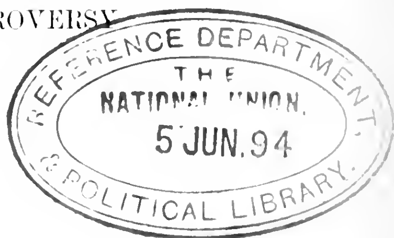
THE JOINT STANDARD

A PLAIN EXPOSITION
OF MONETARY PRINCIPLES AND OF THE
MONETARY CONTROVERSY



BY
ELIJAH HELM

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PREFACE

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PUBLIC interest in the monetary question has for years past been steadily extending. But the announcement of the Indian Currency experiment last midsummer, and the subsequent repeal of the United States Silver Purchase Act, have raised this subject to a position of commanding and even grave concern. Many are reflecting seriously, and seeking light upon it, who have before regarded it as of little moment, or as involving only a transient difficulty which would soon pass away. It has now become clear that the question is one of the greatest importance, upon which no intelligent person can afford to remain half-informed.

An attempt has been made in this book to satisfy the needs of inquiring minds by stating, as simply

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and clearly as possible, the principles and the facts involved in the monetary controversy. Many very able men—economists, statesmen, bankers, merchants, manufacturers, and others—have already dealt with the subject, and in the evidence given in official inquiries a very large amount of information has been presented. From these sources, as well as from the periodical press, most valuable instruction has been drawn. What room, then, is there for further treatment?

The justification for this essay lies in the wide demand for a manual dealing concisely with the subject in the light both of economic teaching and practical business life, and in the fact, that the present writer has had the advantage of combining a systematic study of economics with a somewhat long commercial experience, during which he has followed this controversy with close attention. He had the privilege of being a pupil and friend of Professor Jevons, whose methods of investigation he has never ceased to admire, and, as far as possible, to follow. He trusts, therefore, that his

endeavour to do some useful service at an important, and perhaps critical, stage of the discussion may not be altogether in vain. He has not concealed his own views, but his chief aim has been to elucidate and inform.

MANCHESTER, *April* 1894.

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CHAPTER I

MONEY AND ITS FUNCTIONS

THE first step to be taken by any one who wishes to arrive at an intelligent and assured judgment concerning the monetary controversy of our day is to get a clear and accurate notion of the functions and the various forms or kinds of money. He must inquire, what are the uses of money, what things constitute money, and what particular purposes each of such things serves? Answers to these questions will appear as we proceed.

THE FUNCTIONS OF MONEY

1. *Money is an Instrument of Exchange.*—The primitive and most direct mode of exchange is barter, in which the intervention of money is not required. But civilised mankind has abandoned that method, and, as everybody knows, exchange is effected by the correlative operations of sale and purchase, in which money plays the part of medium

or go-between. It follows, therefore, that everything which plays this part is a medium of exchange and must be generically included in the category of money. Bank-notes, cheques, postal orders, and bills of exchange, as well as coins, must, from the present point of view, be regarded as money, because they, one and all, perform the function of a medium of exchange.

2. *Money provides a Measure of Value.*—Before proceeding to consider this function of money, it is necessary to understand clearly the meaning of the word "value"—a word which has perhaps been maltreated more than any other in the whole range of economic literature. It is sometimes carelessly employed as if it were synonymous with "price," and sometimes as if it signified a quality in the thing to which it is applied. Professor Jevons has pointed out, however, that "value" merely expresses the ratio in which anything exchanges for some other thing. If a farmer, having two cows of whose milk he cannot profitably dispose, takes them to the fair, and there sells them to a purchaser for £40, buying therewith, later in the day, from the same person a horse which he very much needs, returning the same money, it may indeed be said that the value of the cows is, there and then, equivalent to the value of the forty sovereigns or to that of the horse. But this is not

the same thing as saying that the value of the cows *is* forty sovereigns or one such horse. Nor is the value of either of the three items an inherent quality. To the seller of the cows they are worth less than the horse or the sovereigns, or else he would not make the exchange. On the other hand, to the buyer of them they are worth more, and probably the seller would have accepted £38 for them, and would also have given £42 for the horse if the conditions of the market had required these terms, rather than fail to effect the exchange. We see then that "value" is a term used simply to indicate the fact that, at a given time and place, a certain commodity or a certain quantity of a commodity is exchangeable for some other commodity, or so much of it. Now money, regarded from the present point of view, merely provides an arithmetical means of accurately expressing the ratio of exchange. The fact that—in the supposed case—forty sovereigns were used is a proof of their utility as a medium of exchange, but the whole business might have been conducted without them by a simple agreement between the two traffickers expressed in terms of money. Money in the latter case would have been nothing more than a kind of language in which the value of the things bought and sold was defined.

3. *Money is a Standard of Value.*—I have

shown that money *provides* a measure of value, but it would not be correct to say that money *is* a measure of value. It is probably this distinction which many people have unconsciously in mind when they erroneously say that gold, as the standard of value in this country, cannot alter in value, because a sovereign must always be a sovereign —neither more nor less. It is doubtless quite true that viewed as a theoretical measure of value, the sovereign, or the shilling, or the penny cannot change. But under any monetary system, money, regarded as a standard of value, may and does frequently alter in value, that is to say, in the ratio in which it exchanges for other things. To use a common and well-understood phrase, its "purchasing power" may vary from time to time. All economists agree that an increase of the amount of money in use reduces its value, other circumstances remaining the same. More of it is given for a certain amount of other things—that is to say, prices rise. Similarly, the quantity of money in use remaining the same, but the quantity of other things to be exchanged being diminished, its value will also be reduced and prices will rise. And, conversely, the quantity of money in use being lessened, without alteration in the amount of other things to be exchanged, its value will rise and prices will fall; or, the quantity of money remaining

the same whilst the amount of other things to be exchanged is increased, its value will again rise, that is to say, prices will fall. Put into tabular or categorical form these propositions may be clearly stated thus:—

