Other coins are measured in gold, and do not pass according to their own intrinsic or market value; they are tokens, not articles of commerce. The function of the Government with respect to them is to supply any number for which the corresponding price in gold is given; to verify the quantity and quality of the metal they contain, and to stamp them accordingly. **The system of currency thus described has solved two great difficulties.** First, it has adopted as material of the coin which is freely minted and which forms our measure of value one and not two metals—so that the evils of a constant alternation between gold and silver, and of the frequent expulsion of the one by

the other, under what is known as Gresham's law,* have been put an end to. How great were these evils may be easily learned by those who will read history, not through Bimetallist spectacles, but by the light of the facts themselves.† In adopting this standard it does nothing but stamp the coin with a certificate denoting the quantity and quality of the gold which it contains, and it says that the coin so stamped shall be accepted as being what the Government state it to be. It says nothing of the value of the coin, but leaves that to be determined—as all other values are determined—by the higgling of the market.

17. Secondly, **it has reconciled with the adoption of the single metal, gold, as the sole standard of value, the free use of as much silver coin as men need for use as a medium of daily exchange.** It is clear, as above stated, that gold coins are not suited for small daily payments—wages, travelling fares, and the like; and very great inconvenience has often been felt in Bimetallic countries when, in consequence of the operation of the Gresham law, silver coins have been melted down or have left the country. Since the reform of the coinage in 1816 no such inconvenience has been felt, or, if felt, it has been promptly remedied.

18. To make the system theoretically perfect, two things ought, perhaps, to be done. It is conceivable that the Government, which has the coinage of silver in its own control, might refuse to coin silver when really needed. It is not likely so to refuse, because, so long as silver is overvalued in the coins, the Government makes a large profit by the coinage of silver. But there would seem to be no reason why, so long as silver is thus overvalued, the Mint should not be obliged to give twenty shillings in silver for every gold sovereign brought to it. There would be no fear of an over-issue, for no one would give a gold sovereign for twenty shillings—the silver in which

* "Bad money drives out good" is the popular statement of Gresham's law. In other words, if you give people the alternative of paying in either of two things, they will pay in the cheapest.

† Those who care to see what Bimetallism has done for the nations which have adopted it may be referred to Mr. Shaw's "History of Currency" (Wilsons and Milne, 1895).

is worth much less than a sovereign—unless ne meant to use them as change. A more probable danger might arise from an over-issue of silver coins, if we could imagine that our Government were disposed to make money by such a device. Such an abuse might be checked by making the token-coins what they really are, viz. promises to pay gold, and by compelling the Government to redeem them in gold at their face-value. Supposing these two additional precautions to be adopted, the principle on which our token-coinage is founded would be carried out completely, and the action of the Government with respect to it would be, as it is with respect to our gold coinage, purely automatic.

19. **Our present system possesses a further convenience.** The gold sovereign, or pound sterling, unites in itself three characters: It is the measure of value; it is also the current coin ordinarily used by the people as pocket-money; and it is the unit ot account in which all the dealings of the country, and most of the dealings of the commercial world, are carried on. This is an advantage not possessed by other nations with a gold standard—*e.g.* the United States, where a gold dollar is rarely, if ever, seen; and France, where there is no such thing as a gold franc.

20. From the above account of our coinage, it will be seen how inaccurate it is to speak of our law of 1816 as having "demonetised" silver. In fact, it had the opposite effect. It finally took from it the possibility of ever becoming the standard metal, or measure of value, or of being used compulsorily in large payments. But in so doing, it made the use of silver in the form of subsidiary and token coins convenient and secure by placing them under conditions which offered no inducement to melt them down or export them; so that, as a matter of fact, silver—which was scarce and little used in this country before 1816—has since the change in the law been largely coined and used. **The importance of the principle of a subsidiary silver token-coinage, first embodied in the English currency reforms completed by the Act of 1816, may be illustrated by the great extension which the principle has received in other countries in later years.** It

was estimated by the Gold and Silver Commission (Final Report, Part II., par. 56) that out of £392,150,000 of silver in use as money in Europe and America in 1885, more than three-fourths was subsidiary silver currency maintained at an artificial gold value. In the Report of the Indian Currency Committee (pars. 67 to 96) is contained an analysis of the currencies of the principal countries of the world. This analysis shows how comparatively small is the actual quantity of gold coin in the currencies of nations which successfully maintain a gold standard at par; and how large is the part successfully played by silver token-coins and other subsidiary forms of currency.

21. The particular cases are too long to be described at length here, but special reference may be made to the enormous quantity of silver kept in circulation at a gold value in Germany, France, and the United States, and to the case of Holland and its colonies, where there is a successful gold standard with a circulation of paper and of silver—inconvertible except for export. It is also worthy of notice that these subsidiary currencies are maintained at a gold value by closing the Mints to the free coinage of silver and without the further precautions taken in our own case. Experience drawn from these cases suggests that the future development of the currencies of different nations, and the remedy for any difficulties which may arise either from increased demands on the standard metal or from the growing need of a single standard of value throughout the world, may be found in the extension of credit and in a free use of token and subsidiary currencies coupled with the single gold standard, rather than in a **hopeless attempt to tie gold and silver together by a marriage of which Nature has forbidden the Banns.**

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GOLD STANDARD DEFENCE ASSOCIATION.

11 AND 12, CLEMENT'S LANE,
LOMBARD STREET,
LONDON, E.C.

England's Adoption of the Gold Standard.*

BY THE RT. HON. LORD FARRER.

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1. THE character and operation of our present metallic currency have been explained in Leaflet No. 7. The following is an account of the steps by which we arrived at our present Gold Standard. **The story begins with the coinage of the guinea in the second half of the seventeenth century.** Previous to that time the history of English coinage is a record of arbitrary changes made by kings and governments in the weight and fineness of the coins, or in their relation to one another, or in the rate at which they were to be received in payment: changes made for various purposes, *e.g.* to cheat creditors; to provide sufficient currency; or

* For the facts and extracts given I am indebted to Lord Liverpool's letter on the Coins of the Realm, ed. 1880; to the Appendix to Dana Horton's "Silver Pound"; to the Appendix to Gibbs' "Colloquy on Currency"; to Shaw's "History of Currency," 1895; and to Kalkman's "England's Übergang zur Goldwahrung im 18th Jahrhundert," Strassburg, 1895. I am also indebted to Mr. Edward Rigg, of the Royal Mint, for the figures relating to coinage, and for valuable criticisms.

to meet and counteract the constant fluctuations in the relative outside or market values of gold and silver.*

2. Subsequently to the coinage of the guinea wiser counsels prevailed under the advice of Locke and others, and no arbitrary change in the weight of the guinea was made from 1670 until the guinea was replaced by the sovereign in 1816. When that was done, the sovereign, or £ sterling—which, as the unit of account, had long been $\frac{20}{21}$ of a guinea—was coined so as to contain $\frac{20}{21}$ weight of the gold which a guinea had previously contained. **The guinea is therefore the foundation of our present gold system.**

3. At the time when it was first coined the king had the right to fix, by proclamation, the weight, fineness, and denomination of all coins, and all gold and silver coins issued by the royal mint were receivable in payment to any amount. But though both gold and silver coins were thus current, silver was the sole legal tender;† and was also in common opinion, as it had originally been in fact, the standard metal; and this opinion, as we shall see, exercised great influence on the course of events.

4. In 1666 an Act‡ was passed, under which the mint was made open to both metals and everyone was entitled to have any quantity either of gold or silver turned into coin. This law continued in force until 1798, with the exception of a few months in 1696. The weight of the guinea was, under the Mint Indenture of 1670, to be at the rate of 44½ to a pound troy of gold. Its value in silver was to be 20s., apparently on the ground that this ratio represented the relative value of gold and silver in the two coins, which, as a matter of fact, it never did.§ The mint rate was not acted on or enforced. It appears to have been the policy of the government to treat gold as subsidiary to silver, and to leave the guinea to find its own value in silver money. At any rate, the public were allowed, without interference by the government, to put their own rate upon the

* Shaw, p. 160.

† Adam Smith, 9th Ed., b. I., p. 59. Ricardo Ed., 1876, p. 224. Jevons, Money, p. 98.

‡ 18 Charles II., ch. 5. Dana Horton, p. 230.

§ Liverpool, p, 78. Dana Horton, ch. vi.

guinea, and it rapidly rose in value—becoming in 1695-6 worth as much as 30s.* For this rise there were various reasons. The most important was the state of the silver coin, which by clipping and waste had become so bad as to lose half its original weight and value. But this was not the only reason. Gold was becoming more abundant and cheaper in the markets of the world, and possibly on this account, and possibly also, as Lord Liverpool thought,† on account of its greater convenience, people preferred gold. It is probable that there was also unhealthy speculation in guineas. **Speculation in the price of gold and silver, disastrous to all but money changers, has always been the result of past Bimetallism.**‡ The consequence of this state of things was that there was a great import of gold; that all good silver coins were melted down, hoarded or exported; that there was a terrible scarcity of silver coin; that no one knew what was the value of the current silver coin; that all ordinary dealings were plunged into confusion; and that the value of English money abroad—in other words, the Foreign exchanges—fell heavily. The first remedy proposed and adopted was to call in and re-coin the bad silver money, which, as above stated, was still regarded by the public, as well as by the highest authorities, as the standard money of the country. This step, as is known to every reader of Macaulay, was a step of first rate importance. It was taken on the advice of very able men, and is said to have cost the country £2,700,000, a vast sum for those days.§ Nor was this the only step taken. Orders were made from time to time by the Treasury fixing and gradually reducing the MAXIMUM amount in silver at which the guinea should be taken at the public treasuries;‖ and statutes were passed reducing the MAXIMUM rate in silver at which guineas should be taken by the public. In 1696 the MAXIMUM silver

* Dana Horton, App., p. 238. Liverpool, pp. 89, 157.

† Liverpool, pp. 92, 154.

‡ Shaw, *passim.*

§ Lord Liverpool, pp. 85, 92. The whole National Revenue in the reign of Charles II. did not amount to a million and a half. (Macaulay, i. 298.) The Revenue from taxes in 1688 was between £1,600,000 and £1,700,000. (Dowell, "History of Taxation," ii. p. 43.)

‖ Dana Horton, pp. 240, 248, 249, 253.

price of the guinea was reduced by statute to 26s., and afterwards to 22s.* In the same year a still more stringent measure was taken. The importation of guineas was forbidden by statute, and the mint was closed against gold.† This statute was, as has been noticed above, only in operation for a few months and was repealed in the following year.‡ In 1697 the Treasury gave notice that they would not receive guineas at more than 21s. 6d., but no guineas were brought in, and in a few days the Treasury directed them to be again received at 22s.§ In 1698 a report of the Commissioners of Trade, signed amongst other persons by Locke, was issued, which, after recommending a further reduction of the rate, sustained that recommendation by the following instructive passage:—"This appears to us the most con-"venient way, because it may at all times be a ready and easy "remedy upon any variation that shall happen in the price of gold, "or even in case this now proposed coining of guineas should not "prove sufficient: **For it being impossible that more than "one metal should be the true measure of commerce; and "the world by common consent and convenience having "settled that measure in silver, gold as well as other "metals is to be looked upon as a commodity which, "varying in its price as other commodities do, its value "will always be changeable; and the fixing of its value in "any country, so that it cannot be readily accommodated to "the course it has in other neighbouring countries, will be "always prejudicial to the country which does so."**‖

5. The report then proposes to reduce the rate of the guinea to 21s. 6d., which, though not quite so low as the rate in neighbouring countries, will, the commissioners think, "with the addition of costs of coinage, etc., be sufficient to stop the excessive importation of gold." The MAXIMUM rate was accordingly reduced to 21s. 6d., and so continued. But gold was still imported and coined into guineas; and the price which could be obtained for a given weight of silver

* 7 and 8 William III., c. 10 and 19. Dana Horton, pp. 243, 245.