Quantity of Money in use	Quantity of Commodities exchanged	Value of Money	Prices of Commodities
Increased	Unaltered	Falls	Rise
Unchanged	Reduced	,,	,,
Diminished	Unaltered	Rises	Fall
Unchanged	Increased	,,	,,

Illustrations of these statements abound in the history of the last fifty years. Everybody knows that the vast and sudden increase in the supplies of gold from California and Australia, between 1848 and 1860, caused an important rise of prices. This was brought about simply because these great additional supplies of metal were mainly employed as money, thus increasing the amount of it in use relatively to the amount of commodities exchanged. Again, when the United States civil war compelled the Government to issue enormous quantities of paper money, whilst the products of industry fell off in consequence of the conversion of industrial workers into non-producing fighters, prices rose greatly for both reasons, and the changes which occurred may be described thus:—

Quantity of Money	Quantity of Commodities	Value of Money	Prices of Commodities
Increased	Reduced	Fell	Rose

But on the contrary, when, some time after the war was ended, the superabundant paper money was called in and soldiers had again become producers, what happened was this :—

Quantity of Money	Quantity of Commodities	Value of Money	Prices of Commodities
Reduced	Increased	Rose	Fell

A caution is here necessary. It is not the quantity of money in existence, but the quantity *in use* which determines its value. If all the money hoarded in India were in actual employment, it is certain that its value would fall, that is to say, prices would rise. Being unused, it is, from the present point of view, non-existent. Similarly there is, during periods of dull trade, in England, often a large amount of money lying in banks doing nothing, the holders of it desiring, for various reasons, to let it lie idle so far as mercantile transactions are concerned. For the time, therefore, it is in the same position as the hoarded money of India. It has no effect upon prices, and must not be taken into account in estimating the exchangeable value of money. It is, consequently, erroneous to cite large accumulations of gold in banks as a proof that it is, for monetary purposes, abundant,

and that its value is low. At such periods the very contrary is usually true—that is to say, money is dear. The correctness of this proposition is obvious at once, when it is remembered that large accumulations of idle money in banks are always coincident with depressed or drooping prices of commodities.

A passing observation of some importance should here be made. Whenever the amount of unemployed money in banks is and remains for some time large, the rate of interest is extremely low. It is then said, by a common but exceedingly improper and misleading use of language, that "money is cheap." Nothing could be more erroneous. It would be quite correct at such times to say that the charge for loans is low, but that is obviously a very different thing from saying that "the value of money is low."

CHAPTER II

THE CONSTITUENTS OF MONEY

The inquiry now arises, what things constitute money? The thought called up in most minds by the word "money" is simply that of coined metal —gold or silver. But, whether the function of medium of exchange or that of standard of value be regarded, the term "money" has a much wider signification. It includes anything which serves the purpose of such a medium, all instruments of credit which are used as substitutes for coin. It may be objected that a cheque, for example, is not money, but only evidence of a right to demand money, and, in a legal sense, that is quite true. But we are now considering its economic function, the purpose which it actually serves, and, unquestionably, a cheque does perform the work of money as a medium of exchange. The importance of including in the category of money all kinds of credit instruments which do duty for money is obvious, when we recall to mind the relation be-

tween the quantity of money in use and its effect upon prices described in the preceding chapter. An increase or decrease in the number and amount of these instruments in use is the same thing, in this respect, as an increase or decrease in the amount of metallic money in use. Obviously, therefore, when considering variations in the standard of value, we must take into account not only changes in the quantity of metallic money, but also changes in the volume of credit instruments. Before dealing with this point, however, it will be of advantage to state, categorically, the several constituents of the whole mass of money used in this country. These are :—

1. Gold, silver, and bronze coins.

2. Bank-notes, secured by an equivalent amount of gold coin or bullion.

3. Bank-notes not so secured.

4. Cheques, bills of exchange, and other credit instruments.

All these are constituents of money, and an increase or decrease in the quantity in use of any one of them has the same kind of effect upon prices as an increase or decrease in one of the others. If, for example, the aggregate amount of the credit substitutes for money were augmented to the extent of £20,000,000, other conditions remaining unaltered, the result would be the same

in kind, though not quite the same in degree, as if an equivalent quantity of gold coin had been put into circulation. Clearly, therefore, although it is customary and convenient to speak of gold as the sole standard of value in this country, the statement is not accurate, and accuracy in this matter is all-important. In the case supposed, the addition of £20,000,000 to the volume of credit instruments would cause a rise of prices, that is to say, a fall in the value of gold. And in like manner, a reduction or contraction of £20,000,000 in the volume of such instruments would bring about a fall of prices, or, in other words, a rise in the value of gold. This principle is admitted by all disputants on both sides in the present monetary controversy, although, as I shall endeavour presently to show, due weight is not always allowed to it.

What, then, is the meaning of the commonly accepted statement that gold is the sole standard of value in the United Kingdom? The foundation upon which it rests is the undisputable fact that every other kind of money is expressed in terms of, or passes current at a fixed ratio to, the sovereign—the standard unit. The shilling is accepted as a twentieth, the penny as the 240th part of a golden sovereign, and a cheque or a bank-note for £50 as fifty of such coins. But we have just seen that the value of the gold in a sovereign is itself largely

determined by the amount of co-related credit instruments employed. Whilst, then, the standard unit remains always the same, its value—its ratio of exchange—is determined not alone by the quantity of metallic money in use, but by that of the whole mass of money of all kinds—paper substitutes included. It is, therefore, necessary to inquire what are the influences tending to expand or contract the quantity of credit substitutes for money?