† 7 and 8 William III., c. 13. Dana Horton, p. 244.

‡ 8 and 9 William III., c. 1. Dana Horton, p. 247.

§ Dana Horton, pp. 248, 249.

‖ Dana Horton, p. 252.

bullion continued to be greater than the sum in silver coins into which it was coined at the mint; or, in other words, the market price exceeded the mint price. No private person brought to the mint silver for which he could get a larger price elsewhere; and the new silver coins, which were more valuable as bullion than as coins, were melted down and exported. **England was stripped of her good silver and the cost of the new coinage was entirely thrown away. Such were the results of the Bimetallic system.** This state of things continued till 1717, when Sir Isaac Newton made his celebrated report, in which he pointed out that whilst the guinea passed for 21s. 6d. in England, it was in the market—that is to say, in foreign countries—worth only 20s. 8d., and recommended that 6d. should be taken off and that it should be rated at 21s.* This was accordingly done. In 1718 the guinea was rated by proclamation and by a new mint indenture at 21s., and appears to have been so received by the public.† But the steps thus taken had little or no effect on the state of the currency. Gold was still freely brought to the mint and coined into guineas; little, if any, silver was brought to the mint; and there was throughout the last century and down to 1816 a great dearth of silver coin in this country.‡

The coinage of gold and silver in the various reigns from Charles II. to 1816 was as follows:—

	Gold. £	Silver. £
Charles II. (1660—1685)	4,672,768 (1667—1685 only in Mint Records.)	3,272,311
James II. (1686—1688)	1,659,026	386,675
William and Mary (1689—1694) ...	482,342	115,895
William III. (1695—1701) ...	3,044,428	7,014,047
Anne (1702—1714)	3,128,710	530,608§
George I. (1715—1727)	8,115,152	229,905
George II. (1728—1759)	11,034,979	304,288
George III. (1760—1815)	67,970,181	64,625

* Liverpool, p. 93. See for other reports by Sir Isaac Newton, Dana Horton, pp. 261-271.

† Liverpool, p. 95.

‡ Liverpool, p. 206; Shaw, p. 231; Kalkman, p. 64.

§ Of this amount, £320,373 was struck at the Edinburgh Mint, in pursuance of the Treaty of Union.

Appended to this paper is a return giving the coinage of gold and silver in each year from 1700 to 1816, when the present system was introduced. It will be seen from these figures that with the exception of the new coinage in William the Third's reign, amounting to £7,000,000, all, or almost all, of which disappeared, there was little or no silver coined from 1700 down to the introduction of the token silver coinage in 1817.

6. Shortly after the middle of the eighteenth century the gold coin, which had become abundant, and was in fact the current coin of the country, had fallen into a very defective condition; the market price of gold bullion exceeded the price in sovereigns given for it at the mint, and the Foreign exchanges fell. In 1774 the defective gold coins were called in and re-issued, a step which was followed by complete success.* The mint price became equal to the market price; the Foreign exchanges rose, and the gold coin remained in the Kingdom. At the same time an Act was passed providing that, for sums above £25, silver should be legal tender not according to the face value of the coin, but according to its actual weight or contents—viz. at 5s. 2d. per ounce.† This Act, important as it has been considered in a theoretical point of view, was probably intended, not so much to depose silver from its rank as the standard metal, as to obviate the defects of the silver coins. It had little practical effect, since little silver coin was current, and all large payments were already made in gold. But in or about 1797 a change occurred in the relative market or outside values of gold and silver. From the time of the introduction of the guinea down to the close of the last century the value set upon gold in England was higher, and that set upon silver was lower than in the outside markets of the world, and the consequence was that gold flowed into England and that silver flowed out of England. But towards the close of the century the production of silver increased, and the balance was changed. According to Soetbeer, the market ratio of gold to silver was 15·27 in the decade 1701–1710, and fell steadily

* Liverpool, p. 194: Shaw, p. 233; Kalkman, chap. iv.

† 14 Geo. III., c. 42. Shaw, p. 235.

to 14·64 in 1771–1778. From that time it began to rise, and in 1801–1810 reached 15·61, which was considerably higher than the 15·2 which corresponded to the ratio of the guinea at 21s.*

7. Measured by the English standard, silver was becoming the cheaper metal, and if the English law had remained unaltered gold would have flowed out of England and silver would have flowed in. Consequently, and no doubt for the purpose of preventing such a change, the Act of 1774, limiting the character of silver as legal tender (which had been allowed to drop) was revived in 1798–9; the free coinage of silver was suspended,† and remained so suspended until 1816, when our present system was finally established. Under that system, the effect of which is fully explained in Leaflet No. 7, **gold became the sole legal standard metal as it had previously been the actual standard.** The sovereign, containing in weight $\frac{20}{21}$ parts of a guinea, became at once both the standard of value, the gold coin in current use, and the unit of account. The mint was and remained freely open to gold; and gold sovereigns were, and remained still, legal tender to any amount. On the other hand, the right to coin silver was confined to the government. The bullion contents of the silver coin were purposely made less in value than the face value of the coin; and silver coins were made legal tender for forty shillings, but for no more. The provisions of the Act of 1816 were re-enacted by the Coinage Act of 1870.‡ From 1816 silver has been regularly coined, in pursuance of the public demand for silver token coin, at an average amount of half a million sterling a year. During the same period £307,000,000 of gold has been coined, an average annual amount of £3,886,000. It must be remembered, in considering the figures, that whilst the mintage of the standard coin—in this case gold—does not necessarily represent a demand for currency, since gold coins, being equivalent to bullion, are constantly melted down and exported,

* Report of Gold and Silver Commission, Vol. II., App., p. 162.

† 38 Geo. III. c. 59, continued by 39 Geo. III. c. 75.

‡ 33 Vict. c. 10.

the mintage of token silver coins does represent a real permanent demand for silver currency, since those coins, being more valuable as coin than as bullion, remain in use as coin, and are not melted down or exported.

8. The above are the facts. The lesson they teach has been so much misrepresented that it is worth while to make a few observations on them. **To read Bimetallic literature one would suppose that the free coinage of Silver was an inestimable blessing, that the English people really enjoyed it until 1816, or at any rate until 1798; and that it was then taken from them by the arbitrary action of gold currency faddists, of whom Lord Liverpool was the chief.* There cannot be a greater travesty of history.** The merit of Lord Liverpool was not that he invented a new Currency Theory; but that he had a true insight into what had long been the actual fact, and that the course he advised adapted legislation to the facts. It is true that by law the mint was open to silver until 1798, but it was open to silver under conditions which in the then state of the market prevented silver from being brought to it. The metal which the people freely bring to the mint to be coined is the metal which constitutes the standard coin, and is the measure of value. A metal which may by law be coined, but which nobody desires to have coined, is as little the standard as a metal which the law forbids to be coined. Gold became our standard because people brought it to the mint to be coined. Silver ceased to be the standard because they did not. This process began at a time when the law favoured neither metal, silver was the acknowledged standard, and the sole legal tender, and when the people were free to put what silver value they pleased upon gold guineas. It is not the fact, as Mr. Gibbs says,† "that the alterations of the Rates which caused the banishment of the silver coin were made from time to time by Orders-in-Council addressed to the mint." The exact

* See Dana Horton's Silver Pound, *passim:* Gibbs' "Colloquy on Currency," p. 271.

† "Colloquy on Currency," p. 273. See also Foxwell, evidence before Agricultural Commission, 23, 8267.

opposite was the case. **The over-valuation of the guinea which caused the banishment of the silver coin was the act of the people.** The various acts of the government prior to and including the proclamation of 1717 were all in the direction of reducing that over-valuation. They all placed a MAXIMUM limit on its value; and it was not till the order of 1717 issued on the advice of Sir Isaac Newton, that a minimum as well as maximum value was placed on it, and that the guinea was actually rated at a fixed amount. The people no doubt placed an extremely high value on the gold coin; the chief reason for which was probably the bad state of the silver coin. But this was not the only reason. When the silver coins were called in and recoined, at their full weight in silver, people still preferred the gold coins, and the new silver coins were melted down and exported. "But," say the Bimetallists, "this would not have been the case had the gold coins been properly rated down to the silver coins." Well, the experiment of rating *down* the gold coin was tried, and the guinea was actually reduced from 30s. or 31s., its highest silver price, first to 21s. 6d., and afterwards, on Sir Isaac Newton's well-known report, to 21s. Still people preferred the guinea; the guinea was worth more here than it was worth abroad; silver was worth less here than it was worth abroad; no silver was brought to the mint and good silver coin still left the country. "Ah!" say the Bimetallists, "this was all the fault of the government. Had they but rated the guinea lower still, they would have succeeded in keeping their silver." But is not this fact the surest evidence that the people would not part with gold? **The authorities wished to keep their silver; but they wished to keep it without losing their gold; a thing which the operation of the Bimetallic law rendered impossible.** The government, advised by the ablest economists, desired to retain silver; they believed silver to be still the standard; they lowered the rate of the guinea as far as they could; and they even took the step (but for a few months only) of closing the mint against gold. But further they did not and they dared not go. They either could not or would not put a rate upon the guinea which would deprive people of its use; a rate which would drive gold abroad and keep silver at home. Whether the government did not wish or did not dare to deprive the people of the use of guineas is really immaterial. The fact remains that they did not take the steps which they knew to be necessary for that purpose, and **gold remained the metal which was the cheaper in the market, which the people preferred, and which consequently became and continued during the whole of the eighteenth century the current coin and the measure of value.**

9. **Gold had thus, before the beginning of the eighteenth century, become the standard coin,** and so far as that coin was concerned no difficulty was felt. The re-coinage of the gold currency in 1774 was completely successful, and was attended by none of the evils which followed the re-coinage of silver in 1695–1699. The inconvenience suffered during the eighteenth century was of a different kind. It was a want of small change due to the fact that under the Bimetallic law which opened the mint freely to both metals, silver was not coined, and full-value silver was melted down and exported. Of the real inconvenience thus sustained we who enjoy abundant silver coinage under the law of 1816 can form little conception. For the rich to have no pocket-money with which to pay fares, food, or wages; for the poor to be deprived of the ready money with which to buy all the necessaries of life, these are evils almost as great as the evils which attend a faulty standard. **And these evils were the inevitable result of the Bimetallic law.** The first person who seems to have suggested the true remedy was Sir John Barnard, of Stock Exchange notoriety.* He recommended that the weight of the silver coin should be reduced, so that it should become a token, and that it should not be legal tender. He also proposed that no more silver money should be coined than should be found necessary to make a free circulation of silver coin. Adam Smith, writing in 1776, saw that gold had become the standard, and he saw that it had become the standard in Locke's time, though Locke had never seen it himself. Adam Smith also suggested the over-rating of silver coin as the means of preventing its exportation.†

* "Thoughts on the Scarcity of Silver Coin," 1759. See Kalkman, p. 113.
† See passage quoted in Gibbs' "Colloquy on Currency," App. xxxv.