The Expansion and Contraction of Credit

I have hitherto taken no account of open mercantile credit, simply because, not being represented by paper documents, it cannot be classed as money. That it is a means of facilitating exchanges and multiplying transactions is shown, however, very clearly by Mr. J. S. Mill in Book III. chapter xii. of his *Political Economy*. This form of credit does, undoubtedly, economise the use of money, and must be considered in investigating the causes of variation in the employment of credit instruments. For a long period prior to 1866, there were periodical cycles during each of which a regular flow and ebb of credit was observable, each cycle being terminated by a crisis marking the culmination and collapse of a course of expanding credit. Incidents of this kind occurred in 1826, 1836,

1846, 1857, and 1866. Since the last of these occurrences, no such periodic progression of credit movement has taken place. There is reason to conclude that until 1871-1873, when the free coinage of gold and silver was suspended in the Latin Union, the credit cycle in this country was pursuing its accustomed course, and that a crisis would have occurred about 1876 but for the alarm and the caution inspired by fears as to the supply of gold. Those who can remember, or who have read the monetary history of that time, are well aware of the constant apprehensions of a drain of gold from the Bank of England which existed during the German currency reform. The consequence was a widespread and effectual caution in the giving and acceptance of credit. Later on, the resumption of specie payments in the United States and in Italy, and the steadily diminishing production of gold, tended to keep alive those apprehensions. The result has been that the use of credit has, within the last twenty years, been proportionately much more restricted than it was before the unsettlement occasioned by the disturbance of the relative values of silver and gold began. It is well known that the amount of inland commercial bills created is much less than it was twenty years ago, and even ordinary mercantile open credit has, in some markets, either wholly dis-

appeared, or has dwindled almost to the vanishing point. In Manchester the vast business in cotton yarns and goods is almost entirely a cash business, the "long terms" formerly so prevalent having nearly ceased to exist. Accounts are now settled weekly, sometimes twice a week, instead of being allowed to run for one or two months. Generally, indeed, it may be said, with perfect accuracy, that the internal trade of the United Kingdom is now done upon a prompt cash basis to an extent not dreamed of twenty years ago, and that this change has had the same effect as a reduction in the amount of money in use, taking this term in the wide sense given to it in the preceding chapter.

It is proper to observe, on the other hand, that within the last twenty years the use of cheques has much increased. It would be quite impossible to determine how far the extended employment of cheques has tended to counterbalance the undoubted contraction in that of mercantile bills and open credits. Nor is it necessary even to attempt to determine this question, since my present purpose is only to bring into prominence the fact that, if the substitution of cheques for metallic money or for notes secured by gold has become much more common, the part formerly played by bills of exchange and open credits has greatly diminished.

CHAPTER III

SINGLE STANDARDS AND THE JOINT STANDARD

WHEREVER organised industry and exchange of products exist, the appointment of a fixed legal monetary unit of value is essential. The experience of mankind has shown that the precious metals—gold and silver—are immeasurably the best materials for this purpose, and there are two ways in which they may be employed. The unit may consist of a definite quantity of either metal, and according to the selection made, the community adopting one or the other is said to possess a single gold or a single silver standard. But there is another method of constructing a monetary unit under which both metals may be used, not by amalgamation, but by co-ordination. A definite, though different, quantity of each is declared to be equally the unit, and the proportions by weight borne to each other by these is the legal ratio. The name formerly given to this system, "the double standard," is suitable enough in so far as it indicates that two kinds of material

are employed. But the term has this serious inconvenience that it does not accurately denote—or connote, as the logicians would say—the qualities and attributes which distinguish a standard thus formed from a single standard. It appears to me that the term "joint standard" is much more appropriate, because it signalises the fact that although two metals are employed, the result is not two standards, but one, and one differing essentially from either of the single standards.

A distinguishing quality of the joint standard is that it is incomparably steadier in value than either of the single ones. It is sometimes said that steadiness of value is a characteristic established by history of both gold and silver. But this statement must be accepted with the qualification that the steadiness has been mainly the result of monetary arrangements designed to secure it. Such arrangements were always imperfect and unsystematic until the year 1803, when the French Republic for the first time adopted the plan of coining gold and silver indifferently, without limit of quantity, for all bringers to the mint of either metal. The franc was declared the monetary unit, and coins of various denominations were struck, the weight of precious metal in the silver ones being 15½ times that contained in the corresponding gold coins. This system was practically maintained in France for a period of

nearly seventy years. The adoption of the ratio of $15\frac{1}{2}$ to 1 was not the result of accident or haphazard, but of careful, prolonged, and deliberate inquiry. For a long time previously the practice of fixing the ratio between gold and silver coins had prevailed amongst the European states, but this was frequently changed, and no uniformity of ratio was observed or aimed at. The report of the French Monetary Commission of 1790 gives the following particulars of the ratios of silver to gold in various countries at that time:—

In England	. 15·23 to 1	In Tuscany	. 14·51 to 1
„ Holland	. 14·44 to 1	At Geneva	. 14·71 to 1
„ Flanders	. 14·51 to 1	„ Venice	. 14·82 to 1
„ Austria	. 14·52 to 1	„ Genoa	. 14·91 to 1
„ Saxony	. 14·77 to 1		

In 1785 the French gold money had been recoined at the ratio of $15\frac{1}{2}$. This proportion intentionally gave to the gold coins a somewhat higher value than that prevailing in neighbouring states, the object being to prevent the melting and exportation of the new coins. The Commission of 1790 recommended a ratio of 14·87, on the ground that the one adopted in 1785 encouraged the export of silver. This advice was not followed, and shortly afterwards the over-issue of notes (*assignats*), which were first put into circulation in 1789, led to a disastrous interlude of inconvertible paper money.