10. Finally appeared Lord Liverpool's famous letter on the Coins of the Realm.* He had been instrumental in the reform of the gold coinage in 1774, and was a member of the Commission which recommended the suspension of silver coinage in 1798. This letter appeared in 1805, but it was probably written much earlier. It is no doubt the foundation of the reform which was accomplished in 1816. Nor, so far as I can judge, have the Bimetallists succeeded in throwing any doubt on the substantial accuracy of his account of the introduction of the Gold Standard. Whether he does or does not attribute too much importance to the greater convenience of gold as a current coin, and to its greater stability, and whether he gives sufficient weight to the attempts at tariffing gold and silver coin which were made from 1695 to 1717, seem to me immaterial questions. The real point is that when the market was free, gold became over-valued in England, and that the Government, though desirous of retaining silver as the standard, did not venture to stop the free coinage of gold, to under-value gold, or even to rate gold down to the rate which was current abroad. The failure of the attempt to keep both metals in circulation when not rated; the mischievous speculation in gold guineas; the futile attempts at tariffing under the advice of Locke and Newton; the loss of all the newly-coined silver in the seventeenth century; and the dearth of silver money in the eighteenth century; are illustrations of the evils of a double standard. They are also illustrations of the mistakes which Governments make, even when advised by the ablest men, when they attempt a task beyond their proper limits.

The facts given above are undoubted: and what they really show is a steady progress, conscious or unconscious, towards the adoption of a single Gold Standard, a progress due not solely or chiefly to the arbitrary acts of a Government, but to the wants and habits of the people, and to economical laws which neither Governments nor people can neglect with impunity.

* See especially Chapter XVII.

(*Note.—For Appendix, see over.*)

Return of Gold and Silver Coined from 1700 to 1815.

Year.	Gold Coined.	Silver Coined.
	£	£
1700	126,223	14,898
1701	1,249,520	116,179
1702	170,172	355
1703	1,596	2,226
1704	Nil.	12,422
1705	4,859	1,332
1706	25,091	2,889
1707	28,362	3,639 London. 320,373 Edin. *
1708	47,192	11,628
1709	115,317	78,811 †
1710	173,630	2,533
1711	435,663	76,781 †
1712	133,400	5,532
1713	613,826	7,232
1714	1,379,602	4,855
1715	1,826,480	5,093
1716	1,110,420	5,115
1717	709,566	2,939
1718	140,642	7,114
1719	688,960	5,444
1720	885,859	24,279
1721	272,500	7,170
1722	594,716	6,147
1723	388,098	149,107 ‡
1724	273,809	5,121
1725	58,360	7,735
1726	872,963	2,592
1727	292,779	2,049
1728	53,874	2,644
1729	Nil.	6,370
1730	91,628	3,478
1731	305,768	2,182
1732	373,473	2,620
1733	833,948	3,580
1734	487,108	4,929
1735	107,234	3,460
1736	330,579	5,310
1737	67,284	3,720
1738	269,837	Nil.
1739	283,854	10,528
1740	196,245	Nil.
1741	25,231	9,486
1742	Nil.	Nil.
1743	Nil.	7,440
1744	9,812	7,837
1745	292,966	1,860
1746	474,492	136,431 ‡
1747	37,146	4,650
1748	338,523	Nil.
1749	710,687	Nil.
1750	558,597	Nil.
1751	450,663	8,103
1752	572,657	58
1753	364,876	59
1754	Nil.	59
1755	224,690	59
1756	492,983	121
1757	Nil.	16,613

Year.	Gold Coined.	Silver Coined.
	£	£
1758	651,814	62,586 ‡
1759	2,429,010	105
1760	676,231	133
1761	550,887	31
1762	553,691	3,162
1763	513,041	2,628
1764	883,102	15
1765	538,272	19
1766	820,725	298
1767	1,271,808	Nil.
1768	844,554	Nil.
1769	626,582	Nil.
1770	623,779	68
1771	637,796	Nil.
1772	843,854	335
1773	1,317,645	Nil.
1774	4,685,624	Nil.
1775	4,901,219	Nil.
1776	5,006,350	315
1777	3,680,995	Nil.
1778	350,438	Nil.
1779	1,696,118	254
1780	Nil.	Nil.
1781	876,795	62
1782	698,074	Nil.
1783	227,083	Nil.
1784	822,126	203
1785	2,488,106	Nil.
1786	1,107,382	Nil.
1787	2,890,457	55,459
1788	3,664,174	Nil.
1789	1,530,711	Nil.
1790	2,660,521	Nil.
1791	2,456,567	Nil.
1792	1,171,863	252
1793	2,747,430	Nil.
1794	2,558,895	Nil.
1795	493,416	295
1796	464,680	Nil.
1797	2,000,297	Nil.
1798	2,967,505	Nil.
1799	449,962	Nil.
1800	189,937	Nil.
1801	450,242	53
1802	437,019	62
1803	596,445	72
1804	718,397	78
1805	54,668	183
1806	405,106	Nil.
1807	Nil.	108
1808	371,744	Nil.
1809	298,947	115
1810	316,936	121
1811	312,263	Nil.
1812	Nil.	53
1813	519,722	90
1814	Nil.	161
1815	Nil.	Nil.

* Coined in pursuance of the Treaty of Union, Liverpool, p. 91.
† Both coined from plate brought to the mint in pursuance of special arrangements, Liverpool, p. 91.
‡ The exceptionally large silver coinages of 1723, 1746, and 1758, seem, from the records of the mint, to have been also due to exceptional causes.

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No. 9.

GOLD STANDARD DEFENCE ASSOCIATION.

11 AND 12, CLEMENT'S LANE,
LOMBARD STREET,
LONDON, E.C.

Gresham's Law.

BY MR. HENRY DUNNING MACLEOD.

1. THE whole of the controversy between the Bimetalists and the Monometalists may be reduced to a single, simple and definite issue. Supposing that gold and silver are coined in unlimited quantities, and a fixed legal ratio is enacted between them :—

(*a*) Is it the fixed legal ratio enacted between the coins which governs the relative value of the metals in bullion?

(*b*) Or is it the relative value of the metals in bullion which governs the relative value of the coins?

(*c*) And if it be found impossible for any single and separate country to maintain gold and silver coined in unlimited quantities in circulation together, at a fixed legal ratio, is it possible for any number of countries combined to do so by international agreement?

The Bimetalists maintain the first of these issues, and the Monometalists maintain the second. With respect to the third question, the Bimetalists maintain the affirmative, and the Monometalists the negative. **The purport of the following remarks is to explain why the European States, having vainly attempted to**

maintain bimetalism for 500 years, and having found it a hopeless failure, have been constrained to abandon it and adopt monometalism.

2. Charlemagne established the system of coinage which was adopted throughout Western Europe. He made the pound weight of silver the standard, and coined it into 240 pennies. For some centuries these were the only coins issued by the Sovereigns of France, and for a considerable time they coined these pennies at their full weight and fineness. But about the beginning of the twelfth century they began not only to diminish their weight, but to debase their purity. They considered it part of their inalienable divine right to declare that their subjects should accept the diminished and debased coin at the same value as the good coins of full weight. They further complicated matters by issuing gold coins, and they considered it as part of their divine right to change the rating of the coins with respect to each other as often as they pleased. These constant tamperings with the coin produced commotions and disturbances for centuries, and drove away foreign trade from the country. At length that great sovereign Charles V., surnamed the Wise, perceived that the only way to restore prosperity to the country was to reform the coinage. He referred the matter to one of his wisest and most trusted councillors, Nicolas Oresme, afterwards Count Bishop of Lisieux, who, in answer to the appeal of his Sovereign, drew up, in 1366, his now famous *Traictie de la première invention des Monnoies* in twenty-six chapters, which has only recently been brought to the notice of economists. After explaining the true nature and uses of money, he laid down the following principles:—

a. That the Sovereign has no right to diminish the weight, debase the purity, or change the denomination of the coin. To do so is robbery.

b. That the Sovereign, or the law, can in no case fix the value, *i.e.* the purchasing power of the coins. If he could do so, he could fix the value of all commodities.

c. That the legal ratio of the coins must strictly conform to the relative market value of the metals.

d. That if the fixed legal ratio of the coins differs from the natural, or market value of the metals, the coin which is underrated disappears entirely from circulation, and the coin which is overrated alone remains current.

e. That if degraded and debased coin is allowed to circulate along with good and full-weighted coin all the good coin disappears from circulation, and the base coin alone remains current, to the ruin of commerce.

This great treatise, which may justly be said to stand at the head of modern economic literature, laid the foundations of monetary science. As it was written long before the days of printing, it never got into public circulation. It is merely a report addressed to Charles V. The same evils existed all through Europe, and were called *morbus numericus*.

3. Poland, which then comprehended the modern Prussia, was, among other countries, afflicted with these evils. Sigismund I., King of Poland, who was fully sensible of the injury they inflicted upon the country, sought the advice of Copernicus, who was a member of the Prussian diet. At the instance of Sigismund, Copernicus in 1526 drew up a masterly treatise on money which he entitled *Ratio monetæ cudendæ*, which has only been discovered within the present century, and is included in the magnificent edition of his works printed at Warsaw in 1854. Copernicus had no knowledge of the treatise of Oresme written 160 years before his time, but he came to exactly the same conclusions. He said:—

(*a*) That the four principal causes of the decadence of States are civil discord, pestilence, the barrenness of the land, and the debasement of the coin.

(*b*) That it is impossible for the prince, or the law, to regulate the value of the coins, or of any other commodities.

(*c*) That all the prince, or the law, can do, is to maintain the coin at a fixed denomination, weight and purity.

(*d*) That it is robbery for the prince to change the denomination, diminish the weight, or debase the purity of the coin.

(*e*) That it is impossible for good full-weighted coin and for degraded and debased coin to circulate together; but that all the good coin is hoarded, or melted down, or exported, and the degraded and debased coin alone remains in circulation.

(*f*) That the coins of gold and silver must bear the same ratio to each other as the metals in bullion do in the market, and that this ratio must never be changed, except in consequence of a change in the market ratio of the metals.

(*g*) That when good coins are issued from the mint, all the base and degraded coins must be withdrawn from circulation, or else all the good coins will disappear, to the ruin of commerce.