Then came the law of 1803, which adopted the ratio of 1785, but for a different reason, viz. that it was at that time about, though still slightly above, the proportion existing outside France. This ratio was maintained, as already stated, for a period of 70 years, and the effect of the law of 1803 in its influence upon the relative values of silver and gold, during this long interval, is one of the most remarkable phenomena in monetary history. It is carefully and judicially set forth in the following extract from the Report of the British Gold and Silver Commission of 1886, signed by all the Commissioners. After contrasting the comparative steadiness of the price of silver in London before the suspension of the French mint law of 1803, with the wide and incessant fluctuations since then, the Commissioners say:—

The date which forms the dividing line between an epoch of approximate fixity in the relative value of silver and gold, and one of marked instability, is the year when the bimetallic system, which had previously been in force in the Latin Union, ceased to be in full operation; and we are irresistibly led to the conclusion that the operation of that system, established as it was in countries the population and commerce of which were considerable, exerted a material influence upon the relative value of the two metals. So long as that system was in force we think that, notwithstanding the changes in production and use of the precious metals, it

kept the market price of silver approximately steady at the ratio fixed by law between them, viz. $15\frac{1}{2}$ to 1.

In summing up their conclusions on this question the Commissioners add :—

The action of the Latin Union in 1873 broke the link between silver and gold, which had kept the price of the former, as measured by the latter, constant at about the legal ratio; and when this link was broken the silver market was open to the influence of all the factors which go to affect the price of a commodity.

The Report from which these extracts are taken was signed by Lord Herschell, Mr. C. W. Freemantle, Sir John Lubbock, Sir T. H. (now Lord) Farrar, Mr. J. W. Birch, Mr. Leonard Courtney, Sir Louis Mallet, Mr. A. J. Balfour, Mr. Henry Chaplin, Sir W. H. Houldsworth, Mr. (now Sir) David Barbour, and Mr. Samuel Montague. The first six gentlemen were then mono-metallists, but Mr. Courtney has since joined the ranks of the bimetallists, to which the last six were, and still remain, attached.

The experience thus gained of the operation of an arrangement under which the joint standard, with unlimited coinage of both gold and silver at a fixed ratio, was maintained within a comparatively narrow sphere for a period of seventy years, has led to a proposal that it should be re-established over a much wider area. To this proposal the somewhat forbidding name of Bimetallism has been given.

It appears, then, that the system of using both metals concurrently, as the basis of a monetary standard, has a history, which is properly divisible into two periods.

First Period.—That prevailing before 1803, during which gold and silver money was used by many states at fixed though different ratios, which were sometimes altered, at intervals more or less long. The reasons for these alterations were (1) want of uniformity in the several ratios; (2) occasional debasement of one or other of the two kinds of coins; and (3) the former prevalence of the mercantile theory, according to which it was thought that the supreme object of national economy should be to accumulate gold and silver.

Second Period.—That of the French law of 1803-1873. I have already given the testimony of the Gold and Silver Commission to the efficacy of this statute in maintaining stability in the relative values of the two metals, in spite of extremely great variations in the supply of one of them. Much other evidence of a like kind might be adduced. It may suffice now to quote, in addition, the views of Mr. Bagehot, which are very instructive. Writing upon the monetary position in September 1876, he said:—

The cardinal present novelty is that silver and gold are, in relation to one another, simply ordinary com-

modities. Until now they have not been so. A very great part of the world adhered to the bimetallic system which made both gold and silver legal tender, and which established a fixed ratio between them. In consequence, whenever the value of the two metals altered, these countries acted as equalising machines. They took the metal which fell; they sold the metal which rose; and thus the relative value of the two was kept at its old point. But now this curious mechanism is broken up. There is no great country now really acting on this system. The Latin Union, it is true, adhere to the name, but they have abandoned the thing. As they do not allow silver to be coined, except in limited quantities, they have no equalising action. . . . In former times the fluctuations in the relative value of the two metals were few and small, but now they are many and large. Particular causes, no doubt, aggravate that instability at this moment—especially the demonetisation of silver by Germany, and the supposed likelihood of great supplies from Nevada. But though the instability is aggravated by these causes it is not created by them, and it will not cease with them. There is no inherent reason why the gold price of silver should be uniform, any more than why the gold price of platinum should be the same. The old notion is one generated by the practice of Governments, and which has ceased when the practice ceased, and will not revive till it revives.

The striking and weighty judgment conveyed in these concluding words can hardly fail to command the assent of all students of monetary history. The

comparative steadiness in the relative values of gold and silver for many hundreds of years, until 1873, was unquestionably the result of legal regulation, although it was made possible by the circumstance that these metals can only be produced in quantities extremely small when compared with the whole mass in existence. How wide and varying has been the divergence in the ratio of exchange between them since this ancient "practice of Governments" ceased, and how great has been the economic disturbance, are matters of common knowledge. A problem has thus arisen, which lies at the root of the present controversy, and which one of the parties engaged in it proposes to solve by re-establishing the joint standard, not with the limitations previously existing, but upon a foundation wide enough to ensure its permanence. The first period of its existence was marked by the isolated, discordant, and varying action of many states; the second by a small group of them acting in concert. It is proposed now to found an international monetary system, based upon the unrestricted coinage of both metals at an identical ratio, and secured by treaty between the leading commercial states of the world. Objections to the proposal, some of them of an apparently formidable character, have been urged by influential persons in this and other countries, and these will be

examined in later chapters, as well as the arguments put forward in its favour. Meanwhile it will be well to study the operation of the joint standard and its effects during the period when it was in force in the Latin Union.