(*h*) That it is impossible to have two measures of value in the same country, just as it is impossible to have two measures of length, or weight, or capacity.*

4. As in all the rest of Europe, the standard in England was the pound weight of silver, coined into 240 pennies. Except during the turbulent reign of Stephen, the early English kings did not diminish the weight or debase the purity of their coins. But immense numbers of false coiners sprang up, and notwithstanding the severest penalties of mutilation denounced against them, it was found impossible to suppress them. Moreover, vast quantities of base money were imported from abroad. All the good money disappeared from circulation as soon as it was issued from the Mint. Edward I. was the first to debase the coinage, by coining 243 pennies out of the pound weight of silver and yet to call the diminished coins by the same name. In 1344 Edward III. coined gold money, and thus Bimetalism was established in this country, and for 470 years the futile attempt was made to keep gold and silver coins in unlimited quantities in circulation together, at a fixed legal ratio. Henry VIII. was the first, not only to diminish the weight, but to debase the purity of the coins, and this practice continued during the reigns of Mary and Edward VI. During all this time repeated debates were held in Parliament in consequence of the disturbances and misery caused

* Mr. Gibbs has impugned the accuracy of this summary from the works of Oresme and Copernicus. It would be too long to give the original passages to justify them, but I have given in my *Bimetalism* careful extracts of these works.

by the bad state of the coinage, and the instant disappearance of the good coin as soon as it was issued from the Mint. No measures were taken to demonetise and withdraw from circulation the clipped, degraded, and debased coin, as Oresme and Copernicus had pointed out ought to be done. The statesmen and financiers of the day were utterly perplexed at the extraordinary disappearance of all the good coin. They seemed to think that the people were inspired by the Evil One to prefer the degraded and base coin, and to reject the good coin. They had no Oresme or Copernicus to explain to them that it is an assured law of nature that bad coin always drives good coin out of circulation. The only remedies they could devise were to denounce penalties of death and mutilation against all persons who exported the good coin, which were wholly ineffectual.

5. The shameful state of the coinage caused so much public distress, and gave rise to so many disturbances, that the council of Edward VI. saw the necessity of reforming it, and had taken measures for that purpose when the boy-King died. No sooner had Elizabeth acceded to the throne than she turned her attention to complete the reform of the coinage which had been begun by her brother, being moved thereto by the illustrious Gresham, who was the first in this country to point out to her that good and bad coin cannot circulate together, but that the bad coin always drives the good coin out of circulation. The **facts** were only too familiar by the experience of centuries, but no one in this country had previously discerned the necessary relation between these facts before Gresham. He addressed a letter to the Queen explaining that the debasement of the coinage by Henry VIII. was the **cause** of the disappearance of all the good coin. Thus for the first time in this country he showed that the two facts were necessarily related as cause and effect. In 1858 I suggested that this great fundamental law of the coinage should be known by the name of "Gresham's Law," and this has now been universally accepted. But at that time I was not aware that this great law had been demonstrated by Oresme 192 years, and by Copernicus 32 years, previously, as their treatises were not published by my friend M. Wolowski for general circulation till 1864. Nor is there any reason to suppose that Gresham had any knowledge of these treatises, as they were merely memorials drawn up for the information of their respective Sovereigns, and were never published for general circulation. These three illustrious men were, therefore, independent discoverers, and the law ought, therefore,

rightfully to be called the Law of Oresme, Copernicus, and Gresham. This law, however, soon became a matter of common knowledge. In a pamphlet in 1696 it is thus stated: "When two sorts of coin are current in the same nation of like value by denomination, but not intrinsically (*i.e.* in market value), that which has the least value will be current and the other as much as possible will be hoarded;" or melted down or exported, we may add. Or we may express it in these terms: "**The worst form of currency in circulation regulates the value of the whole currency, and drives all other forms of currency out of circulation.**"

6. This great law applies in the following cases:—

(*a*) If the coinage consists only of a single metal, as in the early coinage of England, and clipped, degraded and debased coin is allowed to circulate along with the good coin, all the good coin disappears from circulation. It is either hoarded away, or it is melted down, or it is exported. All laws are ineffectual to prevent this, and the clipped, degraded and debased coin alone remains current.

(*b*) If coins of two metals, such as gold and silver, are allowed to circulate together in unlimited quantities, and if a legal ratio be attempted to be enforced between them which differs from the natural value of the metal in the market of the world, the coin which is underrated disappears from circulation—it is either hoarded away, or it is melted down, or it is exported; and the coin which is overrated alone remains current.

(*c*) And as a necessary corollary, it follows that it is impossible to establish and maintain a fixed par of exchange between countries which use different metals as their standard coin. This law is not confined to single and separate states, it is not limited in time and space; it is absolutely universal; it is as universal as the law of gravitation; and it is equally impossible for the whole world to maintain coins of two or more metals in circulation in unlimited quantities at a fixed legal ratio, which differs from the natural or market ratio of the metals, as it is for single and separate countries to do so. The explanation of this problem which was such an inscrutable mystery to statesmen and financiers for so many ages is extremely simple. If shillings are allowed to circulate together in unlimited quantities, some of which are worth twelvepence and some only ninepence, and all persons are allowed to pay their debts in whichever coin they please, they will naturally pay their debts with the shillings worth ninepence and keep the shillings worth twelvepence in their pockets. Or if the shillings worth twelvepence have no more value than the shillings worth ninepence, bullion dealers will collect all the heavy coins they can and either melt them down into bullion, in which form they have more value than in coin, or they will export them to foreign countries where they have their full value. Thus the underrated coins have always been found to disappear in one or other of these three ways.

7. It is exactly the same in all cases in which persons are allowed to pay their debts in things which have nominally the same value, but are in reality of different value. When persons are allowed to pay their rents in kind, they naturally select the worst portion of their produce to pay their landlord, and keep the best portion for themselves. If the law allowed two different yard measures to be used, one of three feet and one of two feet, and merchants received an order for so many yards of cloth, they would naturally fulfil their orders in yards of two feet rather than in yards of three feet. If the law allowed two measures of capacity—a pint and a quart—and called them both by the same name, and a person ordered so much beer or wine from the merchant, he would naturally pay in pints rather than in quarts. If the law allowed a mile of two different lengths, one of 1,000 yards and one of 1,760 yards, and a cabman were ordered to drive so many miles, he would naturally drive so many miles of 1,000 yards rather than so many miles of 1,760 yards. It is only natural that all persons should pay their debts in the cheapest form to themselves. So if the law allows debtors to pay their debts in coins of different metals which are rated equally in law, but whose value differs in the markets of the world, they will naturally pay their debts in the coins which are rated too highly, and keep those which are rated too low at home. Thus inevitably the coin which is rated too low according to its natural, or market value, disappears from circulation; and the one which is rated above its natural, or market value, alone remains current. And this is true whether the whole world does so, or only single and separate countries. **If, then, the whole world were to agree to rate a coin below its market value it would entirely disappear from circulation:**

because, if the whole world were to agree to such a system, it would, for the purposes of coinage, become one country, and the whole world can no more by international agreement make 9 equal to 12 than any separate country can. For the very same reason it is impossible to maintain a fixed rate of exchange between countries which use different metals as their standard unit, because coins are only received in foreign countries according to their market value as bullion: and as the value of the metals is constantly changing in the market of the world, the value of the coins must equally do so too. When a legal ratio is fixed between the coins, which differs from the market ratio of the metals in bullion, the coin which is underrated, or whose market value exceeds the legal ratio, is said to go to a *Premium*, and whichever coin goes to a premium disappears from circulation by one of the three methods described above; moreover no one brings metal of that coin to the mint to be coined, because by doing so he would reduce the value of his metal which is worth twelvepence in bullion to ninepence in coin.

8. It has been shown that Oresme and Copernicus both laid down that the prince, or the law, has no power to impose at will an arbitrary value on the coins; they must strictly conform to the relative value of the metals in bullion. Accordingly in several states they did attempt to conform to this rule. But it was found to be absolutely impracticable. The relative market value of the metals kept constantly changing, and it was impossible that the legal ratio should follow these perpetual changes. **The practical result was that while the legal ratio remained fixed, the relative market value of gold and silver bullion rose above and sometimes fell below the legal ratio. The consequence was that gold and silver coins alternately drove each other out of circulation, as the market value of either metal rose above or fell below the legal ratio.** This caused perpetual disturbance in the coinage of England, and all attempts to rectify it wholly failed. The rule of Oresme and Copernicus was found to be wholly inoperative; and experience showed that it was utterly impossible to keep coins of both metals in circulation together in unlimited quantities at a legal ratio differing from the market value of the metals in bullion. Sir William Petty, the greatest financial statesman of the age, at last hit upon the true remedy. In a posthumous work named the *Political Anatomy of Ireland*, published in 1691, he said that money is under-

stood to be the uniform measure of the value of commodities: that the proportion of value between pure gold and fine silver alters, as the earth and industry of men produce more of one than the other. That gold had been worth but twelve times its own weight of silver, but that of late it had been worth fourteen. "**So there can be but one of the two metals of gold and silver to be a fit matter for money.**" This is, so far as I am aware, the first enunciation of the great principle that only one metal should be adopted for the standard coin and measure of value. I am not aware of what amount of attention it received when it was announced. But it was speedily recognised by the highest authorities on monetary science as the true remedy for the disturbances of the coinage which had prevailed for centuries, and has now been adopted by all the European States, as well as by others.

9. In 1692, the silver coinage had fallen into a most disgraceful state. Bags of silver coin collected from all parts of the kingdom showed that the silver coins were clipped down to little more than half their weight. As a necessary consequence guineas which had been coined to be equal in value to twenty shillings in silver, had risen to thirty shillings, and the foreign exchanges, which were then reckoned in silver, had fallen 25 per cent. It was shown to a committee of the House of Commons that the profit of melting down the milled money for exportation was more than £25 per £1,000. The evils caused by this flagrant state of the coinage could no longer be neglected. The Treasury ordered their secretary, Mr. Lowndes, to make a report on the subject. He proposed that the ounce of silver bullion should be coined into seventy-five pence instead of sixty pence; and gravely maintained that doing this would raise the value of the coin. Locke replied to this proposal in a treatise, showing in the most scathing terms its utter folly. This treatise is far too long to be quoted entire here, but I have given long extracts from it in my *Bimetalism*. But I may give a short abstract of his argument. He said that raising the denomination of the coin was a pure delusion and fraud; that it added no real value to the coin; that it was only the quantity of silver in the coin which was the measure of its value; that it was just as rational to hope to lengthen a foot by dividing it into fifteen parts instead of twelve, as to hope to increase the value of the silver by dividing it into fifteen pieces instead of twelve, and calling them pennies; that raising the denomination of the coin was as

gross a fraud as to coin silver pieces of the same name and to debase them with more alloy. Nothing could make clipping unprofitable but making all light money go only by weight : this stops all clipping at once ; brings out all the milled and weighty money ; deprives us not of any part of our clipped money for the use of trade, and brings it orderly and by degrees and without force into the mint to be re-coined.

10. At that time silver was the standard coin of England and the rest of the world. Locke says, " I have spoken of silver coin alone because that makes the money of account and measure of trade all through the world. For all contracts are, I think, everywhere made and accounts kept in silver coin. Silver, therefore, and silver alone is the measure of commerce. **Two metals, as gold and silver, cannot be both together the measure of commerce in any country** : because the measure of commerce must be perpetually the same, invariable, and keeping the same proportion in value in all its parts. But so only one metal does, or can do, to itself : so silver is to silver, and gold to gold. An ounce of silver is always of equal value to an ounce of silver, and an ounce of gold to an ounce of gold, and two ounces of the one or the other double the value to an ounce of the same. But gold and silver change their value to one another ; for suppose them to be in value as sixteen to one now, perhaps the next month they may be as fifteen and three-quarters, or fifteen and seven-eighths, to one. And one may as well make a measure, *e.g.* a yard, whose parts lengthen and shrink, as a measure of trade of materials that have not always a settled invariable value to one another. **One metal, therefore, alone can be the money of account and contract, and the measure of commerce in any country.** Money differs from uncoined silver only in this, that the quantity of silver in each piece of money is ascertained by the stamp it bears, which is set there to be a public voucher of its weight and fineness. To Lowndes's allegation that raising the coin by making it more in tale would make it more abundant for general use, Locke replied, " Just as the boy cut his leather into five quarters, as he called them, to cover his ball, when cut into four quarters it fell short, but after all his pains as much of his ball lay bare as before. If the quantity of coined silver employed in England fall short, the arbitrary denomination of a greater number of pence given to it will not make it commensurate to the size of our

trade, or the greatness of our occasions. This is as certain as if the quantity of a board, which is to stop a leak fifteen inches square, it will not be made to do it by being measured by a foot, which is divided into fifteen inches instead of twelve, and so having a larger tale, or number of inches in denomination, given to it. The increase of denomination does, or can, do nothing in the case, for it is silver by its quantity, and not denomination, that is the price of things and measure of commerce; and it is the weight of silver in it, and not the name of the pieces, that men estimate commodities by, and exchange them for.

11. Locke shows that if the law can raise the value of one coin with respect to the other in any degree whatever above its natural or market value, it can do so to any extent, and might make gold and silver equal in value weight for weight. The simple facts detailed above, and the arguments founded upon them by Oresme, Copernicus, Gresham and Locke establish the Law, which I have termed Gresham's Law, beyond cavil or dispute. It is as clearly demonstrated and universal as the law of gravitation. And it will be as well to recapitulate the principles established by these illustrious writers. They are:—

a. The prince's, or the law's, sole power and duty is to maintain the denomination, the weight and the purity of the coin unchanged.

b. If different metals are coined in unlimited quantities, the law has no power to regulate the value of the coins with respect to each other, or with respect to other commodities.

c. Coins are only pieces of bullion stamped with a certificate to denote their weight and purity, and if no charge be made for changing the metal in bullion into coins, there can be no difference in value between the metal in bullion and in coin.

d. It is the relative market value of the metals in bullion which determines the relative value of the coins, and not the fixed legal ratio of the coins which regulates the relative market value of the metals in bullion.

e. If clipped, degraded and debased coins are allowed to circulate together along with good, full-weighted coins, all the good coins disappear from circulation, and the base and degraded coins alone remain current.

f. If coins of different metals be allowed to circulate together in unlimited quantities at a fixed legal ratio differing from the relative market value of the metals in bullion, that is the same in effect as allowing base and degraded coins to circulate together with good coin, and the coin which is underrated disappears from circulation, and the coin which is overrated alone remains in circulation.

g. There cannot be any par, or fixed rate of exchange between countries which use different metals as their standard coin.

h. When the relative market value of the metals in bullion rises above or falls below the legal ratio of the coins, the metals alternately displace one another from circulation—the one which is underrated disappears from circulation, and the one which is overrated alone remains current.

j. **If the whole world, or any number of mercantile countries, were to combine and adopt a common legal ratio for the coins, they would become one country for the purposes of coinage. Gresham's Law would operate in the more extended space exactly in the same way as it operates in single countries. The coin which was underrated would entirely disappear from circulation; and the coin which was overrated would alone remain current.**

12. These principles, founded on the experience of centuries, have been found to be true in every country and in every age. They are the principles which dominate the whole controversy between the Bimetalists and the Monometalists.

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No. 10.

GOLD STANDARD DEFENCE ASSOCIATION.

11 and 12, Clement's Lane,
Lombard Street,
London, E.C.

Bimetallism and Legal Tender.

By the Rt. Hon. Lord Farrer.

"The Mint would again be opened to the coinage of gold and silver into "Legal Tender money at a defined ratio."—*President of Bimetallic League.* Times, *4th September*, 1895.

1. Bimetallists Propose:—

(*a*) That every nation shall coin freely both gold and silver.

(*b*) That every nation shall agree to make a law under which either so much gold, or so many times its weight in silver, shall be **legal tender** for every promise to pay; and that every debtor shall be able to pay a debt at his pleasure in either gold or silver coin at a ratio which the Bimetallists themselves, though obviously desiring the ratio of $15\frac{1}{2}$ to 1, do not venture to specify, and which, though the very kernel of their scheme, they relegate to statesmen to wrangle out at an International Conference. In other words, the law will force people, in the absence of special stipulations to the contrary, to accept unlimited quantities of either one metal or the other in payment of debts, **and will in so doing make a contract for people which they do not make for themselves; and this they do by means of legal tender. It is therefore desirable to understand what legal tender really means—what our law of legal tender is; what it has done; and what it can be expected to do with advantage.**

2. What, then, is the law of legal tender in this country? It seems that according to English Common Law as declared by the Courts, gold and silver coins issued from the Royal Mint were legal tender to any amount at the rates fixed by Royal Proclamation. Where no such rates were so fixed, as between 1670 and 1717, silver alone possessed the full quality of legal tender.* From 1717 to 1816 both gold and silver were nominally legal tender at the rate of one guinea to 21s., though gold alone was, in practice, the real standard coin. By the Coinage Act of 1816, practically re-enacted in the Coinage Act of 1870, gold sovereigns are legal tender to any amount, whilst silver coins are legal tender to the amount of 40s., and no more. Bank of England notes are legal tender everywhere except at the Bank of England, but as they are always convertible into gold at the Bank, they are really not legal tender at all. **The privilege or power of legal tender is therefore in this country, for everything except small payments, confined to gold sovereigns.**

3. The law of legal tender has practically no effect on International dealings. If a bill is drawn in New York on London, American dollars are legal tender for the purchase-money of the bill in New York, and English sovereigns are legal tender for the discharge of the bill in London. But as there is no international legal tender law fixing the number of dollars which shall be paid for a sovereign, the number of dollars or of sovereigns to be paid for a bill is settled by private contract based upon the number of dollars which the market will give for a sovereign. The international dealing, therefore, is settled according to market values, and there is no question of legal tender in the matter.

4. Again, in the bulk of transactions within this country, those, namely, which are settled by cheques or by set-off of debts, the law of legal tender has no operation. A cheque is not legal tender; the payee may refuse to accept payment until it is cashed by the banker. A set-off is not touched by the law of legal tender. And yet from 90 to 100 per cent. of all transactions in this country are thus settled.

* See for the opinions of Adam Smith on this point, "Wealth of Nations," 9th Edition, Book I., p. 59, and of Ricardo, Works, Ed. 1876, p. 224.

5. If a debt is paid in bank-notes other than those of the Bank of England, they are not legal tender. Where a debt is paid in Bank of England notes, the notes are no doubt legal tender, except at the Bank of England; but at the Bank of England, to which they can always be taken, they must be paid in gold, so that they are not really or completely legal tender at all. But do they owe such debt-paying power as they have to their limited privilege of legal tender? Gold sovereigns are legal tender. But do they owe their debt-paying power—their circulating power—to this fact? Suppose that they ceased to be legal tender to-morrow, would not they—the law of contract remaining what it is—be still the recognised medium in which to pay debts? Would not people still make their contracts to pay and be paid so many pounds sterling? And would not the ordinary law enforce these contracts, without any special statute making gold sovereigns legal tender?

6. There is no doubt one case in which the law of legal tender has a direct and powerful effect, viz., the case of subsidiary silver and copper coins. In this case, since the metal they contain is not as much as their face value in gold—since, for instance, the silver in a shilling is worth much less than the twentieth of a pound sterling—people would not receive them in payment unless the law attached an arbitrary and fictitious value to them by making them legal tender at their face value. And since the law gives them this fictitious value, it very properly limits their issue and also the amount for which they are legal tender, and thus prevents them from becoming the general medium of exchange in ordinary transactions. In fact, their function is a limited and subordinate one. For international transactions, for wholesale transactions, and for large transactions forming the bulk of retail transactions, they are needless and functionless. They are no measure of prices; they have no connection with the standard of value. And yet they are the only form of currency with respect to which our law of legal tender is really operative.

Do not these considerations lead to the conclusion that the law of legal tender is a thing of much less weight and value than is commonly supposed?

7. What, then, is this law of legal tender? What does it really mean? What does it add to our law of currency? **Legal tender is something which the law specially distinguishes as a thing to be accepted as payment of a debt.** It may be gold, silver, or paper—or indeed anything else. Or it may be all these or any combination of them. It is of course not at all the same thing as the Standard of Value, which like a lb. weight or a yard, is the term or unit in and by which values are stated and measured. In fact, legal tender is essentially different from the Standard of Value. Any nation or group of nations may adopt a standard of value—say a certain unit weight of gold, and may make other things besides that unit legal tender. Indeed, if they make nothing else but the standard unit legal tender, there is no need and no room for the operation of any special law of legal tender. The ordinary law of contract does all that is necessary without any law giving special functions to particular forms of currency. We have adopted a gold sovereign as our unit, or standard of value. If I promise to pay 100 sovereigns, it needs no special currency law of legal tender to say that I am bound to pay 100 sovereigns, and that, if required to pay the 100 sovereigns, I cannot discharge my obligation by paying anything else. It is necessary to keep very clearly in mind the distinction between that function of law, or of government or of international agreement, tacit or expressed, which selects a standard of value, and that function which in creating legal tender professes to state in terms in what substance or substances a promise to pay may be discharged. The latter is a function superadded to the former, and superfluous and unnecessary if a promise to pay in terms of the standard unit is strictly performed.

8. What more, then, does the law of legal tender do? What has it done? What good, or what harm, has it done? And what can it do with advantage? It has enabled kings and governments to put a smaller amount of pure metal into their standard coins, and to say that the coin thus reduced in real value shall be of the same effect in paying a debt as the original coin. Without saying that such debasement of the coin was always fraudulent, we shall all admit that the practice was, and is, in the highest degree

inexpedient, and that such an application of the law of legal tender is indefensible.

9. Again, the law of legal tender has enabled governments to say that an obligation to pay so many gold or silver units shall be satisfied by the delivery of bank-notes, or other specially sanctioned forms of inconvertible paper. Such a step is occasionally unavoidable under pressure of war or of other necessity, and when managed with skill and prudence, when the body which issues the paper possesses credit, and when care is taken not to over-issue, such a step may be taken for a short time without serious disaster. But these conditions are rare and difficult to secure; where they have been secured, care has always been taken to return to specie payments as soon as possible; and no reasonable man will be found to allege that this form of legal tender is a thing to be desired or encouraged.

10. Again, the law of legal tender has enabled governments to say that the coin in which a promise to pay is discharged, may be either a gold coin of a given weight, or silver coins of (say) 15½ times its weight. And what has been the consequence? In every case one or other of the two—the cheaper for the time being—has become the standard coin in use; promises to pay have really been promises to pay that coin; and if in the course of events the other metal has become the cheaper, so as to make it better for debtors to pay in coins of that metal, the standard in use has altered from one metal to the other; the currency of the country has been exported to the benefit of no one but the money-changers; and contracts have altered by the operation of the law over the heads of those who have made them.

11. Again, the law of legal tender has been operative, as above noticed, in the case of subsidiary coins, and will probably, if we may judge from the present state of the currencies of the world, have a much wider operation with respect to subsidiary coins, than has heretofore been thought probable or possible. But since the metal of which this token coinage consists is in no sense the standard of value, and has no bearing on prices, we may, in considering the effect of legal tender on the standard of value, dismiss it from consideration. In fact, the man who receives a token coin receives, not so much silver,

but such or such a fraction of a gold coin; and if the silver coin were endorsed, as it ought to be, with a promise to exchange it for gold at its face value, and were made convertible into gold in the same manner in which bills, cheques, and notes are convertible, its real character would be made obvious.