It may, however, be noted here, that, in the opinion of Mr. Bagehot, expressed in the words just quoted, stability in the relative values of silver and gold cannot henceforth be looked for, except through the action of Governments.

CHAPTER IV

RATIONALE OF THE JOINT STANDARD

It is obvious from what has been said in the last chapter, that the scheme put forward by bimetallists for the resuscitation of the joint standard by a broad international agreement is a new thing in the world. Nothing exactly like it has ever yet existed. During the period when the French monetary law was in operation, there were always several outside silver and gold markets, the movements in which put a severe strain upon it on more than one occasion. The enormous increase in the production of gold in California and Australia brought about one of these movements. Another was the extraordinary demand for silver from India consequent upon the large investment of British capital in the dependency, and the payments which had to be made for extended supplies of cotton when the imports of that material were cut off by the American civil war. A third was the export to Europe of the greater part of the United States

gold currency, when in 1862-1863 this was driven out by the over-issue of paper money, which was one of the consequences of the civil war. All these tests, crucial as they were, the French mint law withstood perfectly.

It has been urged, however, that at last the limited bimetallic system of the Latin Union broke down, that even if France and the other states composing it had been willing to uphold it, they could not have kept it going under the twofold pressure which would have been put upon it by the transition of Germany from a silver to a gold monetary system, involving a greatly increased demand for gold, and an enlarged supply of silver. But this is not the opinion of Mr. Bagehot, who, writing in July 1876, said:—

The states comprising it [the Latin Union] in 1873 adhered strictly to the principle of the double standard of gold and silver—that is, they allowed any one to bring to the mint any quantity of either metal, and they coined it for him. In consequence, at every change they were always coining the metal of lesser value, and that metal when coined was used to buy and take away the metal of higher value. In this way during the cotton famine France was half emptied of silver, which was wanted for export to the East, and was filled with gold which was not so wanted. If these states had continued to adhere to this principle, the great effect on the general silver market, produced

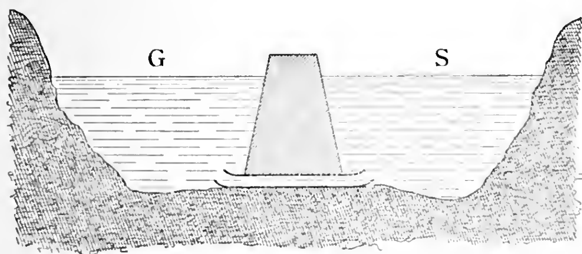
by the German operations, would have been much diminished and rendered scarcely observable. As soon as silver began to fall it would have gone to France, and been used to buy gold which had risen. Thus silver would have been taken from the general market, and gold would have been brought to it, till the former level of comparative values, or something like it, had been reached. But France and the rest of the Latin Union could not endure this. Partly from political and partly from economical motives, they would not take the "cast-off" German silver. They limited the amount of silver which they would coin, and thus the silver market was at the same moment perturbed by two extra-commercial causes: one set of countries sold off silver as they had never done before, and another refused to take it in a way in which they had never done before, and thus diminished the demand.

Clearly, then, the opinion of Mr. Bagehot, an eminent mono-metallist, was that the states of the Latin Union would have been able, if they had chosen, to have kept their mints open to the unlimited coinage of both metals, and to have preserved the ratio of $15\frac{1}{2}$ even in outside markets with "scarcely observable" variation, notwithstanding the great disturbance occasioned by the German sales of silver and purchases of gold. And it happens that there is positive and substantial evidence in support of this view. Two years after it was expressed—in August 1878—M. Léon Say, the French Minister of Finance, caused an examination to be

made of the number of gold and silver coins of each denomination held on a particular day by the 19,511 offices throughout France of the Administration of Finance. The total number of pieces was 2,222,965, of which 1,009,559 were gold, and 1,213,406 silver. The aggregate value of the gold coins was 16,878,740 francs, and that of the silver coins only 6,067,030 francs. It thus appears that in value no less than 73·5 per cent of the whole amount was gold, and only 26·5 per cent silver. In communicating the results of his investigation to the Monetary Conference of 1878, then sitting in Paris, M. Say stated that there was reason to believe that they gave a very correct idea of the proportions of the various kinds of coin then in circulation in France. The inference is irresistible, therefore, that the free coinage of silver might have gone on without interruption and without endangering the ratio.

And now a question of the highest interest arises. If the effect of the maintenance of unrestricted coinage of both metals was to preserve a steady ratio not only within the Latin Union, but also outside it, was there anywhere, so long as the arrangement lasted, any such thing as a single gold or a single silver standard? Obviously there was not. The value of gold in relation to commodities was determined, not by conditions of demand and supply

affecting itself alone, but also, and equally, by conditions of demand and supply affecting silver. And the converse of this proposition is true of silver. Although, therefore, the standard of value in this country was, in name, the single gold standard, it was not so in fact. It was the same as that of France, viz. the joint standard. Nor was the standard in India the single silver standard. It too was the joint standard. A simple illustration, first suggested by Professor Jevons, will make this quite clear.



Let G represent the whole mass of gold existing or in use for monetary purposes at any given time, and S that of silver so existing or in use—one fed from the region of gold on the left, the other from that of silver on the right. So long as there is no communication between the two reservoirs, it is evident that the level of the water in each will vary with every variation in the volume of the stream supplying it or in the quantity taken from it. But

if a conduit or pipe of adequate dimensions be placed between them, then the level of both will remain the same, no matter what changes may take place in the quantity received or taken from either of them. The water cannot rise higher nor fall lower in one reservoir than it is in the other. But the level actually preserved will not be that which either reservoir would have had if the two had not been thus joined. It will be a mean, and although this will be subject to a certain rise and fall, the changes will not be so great in either reservoir as they would have been if each had been subject to the constant variations of rainfall and offtake affecting itself alone.

The relevancy of this illustration is shown in what Professor Jevons called the equilibratory action of the French mint law during the great outpouring of gold from the Californian and Australian mines after 1848. The consequences of its action were (1) that the depreciation of gold resulting from increased supply was greatly mitigated; (2) that silver was also depreciated, although there was no considerable increase in the supply of it, but a marked increase in the demand; and (3) that practically there was but one standard of value throughout the world wherever the circulation was not inconvertible paper. Although, therefore, the monetary standard of this kingdom was supposed to

be gold, and that of India silver before 1873, it is clear that they, as well as the states embraced in the Latin Union, and indeed all countries having a metallic circulation, had a common standard, and that that was the Joint Standard.

Results of the Abandonment of the Joint Standard

The most obvious consequence of the abandonment of the joint standard is that the relative value of silver and gold has varied to an extent, and with a frequency, never before known. In the following table the annual average price of silver in London in 1872, and in each subsequent year, is shown :—

Average Price of Silver in London

Per Ounce.	Per Ounce.
d.	*d.*
1872—60·3125	1883—50·5625
1873—59·25	1884—50·625
1874—58·3125	1885—48·625
1875—56·875	1886—45·375
1876—52·75	1887—44·625
1877—54·8125	1888—42·875
1878—52·5625	1889—42·6875
1879—51·25	1890—47·75
1880—52·25	1891—45·0625
1881—51·6875	1892—39·8125
1882—51·625	1893—35·625

It thus appears that since 1872 the gold price of silver has fallen from 60·3125d. per ounce to

35·625d., the difference being 24·6875d. per ounce, or nearly 41 per cent. In the interval the fluctuations have been almost incessant. Now it is obvious that the descent may be described either as a fall in the gold price of silver, or a rise in the silver price of gold. It signifies depreciation of the one or appreciation of the other, according to the point from which the change is viewed. The question whether silver has declined in value or gold has risen is, therefore, so far indeterminate and indeterminable. It is clearly a question which can only be settled by comparing the ratio of exchange between each metal and a sufficient number of other commodities. If it be found that in relation to these, as well as to gold, the value of silver has fallen, then there can be no doubt that silver has depreciated. If, on the other hand, it should appear that this is not the case, but that, on the contrary, the fall in the gold price of silver is accompanied by a fall in the gold price of other commodities, it will be beyond question that gold has appreciated.

Evidence of a very great decline in the prices of commodities, as stated in terms of gold, since 1873 is so abundant and conclusive that it is practically undisputed. The separate report of the six "monometallist" members of the Royal Commission of 1887-88 says:—

There can be no question that the gold price of many, and probably of most commodities has fallen during the last fifteen years. In relation to these commodities it may, no doubt without inaccuracy, be said that gold has appreciated. That is another mode of expressing the fact that their price is lower.

And after some reference to the now well-understood method of ascertaining general movements of prices by comparison of index numbers, the six Commissioners further observe :—

If we turn from these general index numbers, and examine the index numbers of the several commodities which have been taken into account in arriving at the general index number for the year, it cannot be doubted that a fall has taken place, especially in the most recent years, in the majority of the commodities in common use, and that in some cases the fall has been very heavy.

Later on they say they do not think that there is any "conclusive evidence of a substantial appreciation of gold" to be derived either from a review of the variations in prices or of the circumstances relating to the production and use of that metal. At the same time they "are far from denying that there may have been, and probably has been some appreciation." They add that, in their opinion, the sounder view is that the greater part of the fall has resulted from causes touching the commodities rather than from an appreciation of the standard.

I do not wish to insist too strongly upon the want of correspondence between this conclusion and the previous one already quoted, viz. that to say that gold has appreciated is merely a mode of expressing the fact that prices of commodities are lower. It is, however, very important to keep firm hold of this undoubted and indeed self-evident principle, which is a necessary inference from the definition of "value," viz. that it is the expression of the ratio in which anything is exchanged for another thing. When a larger amount of commodities is given in exchange for a certain amount of gold—that is to say, when prices are lower—it is obviously all the same whether the change is described as a fall in the prices of commodities, or a rise, an appreciation, in the value of gold. To affirm, therefore, or to deny that a general fall of prices in this country is "due to" an appreciation of gold is simply equivalent to affirming or denying that an appreciation of gold is "due to" gold becoming dearer. In either case the proposition is meaningless. It is, no doubt, an interesting question how far the decline of prices can in any particular case be traced to increased production of commodities, and with this aspect of the subject I shall deal presently. But we are considering a condition of things in which—to use the words of the Commissioners—the prices of "the majority of

the commodities in common use" have greatly fallen, and I think I shall be able to adduce strong, if not absolutely conclusive, reasons in support of the proposition that no changes in the amount, or the cost of, production has had, or could have, any appreciable influence upon the general level of the prices of the great mass of such commodities.

CHAPTER V

DOES INCREASED PRODUCTION OF COMMODITIES LOWER GENERAL PRICES?

In an important and interesting section of their report, the six mono-metallist Commissioners call attention to the fact that the fall of prices has been neither universal nor uniform. This is not held to be a proof that gold has not risen in value. On the contrary it is pointed out that, as Professor Cairnes and others have shown, when gold fell in value after the great gold discoveries in California and Australia, the rise of prices was by no means uniform, and the Commissioners might have added that it was not universal either. They say, however, "A careful survey of the varying prices of commodities at once suggests that, even if there has been an appreciation of the standard, some other causes must have been at work affecting particular commodities so as to depreciate them in relation to gold."