12. **Looking to the above cases of the use or abuse of the law of legal tender, other than the last, we see that they possess one character in common—viz., that the law in all of them enables a debtor to pay and requires a creditor to receive something different from that which their contract contemplated.** In fact it is a forced and unnatural construction put upon the dealings of men by arbitrary power. If applied to existing contracts, it may work the grossest injustice. If applied only to future dealings, so that men can understand what the construction of their contracts may be, it is less open to the charge of injustice, but cannot fail, if it has any effectual operation at all, to cause much confusion and inconvenience. An arbitrary and non-natural construction of ordinary contracts is a great evil. It either makes men do what they did not intend to do, or it leads them to make special arrangements for the very purpose of evading the law.

13. Under these circumstances we may say that any Law of Legal Tender is in its own nature "suspect." And, as often happens with laws of this kind, it has failed to operate in cases where it has not been in accordance with the habits or inclinations of the people. For instance, in the critical years at the end of the 17th century which ushered in our gold currency silver was the sole legal tender.* Silver was the old and acknowledged standard: both gold and silver were freely coined, but gold was not rated to silver, and, therefore, could not be legal tender. And yet the people preferred gold; brought gold to the Mint to be coined, to the exclusion of silver; and used gold in payment and receipt of debts. Again, during the American Civil War, greenbacks were legal tender throughout the United States. But California steadily refused to use greenbacks; all contracts were made and per-

* See above, page 2.

formed in gold; and United States notes were not used in that State until the resumption by the United States of specie payments.*

14. The above considerations, drawn from past experience, appear to lead to the conclusion **that whilst the Bimetallic scheme is founded on the law of legal tender, the law of legal tender, except as regards subsidiary coins, is non-natural and questionable in principle.**

Do the present proposals of the Bimetallists alter these conclusions? The only new factor which they add to past Bimetallism is the suggestion that the legal tender of an alternative payment either in one metal or the other at a fixed ratio shall be a legal tender for all nations, fixed by international agreement, instead of a legal tender fixed by each nation for itself. But does this really alter the essentially objectionable character of legal tender? That character consists in substituting for the free operation of voluntary contract, and for a law which simply enforces the performance of such contracts, an artificial construction of contracts such as would never occur to the parties unless forced upon them by an arbitrary law. Will this character of legal tender be changed by the fact that governments agree with one another to make the substitution? Will individual men and women be induced thereby to think and deal in terms of alternative gold and silver, at some arbitrary ratio, instead of thinking and dealing, as they now do, in terms of one single and simple standard metal? Does not ordinary human nature rebel against such a suggestion? Is not all experience, in international dealings, in home trade, in domestic and private business, inconsistent with such an hypothesis?

Contrast the two formulæ:

1. I promise to pay 100 gold sovereigns.

2. I promise to pay either 100 gold sovereigns or as many silver dollars as will be equal in weight to 15½ times 100 sovereigns, whichever of the two happen to be cheaper at the time of payment.

Which of these two formulæ will people naturally prefer?

* Appendix to Final Report of Gold and Silver Commission, No. V., p. 93.

Which of them will a seller or borrower, or even a buyer or lender who looks to certainty and simplicity, select to do business in? Which of them will be the formula which will best grease the wheels of trade and promote numerous and profitable dealings? Can there be a doubt?

15. Is it not probable—nay, almost certain—that any such new form of legal tender—*i.e.* of an attempt by governments to enforce a non-natural and objectionable mode of discharging obligations, would be followed by the same mischiefs and inconveniences which have followed other forms of legal tender—viz. by injustice and confusion and probably by special private arrangements which would evade an arbitrary law by making all promises to pay payable in gold and in gold only? If so, the new Bimetallic law of legal tender would, like other forms of legal tender, be set aside in favour of natural dealings; but not without much inconvenience, and not without a conflict between law and habit which a wise legislator always endeavours to avoid, and which is happily avoided in our present monometallic gold system of currency.

16. To sum up. Under our present system the government exercises two functions—it selects, not without reference to habit, the material of the standard coin, and it stamps the coin with a certificate of weight and fineness, leaving people to make their own contracts in terms of that coin—just as they make their contracts in quarts, feet, or gallons, or in avoirdupois pounds or hundredweights. The Bimetallic proposals would add to these functions a third, viz. that of determining the value of gold in silver, or of silver in gold, and they would do this by means of **legal tender, a law, which cannot govern the supply of these metals at all; a law which can affect only that part of the demand for them which relates to currency; a law which, so far as the standard coin is concerned, is quite unnecessary; a law which, as history shows, has been generally used for fraudulent or questionable purposes, and with mischievous results.**

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No. 11.

GOLD STANDARD DEFENCE ASSOCIATION.

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The Scientific Theory of Bimetallism.

1. SOME Bimetallists, especially Professor Foxwell and Mr. Courtney, make a great boast of the scientific theory of Bimetallism. It is impossible, they admit, for Legislatures generally by mere fiat to cause any two commodities to exchange at a given ratio. But in coinage and money, by exception, they affirm that the thing can be done. The reason is that by the act of Legislature in coining two metals at a ratio, and making them legal tender at a ratio, an automatic process is set up by which the undervalued metal goes out of use as standard money, and so becomes less in demand, and the overvalued metal comes into use as standard money, and so becomes more in demand. Until the one metal goes wholly out of use and the other metal displaces it, this automatic process goes on, and there is no need to change the ratio until the process is complete. As it is inconceivable, moreover, from the quantity now in circulation that either gold or silver can go wholly out of use as money within any short period, a ratio to be fixed by common agreement of all civilised Governments can be indefinitely maintained. **This is the scientific theory of Bimetallism; the theory from which it is held that Governments can do for gold and silver what they cannot do for other commodities, and upon which the great commercial communities of the world are asked to revolutionise their monetary systems and the principles upon which they have been founded.**

2. Is the theory scientific or true? Let us look first at the major premiss. Suppose an automatic process could be set up between any two articles—say, potatoes and wheat—by which as the one became undervalued, as compared with a given ratio, the demand for it was diminished, and as the other became overvalued, as compared with a given ratio, the demand for it was increased, would the effect necessarily be that the given ratio would be maintained? Is it not obvious that all that could be

affirmed would be that *some* ratio would come to exist as the resultant of the diminished demand in the one case and the increased demand in the other at which business would take place, but not necessarily the given ratio? Always in all markets there is a price at which business is done, the resultant of all the higgling that takes place and of all the causes acting on the demand and supply; but this price at which business is done is never the same in any one place for any length of time, and never the same in any two places if they are at all apart. The fact that there is an automatic process for diminishing the demand for one article when it tends to rise in relative value and increasing the demand for the other article when it tends to fall in relative value would not tend to fix the ratio at any one point, however near the actual point at which business was really done might be to that fixed point. The market would never be the same as the legal ratio. We make this affirmation on the ground of market experience. **If Nature abhors a vacuum, so do markets abhor fixed points. In theory, then, to prove that two commodities will approximate more or less closely to a fixed ratio because one will be in less demand, and the other more in demand if the ratio is departed from, is not the same thing as proof that the ratio itself will be maintained. The propositions are not identical, and the assumption that they are so is the first error in the scientific theory.**

3. The case between potatoes and wheat, we may add, is not supposititious. As wheat becomes dearer relatively to potatoes it tends to become less in demand as a rule, and as wheat becomes cheap relatively to potatoes it tends to become more in demand. A force is always at work making them approximate towards a particular ratio at which they would be naturally equivalent one to the other. But no one supposes that a ratio between wheat and potatoes could be fixed; still less a ratio for long periods and many distant places. It is the same for beef and mutton, or any other commodities which can be named that become more or less in demand automatically as substitutes one for the other. There may be some approximation as the result, round or near to a fixed point, for a length of time, until some great change of conditions occurs, but there is never any possibility of fixing a ratio.

4. The major premiss of the scientific theory being thus disposed of, we may look at the minor premisses. Are gold and silver commodities the demand for which can be made to change automatically to any material extent by the coinage of both at a ratio, and making them full legal tender at a ratio? This question involves consideration of the statistical position of gold and silver as commodities, and of the nature of the demands for them as standard or token money, which we are not aware of any Bimetallist having ever written about. The assumption constantly is that the joint use of the two metals as standard money will involve a large replacement

of one by the other when the market differs continuously in one direction from the legal ratio. The assumption is, moreover, entirely unfounded. The main demands for gold and silver do not arise from their being used as standard money. They are required for hoarding; for use in the arts (gold much more largely than silver in both cases), and for use as currency, and not as standard money; and these uses far exceed any common use they might have as standard money only. We should say that not less than nine-tenths of the stocks of gold and gold coinage in the world at any one moment are employed irrespectively of the fact that gold is "standard" money, and the same of silver, and what is true of the stocks and coinages in existence is also true of the annual production of the metals. Their chief uses are for the arts, for hoarding, for currency, each metal in differing degrees and for different purposes in detail, and not for the common purpose of standard money at all. How then can their coinage at a ratio, and their being made legal tender at a ratio which is intended to unite them for standard money, set up the automatic process which the Bimetallic theory assumes? Clearly there would be no difficulty in changing from the one metal to the other as standard in a moment without the automatic process having much room to play.

5. There is a further difficulty in the matter. Gold and silver are unlike potatoes and wheat, or beef and mutton, or iron and copper, or any other two commodities which can be more or less substituted one for the other, in this respect—that, whereas in all these cases there is a ratio at which the one commodity is really the equivalent of the other, there is no such natural fixed point between gold and silver as standard money. They can perform that function as well at a ratio of 1 to 1, or 10 to 1, or 20 to 1, or 100 to 1, as at the Bimetallic par of 15½ to 1. The fixed point has thus no real support in nature as it has in the case of wheat and potatoes or any other of the groups of commodities above named. **A fixed ratio between gold and silver through the automatic process suggested is thus more inconceivable than a fixed ratio for potatoes and wheat,** even if the demand for gold and silver were likely to be more affected by the automatic process than they possibly can be.

6. The wisdom of Locke and the other great authorities on money, in laying down that there could not be a fixed ratio between gold and silver, because, if the law laid down 15 to 1 one day, the market might stand at 14½ to 1 the next, is thus apparent when we examine the new and crude scientific theory which is so much vaunted. Not only have those who put forward the theory confounded the proposition that an automatic process varying the demand and supply of two articles as they changed from a fixed ratio between them would tend to cause varying approximations to that ratio to exist with the proposition that the fixed ratio would itself be maintained, but they have mistaken altogether the extent to which

demand is likely to vary in the case of gold and silver even if the automatic process were set up. Professor Foxwell seems conscious of some defect in the theory, as he supplements it by a proposal to suppress the special uses of gold and silver for currency, and to replace them both by paper—a startling innovation in practice of whose full import he does not seem to be aware. Whatever it is, his proposal is not that of the Bimetallic League, nor would it mend the case for Bimetallists in any way if they were generally to accept it. Novelties of that sort, however ingenious academically, are out of place in practice. **It is significant that the practical proposals of Bimetallists are not thoroughly supported by their advocates, but are replaced in discussion by daring and impracticable fancies.**

7. We have been discussing the "scientific" theory only as a theory, and this is not the place consequently to discuss the assertions of Bimetallists as to the fixed ratio having actually been maintained in past times. We may state, however, that when the facts of past times are referred to in detail, it is found that in no country at any time was the market ratio between gold and silver ever the same as the legal ratio. There were always variations, as Locke said there would be, and Bimetallists, when pressed, do not deny this. What they affirm is, that the variations are not so great as to prevent the law of legal ratio continuing. But this is a different thing, again, from the affirmation that Bimetallic practice will continue. What Locke pointed out was, that even a variation of the market from the legal ratio to the extent of substituting $14\frac{7}{8}$ to 1 for 15 to 1 made the use of two metals at the legal ratio impossible, and compelled the countries interested to select the overvalued metal as their sole standard money, whatever the law about coining both at a ratio and making them legal tender at a ratio might be. Consequently there is never Bimetallism, the employment of two standards, in practice, but only Monometallism, the employment of one standard, and the price of the other metal in the standard is fixed by the market, and not by the legal ratio.

8. As a matter of fact also, although in past times, when Bimetallic practice existed, there have been long periods when the ratio between gold and silver ranged between points like 14 to 1 and 16 to 1, yet there have been other periods when great changes took place—as, for instance, at the beginning of the seventeenth century—showing that **Bimetallism in practice never prevents changes in the ratio, small as a rule in ordinary times, but great when occasion arises.** There is nothing in the facts of experience, therefore, to conflict with the theoretical conclusion we have come to that the scientific theory of Bimetallism is untrue. We are only discussing the theory here, but we put in this *caveat*, lest Bimetallists should allege, when their theory gives way, that we have not discussed their facts.

The following letter, addressed to the Secretary of the Association, has been received from Mr. Gladstone :—

"DEAR MR. PEEL,—My opinions on Bimetallism were declared about two and a half years ago in the House of Commons, when I held a responsible position. They remain wholly unaltered, and the disapproval with which I regard all efforts to bring about the proposed change, though it could not be more unmixed, would be warmer than it actually is, were it not that I regard them as passing humours of the hour, and as schemes—if, indeed, they have advanced so far as to be called schemes—doomed to nullity and disappointment.

"With regard to practical politics of any kind, I am no better or worse than a mere name ; but I heartily wish well to the Association on whose behalf you write. I do indeed regard with pleasure the attitude of the City of London on this subject, and all the more because I am convinced that if it stand firm, and is seen resolutely to exercise on this subject the authority to which it is entitled, no power which Bimetallism at present commands or is likely to enlist, will be found able to overcome it.

"For myself, I fear that at my age and with my disabilities, I cannot be in this important controversy anything more than an individual and ineffective well-wisher to what I believe to be the right.—Believe me, dear Mr. Peel, sincerely yours,

"W. E. GLADSTONE."

The following passages are from the speech referred to by Mr. Gladstone, delivered on 28th February, 1893, in the House of Commons :—

"It seemed to me strange that no notice was taken by the mover of this motion of a question of the most practical and vital importance which has been raised by Mr Giffen, and which evidently lies at the very threshold of the subject, if we view it as a subject which has attained acceptance by Parliament, and which is now to assume a legislative form. What is to take place in this country with respect to the enormous sums of money that are held at call? Now, I do not wish to impute anything, except that which is accepted by the promoters of the motion. What is the state of the facts? The complaint is a complaint of low prices. The desired condition which it is sought to bring about is a state of rising prices ; the means to be adopted are to supply the people, who require money for the payment of debts or purchase of commodities, with a currency to which they will have access on easier terms. They are to get that currency cheaper. Very well, the consequence of that will be, if that currency is to be obtained cheaper, that any given nominal amount will be worth less in that currency than it is in the present currency. It is unquestionably easy to lower the currency a little by a very mild and genial process, like some of those medicines which are administered to the system, and which work without violence or pain." (Laughter.) "Now, I ask any gentleman in this House to put himself in the position of a man who has money at call—I trust all those whom I am addressing have money at call" (laughter); "that money must be paid to him under the law, every farthing of it, in sovereigns. But suppose my hon. friend, by his eloquence and the aid of those who support him, should have induced this House to pass a Bill, under influences prevailing elsewhere, by which after a particular day the money out at call, and now repayable in sovereigns (and in nothing worse), would become repayable either in sovereigns or silver in a ratio arbitrarily fixed by the State, what would be the effect? After that particular date they would get for the money out at call rather less in real value than they would get before that date. The consequence would be that monometallists, bimetallists, silver men and gold men—everyone of you—would call in every farthing you have out at call. You are not going to be content with £90 or £95 after a given date if you can get £100 by calling in your money before that given date." (Hear, hear.) "By-the-bye, I think Mr. Giffen, the highest living authority—though there are many living authorities well acquainted with the subject—estimates that

THE SUM OUT AT CALL IS ABOUT £600,000,000;

and I want to know what is to be the effect of saying to the owners of that £600,000,000, 'Allow your money to remain where it is, and you will have to take £90 or £95 for every £100, but before a given date you could get £100.' I want to know whether they would not call in their money when they could get £100. I want to know, too, what would be the effect on the credit of the country, and on the stability and firmness of the best banking houses in the land." (Hear, hear.) "There is another point that I would just refer to for a moment in the speech of the mover of this motion, as it deserves some notice. Does he anticipate the re-entry of the human race into the Garden of Eden?" (Laughter.) "For he seems to think that unless we adopt his plan we shall fall below our present mediocre and mixed condition, and very likely go down lower into some other region which it would not be prudent, becoming, or politic to name." (Loud laughter.) "He spoke of the condition of our manufactures pining in a miserable manner for the last twenty years under the operation of monometallism, and he said that the cotton districts in particular were to go down to prairie value. Such are the eyes with which the hon. baronet reads the facts of our condition. He says that till 1873, when the Bank of France coined silver freely for everyone who took it there, we did wonders; we were in a state of continual advancement; but that, since 1873, we have been pining regularly away, until we are now little better than skin and bone, and the prairie value is all that will be left to us in place of the vast manufactures and cotton trade of the country. Is that a fair representation of the course of the cotton trade of this country during the last twenty years? I am informed, from no secret sources, that during less than that time the cotton trade has changed enormously. I take the year 1877 and compare it with 1891—this period of decline, of depression, of divergency between gold and silver, and of all the horrors that will naturally be expected to follow. What was the state of the cotton trade in 1877? I believe I am correct in saying that it was then represented by £1,100,000,000; while, in 1891, that miserable, perishing industry presented to us only the small figure of £1,800,000,000." (Cheers.) "I am speaking of imported raw cotton, which is the measure and extent of the industry. Is it not singular that gentlemen should come down here primed with facts, and that the facts should be so acted upon, through the warmth of their philanthropic affections burning to attain a happier state of things for mankind, that they should not be able to take cognizance of figures like those, which show within the past fourteen years an increase of something like 60 per cent. in the aggregate extent of the cotton trade of this country?" (Hear, hear.)

* * * * *

"I look at the actual facts which are before me, and I ask, Is there any period during the last thirty years when you could have fixed a ratio between gold and silver by law on a given day, and when you would not have been compelled to change it again and again?" (Cheers.) "If that is so, what is our standard of value to be? Are we to choose it for its fixity, or are we to choose it for its liability to indefinite and eternal change? The hon. member spoke rather with ridicule upon the position of this country as the great creditor country of the world. It is the great creditor country of the world; of that there can be no doubt whatever; and it is increasingly the great creditor country of the world. I suppose there is not a year which passes over our heads which does not largely add to the mass of British investments abroad. I am almost afraid to estimate the total amount of the property which the United Kingdom holds beyond the limits of the United Kingdom, but of this I am well convinced, that it is not to be counted by tens or hundreds of millions. One thousand millions probably would be an extremely low and inadequate estimate. Two thousand millions, or something even more than that, is very likely to be nearer the mark." (Hear, hear.) "I think under these circumstances it is rather a serious matter to ask this country to consider whether we are going to perform this supreme act of self-sacrifice. I have a profound admiration for cosmopolitan principles. I can go a great length of moderation" (laughter) "in recommending their recognition and establishment, but if there are these two thousand millions or fifteen hundred millions of money which we have got abroad, it is a very serious matter as between this country and other countries. We have nothing to pay to them; we are not debtors at all;

WE SHOULD GET NO COMFORT, NO CONSOLATION

out of the substitution of an inferior material, of a cheaper money, which we could obtain for less and part with for more. We should get no consolation, but the consolation throughout the world would be great." (Loud laughter.) "This splendid spirit of philanthropy, which we cannot too highly praise—because I have no doubt all this is foreseen—would result in our making a present of fifty or a hundred millions to the world. It would be thankfully accepted, but I think that the gratitude for your benevolence would be mixed with very grave misgivings as to your wisdom. I have shown why we should pause and consider for ourselves once, twice, and thrice before departing from the solid ground on which you have within the last half-century erected a commercial fabric unknown in the whole history of the world—before departing from that solid ground you should well consult and well consider, and take no step except such as you can well justify to your own understanding, to your fellow-countrymen, and to those who come after us." (Cheers.)

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Bimetalism in France

(From 1803 to 1874).

BY Mr. HENRY DUNNING MACLEOD.

"Until the year 1873 the ratio at which gold and silver were interchangeable was steady, because the Mints of France and other European countries were open to all the world for the unlimited coinage of both metals on the fixed basis of 15½ ozs. of silver to 1 oz. of gold."—*Official statement of Bimetallic League, para.* 1.

"The French law adopted in 1803 . . . . its provisions are entirely approved by modern Bimetallists."—*A Bimetallic Primer* by Mr. HERBERT C. GIBBS, p. 13.

1. THE Bimetalists claim the period 1803-74, in France, as the golden age of Bimetalism: and persistently assert that the ratio of 15½ to 1 kept the exchanges steady throughout the world: and that it was the closing of the French Mints in 1874 to the free coinage of silver that caused the very serious fall in its value. But the following statement of historical facts will show that there is no foundation for these assertions, and that **it was the fall in the value of silver which caused the closing of the French Mints.** And on the subject of this paper I can speak from personal experience.

In 1726, after six centuries of innumerable changes in the Mint prices of gold and silver, and the rating of the coins with respect to each other, the ratio was at length fixed at 14½ to 1. But as gold was underrated by this ratio, by the operation of Gresham's Law, it disappeared from circulation, and silver became the standard in France: just as by the operation of the same law, gold became the standard in England since 1718. No change was made till 1785, when Calonne changed the ratio to $15\frac{1}{2}$; and this was confirmed in 1803, because it was very near the market price.

Nevertheless this ratio wholly failed to keep gold and silver in circulation in unlimited quantities in France during any part of the period 1803-74.

2. The French liberating armies plundered the sanctuaries of the countries they came to liberate. Immense quantities of silver were sent to the Mint to be coined, and the market ratio of silver became 17, while the legal ratio was $15\frac{1}{2}$.* From 1803 to 1850, with two or three exceptions, gold was constantly at a premium in France. As a necessary consequence during that period gold coin was not in general circulation. In 1839-40 I resided in France, and travelled through it, and I can testify that there was no gold to be seen in common use. Everyone who lived in France in those days can testify to the same effect. I remember on one occasion being shown a gold twenty-franc piece as a curiosity. Of course there was abundance of gold coin to be had at the Bank of France, but those who wanted it had to pay a premium for it, and therefore no one applied for it except those who wanted it to settle their foreign obligations.