Now, it cannot be doubted that the Commis-

sioners are quite right in affirming that forces have been at work within the last twenty years tending greatly to increase the production of commodities, and in many cases to reduce the cost of production. After the Franco-German war was ended a marked impetus was given to peaceful and, in particular, to manufacturing industry on the Continent and elsewhere, whilst the extension of agriculture in the newer countries, and improved means of communication by land and sea, have augmented the supplies of food and raw products. The meaning of these changes, so far as they bear upon the question immediately before us, is simply that the volume of trade has extended enormously, requiring, therefore, increased monetary means of exchange. For, plainly, to take an extreme case as an illustration, the effect upon prices would be just the same if the volume of commodities to be exchanged were doubled, whilst that of the monetary medium remained unaltered, as it would be if the volume of exchanges continuing unaltered, that of the monetary medium were reduced by one-half. A serious fall of prices would ensue in either case. In considering the effect of the greatly increased production and distribution of commodities during the last twenty years, it is impossible, therefore, to ignore the question whether or not the monetary means of exchange have proportionately augmented.

Secondly, the six Commissioners state, with perfect truth, that in very many cases the cost of production has been much reduced since 1873. But here an important and much-neglected discrimination is requisite. Cost of production may be reduced either by a lessening of the prices of the constituents of production, or by greater facility of attainment, that is to say, by the expenditure of less labour. It is with the latter of these cases only that we have here to deal. Now it is undeniable that within the period named the progress of invention has, in numerous instances, tended greatly to facilitate production. It is for this reason that wages have not uniformly followed the downward course of prices, since, in the long-run, and often almost immediately, a part of the advantage of greater ease of attainment passes into the hands of labourers. But the progress of invention is manifestly, and by a long way, insufficient to account for so widespread and so enormous a decline of prices as we have witnessed. Moreover, it must be remembered that the progress of economy in production was quite as general and as effective, during and after the great gold discoveries, as it has been since 1873, and yet this did not prevent an important rise of prices up to 1857, nor their freedom from general decline thereafter until 1873.

This fact is, at first sight, somewhat paradoxical,

and it is important enough to require examination. That increased facility of attainment does tend to lower the price of the article affected by it is undoubted. What follows? Either a greatly enlarged consumption of that article, or a larger expenditure upon—that is to say, a larger demand for—other articles, and, resulting from this, a rise in the prices of these other articles. The usual experience is that both these consequences ensue. A familiar example of the efficacy of this principle occurred after the abolition of the import duties on corn in this country. The price of bread was greatly reduced, and consumers having more money to spend upon other things, bought meat and dairy produce more freely leading to an advance in their prices. Cheap bread was, in short, the cause of dearer meat and butter. It appears, then, that the question of the effect upon general prices of the progress of invention is simply a phase of the question of increased production and distribution. And this again is, as already shown, a question of the proportion between the volume of commodities to be exchanged and that of the monetary medium. There is, consequently, no real difficulty in understanding that there may be a fall in the prices of certain commodities, resulting from improved methods of production and distribution, without a decline in the general level of prices, and actual experience, as shown in the concurrent

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testimony of all the systems of index numbers indicating the course of prices in England from 1849 to 1873, proves that the proposition is true.

During the whole of this period of twenty-four years, the general level of prices was higher, and sometimes considerably higher than in 1849. Yet within the same period the progress of invention, the extension of railways and of steam navigation, and the opening up of new lands to the industry and commerce of the world, were, to say the least, as effective as similar improvements have been during the last twenty years.

Now, the prevalence of higher prices between 1849 and 1873 in spite of an enormous increase of production and of greater economy of production is, by universal consent, attributed to the extra supplies of gold from the Western North American States and Australia, and the substitution, after 1860, of an inconvertible paper currency for a metallic currency in the United States, which drove out gold in very large quantities to Europe. These various new supplies of gold caused a rise of prices, notwithstanding the existence of forces which, it is held, ought to have brought about a lower level. The recognition of this fact obviously involves an admission of the principle that the question of important movements of general prices over long

periods is a monetary question. It involves also agreement with the view that increased production of commodities and greater facility of attainment do not alter the average level of prices when the monetary means of exchange are proportionately maintained.

The answer, therefore, to the question, "Does increased production of commodities lower general prices?" appears to me to be that, of itself, it does not. What advantage, then, it may be asked, does the world of consumers gain from greater abundance of wealth, and greater ease in attaining it? The advantage is manifest in the power of consumers to satisfy their wants more fully and more variously. It is forcibly illustrated by the example already given of the rise in the prices of meat and dairy produce consequent upon the cheapening of bread. And the principle set forth in that example runs through the whole of the articles of general consumption. Let any one who can carry his mind back to 1849, recall the condition of the household of an English artisan or middle-class citizen, and contrast it with the condition of a similar household twenty years later. He will find that in the furniture and appointments of the household, in the clothing and ornaments of its members, in their food and in their enjoyments there is a great advance not only in the abundance,

but also in the variety of their possessions and substantial amenities. Yet this was a period in which, although the prices of many commodities, manufactures included, were reduced, those of others were raised; were raised often because some were reduced. In short, just because human wants are capable of indefinite expansion, the potential demand for commodities is insatiable, and the more easily one class of wants is supplied the more abundant becomes the volume and variety of the demand for commodities not within reach before.

CHAPTER VI

CONSEQUENCES OF AN APPRECIATION OF GOLD

It is always instructive, in studying current economic changes of an important and far-reaching kind, to give careful heed to the principles involved in them which able men have educed in analogous, though not precisely similar circumstances. In his preface to the translation of M. Chevalier's work, *On the probable Fall in the Value of Gold*, Mr. Cobden states that when Sir Robert Peel was introducing the Bank Act of 1844, he said of it :—

There is no contract, public or private, no engagement, national or individual, which is unaffected by it. The enterprises of commerce, the profits of trade, the arrangements made in all the domestic relations of society, the wages of labour, pecuniary transactions of the highest amount and the lowest, the payment of the national debt, the provision for the national expenditure, the command which the coin of the smallest denomination has over the necessaries of life, are all affected by the decision to which we may come on that great question which I am about to submit to the consideration of the Committee.