3. But after 1850 vast quantities of gold began to come in from California and Australia, and then the market ratio of gold and silver began to change. In 1850, while the legal ratio was $15\frac{1}{2}$, the market ratio was $15\frac{3}{4}$, and that slight difference kept gold entirely out of circulation—because, while gold was only worth $15\frac{1}{2}$ as coin, it was worth $15\frac{3}{4}$ as bullion. But in the course of a few years the market ratio rose to $15\frac{1}{3}$, and that slight change in the market ratio drove nearly £200,000,000 of silver out of circulation, and substituted an equal quantity of gold for it—because gold was then worth $15\frac{1}{2}$ in coin, while it was only worth $15\frac{1}{3}$ as bullion. Thus the apparently slight change of the market ratio of gold and silver from $15\frac{3}{4}$ to $15\frac{1}{3}$, while the legal ratio remained fixed at $15\frac{1}{2}$, was sufficient to change the whole metallic currency of France from silver to gold.

* Lord Liverpool's Treatise on the Coins of the Realm, p. 180.

In 1857 I was residing at a French seaport town, and every steamer that came in was laden with casks of Scotch whisky going to be transmuted into French brandy, and every steamer that went out had its decks piled with bags of silver five-franc pieces. It was the same at every seaport town in France. Every steamer and every diligence that left France was loaded with bags of silver five-franc pieces. **Silver departed from France in a flood**, and at last it became so scarce that it became necessary to coin those detestable five-franc gold pieces.

Mr. Shaw says that during the period 1820-50, when the ratio remained below the legal ratio of 15½ to 1, and there was a profit on the import of silver, the total silver coined at the French Mint amounted to £127,458,322, while that of gold was £19,333,854. In the succeeding period, 1850-66, when the market ratio changed and remained for fifteen or sixteen years in favour of gold, the total gold coinage reached £292,416,951, while the total silver coinage was only £1,315,532.*

4. **What, then, becomes of the multitudinous assertions of the Bimetalists that a fixed legal ratio between the coins can maintain a steady market ratio between the metals?** What becomes of their assertions that if a legal ratio be enacted, gold and silver will circulate together in unlimited quantities? There never was a more triumphant vindication of the truth of Gresham's Law and its supreme importance.

In 1865 the Latin Union was formed between France, Italy, Switzerland, and Belgium, to unify their coinages, and coin gold and silver in unlimited quantities at the ratio of 15½ to 1, which was to come into operation in 1867. Even then Italy declared itself in favour of a single gold standard. This unification of their coinages was a blessing to those countries and to all persons who travelled in them. But it was founded on the fatal principle of Bimetalism, and any sagacious economist could see that it could not last. My distinguished friend M. Michel Chevalier and the ablest French economists were always opposed to Bimetalism.

5. In 1867, when the Latin Union first came into operation, the

* Shaw's "History of the Currency," pp. 185-6.

ratio of gold to silver had already begun to change, and the most keen-sighted economists foresaw that the principle of the Latin Union would break down. A Commission in that year speaks thus of the situation :—

"**It is well-known by all that this ratio (of 1803) by the simple reason of its being fixed could not remain correct. There was quickly a premium on gold, and silver remained almost alone in circulation until near 1850.** The discovery of the mines of California and Australia suddenly changed this situation by throwing into the European market a very considerable quantity of gold. By the side of this force, which tended to create a divergence from the legal ratio by lowering gold, there was another which occasioned a rise of silver. Under the influence of various circumstances, too long to enumerate, the needs of the extreme East had grown in unusual proportions, and as silver is alone in favour there, it was exported in enormous masses. There was a premium on silver to the extent of 8 per mille, and it disappeared almost completely from circulation, yielding place to gold.

"Preoccupied by the situation, the Government charged a Commission to study the measures to be taken. Its labours are summed up in the report of M. de Bosredon (1857). After examining the system tending to preserve silver money intact by lowering the value of gold money, and conversely the system tending to the adoption of the gold standard by reducing the silver money to the state of billon, the Commission did not decide between them. It confined itself, in fact, to counselling the Government to a transitory step—the raising of the export duties on silver . . . . The exportation of silver, therefore, continued; and if the disappearance of five-franc pieces was not remarked, because they were replaced by gold, it was not the same with the scarcity of pieces of a smaller value employed in petty payments.

"Being informed of the obstructions to retail commerce by complaints carried before the Senate, and instructed by the example of Switzerland, which had in 1860 reduced the standard of its divisional money, the Minister of Finance appointed a Commission (1861) to study the remedy to be applied to the evil. This Commission counselled the reduction of the standard of pieces of less than five francs to .834 fine. It did this in complete knowledge of the cause, fully recognising that in so doing the monetary unity of silver, characteristic of our system, would be thereby broken, at any rate for its circulating form; for while the franc no longer existed in law, the five-franc was disappearing in fact, so that the change was equivalent to the establishment of a gold standard."

This advice of the Commission was, however, by the law of 1864, applied only to pieces of 50 or 20 centimes.

6. But in 1868 the fall in the silver became more accentuated, and a Commission in that year, by a majority, recommended the adoption of a single gold standard. In 1869-70 another Commission, again by a majority, repeated this recommendation in still stronger terms. In June, 1870, the Prussian Parliament appointed a Commission to consider the expediency of adopting a single gold standard for Prussia. But a few weeks after that the Franco-Prussian war broke out, which put a stop to all such discussions.

By Acts of November, 1871, and May, 1873, **the new German Empire adopted a single gold standard** with a subsidiary currency of silver. It is commonly asserted that Germany obtained the gold to effect this by the payment of the French indemnity. Most persons who do not understand exchange operations affirm that the whole of the £200,000,000 levied as a fine on unfortunate France was paid in gold. But this is an utter delusion. In my "Theory and Practice of Banking," and in my "Theory of Credit," I have given authentic details of the payment of the French indemnity from the official report of M. Léon Say, by which it appears that 160 millions of it were paid in paper of different sorts. And of the remainder £10,904,000 was paid in French gold, £25,493,993 in English gold, and the balance in silver.

7. In December, 1872, Belgium adopted a single gold standard with silver as subsidiary. I have seen it stated, but I cannot say on what authority, that Belgium threatened to secede from the Latin Union unless France closed her Mints to the free coinage of silver. But, at all events, the fall in the value of silver continued rapidly to increase; and in January, 1874, a Monetary

Conference was held in Paris. M. Dumas, of the Paris Mint, presided; M. de Parieu, as representing the French Government, was vice-president. The *Economist* said: "This was the adhesion to the theory of a single gold standard on the part of the French Government, and their appointment of M. de Parieu as one of the Commissioners to represent them, is a fresh sign of their being in favour of the gradual abolition of **a law which, after seventy years' experience, is found to be effete in theory and prejudicial in action."**

The result of this Monetary Conference was that the French Mints were closed to the free coinage of silver.

8. In 1876 the French Government resolved to suspend the coining of five-franc pieces entirely. Accordingly, on the 21st March, 1876, M. Léon Say, Minister of Finance, submitted to the Senate a Bill to that effect. It was followed, eight days later, by a proposition of a law suspending the emission of "bons" for the coining of silver money $\frac{9}{10}$ fine. The *exposé des motifs* of this act is most remarkable * :—

"The events which have happened for some time past in the relations of the precious metals have brought to a head the monetary question among us, although **from 1815 Great Britain has laid down principles which have attracted round her an ever-increasing circle of nations.**

"The theory of the double standard, on which our monetary law of the year XI. reposes, has been called in question since its origin.

"It is, to our conception, less a theory than the result of the primitive inability of the legislators to combine together the two precious metals otherwise than by way of an unlimited concurrence — metals, both of which are destined to enter into the monetary system, but which recent legislators have learned to co-ordinate by leaving the unlimited function to gold alone and reducing silver to the *rôle* of divisional money. From 1857 the French Government has studied the question, and it may be stated that since that date the

* Shaw's "History of the Currency," pp. 196–7.

principle of the gold standard has won increasing favour through our several administrations."

Then follows an account of the monetary history of France during the period. "If," the preamble continues, "from 1874, certain precautions had not been taken to arrest the effects of that great perturbation in the ratio, France and her monetary allies would have seen their monetary circulation invaded by silver and correspondingly drained of gold." Hence the Conventions of 1874-75-76, limiting the mintings of the members of the Latin Union, although, "according to us, the fall of silver in 1875 prescribed a complete cessation even for that year rather than a simple limitation."

9. **Thus the persistent assertions of the Bimetalists that the closing of the French Mints to the free coinage of silver in 1874 was the original cause of the serious fall in the value of silver since then are utterly confuted.** No one of common sense could suppose that the French Government would have taken the very serious step of closing the Mints to the free coinage of silver without the most cogent reasons. It is now clearly demonstrated that it was the continuous fall in the value of silver that necessitated the closing of the Mints; and it is now shown that the necessity for this had been foreseen by the most sagacious economists for seven years before it took place, and it was only done after the fullest discussion, and by the advice of the most experienced authorities.

10. As a matter of fact, the value of silver had been continuously falling since 1867. I am not called upon to investigate the causes of this fall here, but I must say that one of the main causes of this has been entirely overlooked by European economists. It is impossible to say what effect the changes in the relative production of gold and silver had in producing it. But the ablest financial writers in the United States have pointed out that the stupendous issues of paper money by the Government of the United States were one of the main, if not the most potent cause of the unprecedented fall in the value of silver, and that there is no hope of any material rise in its value until some effectual measures are taken to place the paper issues of the United States on a sounder footing.

It was simply a matter of self-preservation for France to close her

Mints to the free coinage of silver in 1874: just as it was with the Government of India in 1893. I am in no way concerned to deny that the closing of the European and Indian Mints has aggravated the fall in the value of silver. But if the Mints had been kept open much longer, it would have destroyed the stability of the French monetary system.

11. The whole of the facts of this period are the most triumphant vindication of the truth of Gresham's Law. All the most sagacious economists for five centuries had demonstrated that it is impossible to keep gold and silver together in circulation in unlimited quantities at a fixed legal ratio differing from the market ratio of the metals. The Government of India in 1806, after ample and bitter experience of the consequences of Bimetalism, gave its official adhesion to this doctrine; the British Government did the same in 1816, and then established our present system of coinage, the most perfect ever devised by the ingenuity of man. **And then came the crowning example of the Latin Union. No sooner was it established than it began to break up**; and its final catastrophe in 1874 demonstrates that no human laws or institutions can contend against the laws of Nature.

12. It has now been shown that it is impossible for gold and silver to circulate together in unlimited quantities at a legal ratio differing from the market ratio of the metals; that the coin which is underrated invariably disappears from circulation, and the coin that is overrated alone remains current; that as the market ratio rises above or falls below the legal ratio, gold and silver alternately drive each other out of circulation according as the one or the other is underrated or overrated; that it is the relative market value of the metals which regulates the relative value of the coins, and not the reverse; and that **the whole theory of the Bimetalists is a vain chimera.**

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