These words were quoted by Mr. Cobden at the beginning of 1859, when the great economic question of the day was the vast outpouring of gold from California and Australia. This had been going on for nearly ten years, and was expected to lead to an extraordinary and perhaps disastrous depreciation of the standard. In recalling the words of Sir Robert Peel, Mr. Cobden declared that his object was to point out their applicability to the conditions discussed by M. Chevalier. Mr. Cobden was not ignorant of the automatic action of the French mint law, which so equalised the effect of the great gold supplies in the manner described in a previous chapter, that the depreciation of gold was not only minimised, but was extended to silver also. Indeed, the brilliant French writer had devoted a portion of his book to a demonstration of this controlling influence. But both he and his translator clearly expected that the production of gold at the increased rate would continue for an indefinite, though certainly a very long period. So impressed was M. Chevalier with this idea, that he recommended the French Government to abandon the joint standard and adopt the single silver standard. We now know that a great, continuous, and rapid falling off of the production of gold had begun even when Mr. Cobden was writing. The significant fact is, however, that he fully recognised and endorsed the

importance of Sir Robert Peel's comprehensive and striking statement of the consequences of wide fluctuations in a standard of value.

Writing in 1862-3 upon the social effects of the depreciation of gold, Professor Jevons discussed its influence upon the interests of the various classes of society and upon national finance, summing up his conclusions in the following words:—

> I cannot but agree with M'Culloch (*Encyclopædia Britannica*, 8th edition, article "Precious Metals") that, putting out of sight individual cases of hardship, if such exist, a fall in the value of gold must have, and as I should say has already, a most powerfully beneficial effect. It loosens the country, as nothing else could, from its old bonds of debt and habit. It throws increased rewards before all who are making and acquiring wealth, somewhat at the expense of those who are enjoying acquired wealth. It excites the active and skilful classes of the community to new exertions, and is, to some extent, like a discharge from his debts is to the bankrupt long struggling against his burdens. All this is effected without a breach of national good faith which nothing could compensate.

The change which we have now to consider is the reverse of that of which the consequences are thus summarised by Professor Jevons. We have to deal with an appreciation, not a depreciation of gold, and it is instructive to read the observations of so careful a writer as Mr. Giffen upon the effects

of appreciation. In a paper read before the Royal Statistical Society in January 1879, he said:—

> If a general downward movement of prices, due to a comparative scarcity of gold, has begun, are we not on the eve of a reversal of the changes which commenced with the Australian and Californian discoveries—changes so admirably described in Mr. Jevons' well-known book? These changes were, substantially, a gradual lightening of debts, for the benefit of the debtor class, and to the immediate loss of annuitants and capitalists, however much the latter might be compensated, in the end, by an increase in the nominal income of their land, houses, and other securities. Now we may witness a gradual increase of the burden of debts, to the loss of debtors, and for the immediate advantage of creditors, although, in the end, the latter may lose by the relatively diminished income of their securities, following the adjustment of all prices to the new circumstances. There can be no doubt that some such general effect as this must follow, if it should, in fact, turn out that a serious appreciation of gold has set in, and the circumstances of its production and the use of economising expedients do not change.

It would be easy to extend these references to recognised economic authorities in support of the doctrine, that the attainment and the preservation of a standard of value as nearly invariable as possible is a matter of supreme concern. Those already given are, however, sufficiently impressive, and I now proceed to investigate some of the

prominent and clearly-established consequences of appreciation. Such consequences arrange themselves under the following categories, viz. public finance, private contracts, customary and retail prices, and wages. I deal at present only with the first of these.

Effect of an Appreciation of Gold on Public Finance

It will probably be a surprise to many who have never realised the vast and varied changes brought about by the increased purchasing power of gold, to discover that one effect of it has been the same as if an addition of several millions sterling had been made to the burden of our taxation. This is undoubtedly true, however, as the mere statement of a few elementary propositions will clearly show. The whole income of the British nation consists of three parts—first, the commodities produced and consumed at home; secondly, those received from abroad in exchange for home productions; and, thirdly, those received in payment for services rendered to foreign countries. A large proportion of this aggregate income is required to defray the cost of government—national and local. In primitive states of society the ruling powers take their share of the annual produce in kind. But in fully

organised communities it is appropriated in the form of money, which is afterwards exchanged for such things as the Government and its servants and creditors may choose. The money collected for taxes is, therefore, only an instrument by means of which these are enabled to appropriate from the general stock of commodities a certain share. Now, if, since the appreciation of gold took place, there has been no reduction in the amount of taxation—and, as a matter of fact, there has not—it is clear that, after a heavy general decline of prices, this share is greatly augmented in all countries having a gold standard, and so much less is left for the use of the taxpayers themselves. If the proportion of the aggregate income used to meet the cost of government, national and local, were taken in kind, it would be strikingly evident how much greater the cost has become in consequence of the rise in the value of gold, and therefore how much greater is the burden falling upon industry, from the produce of which the expense of government is mainly defrayed. Agriculture affords, perhaps, the simplest example of the principle under consideration. The total amount of taxation, reckoned in money, falling upon 1000 acres of land is not now greatly different, on an average, from what it was twenty years ago. If, however, the share of the whole of the produce of such area now appropriated for pur-

poses of taxation—converting money into kind—be compared with that previously devoted to this object, it will be found that the remainder left for the use of the owner and cultivator is largely reduced. But agriculture does not differ essentially from other industries in this respect, although, in its case, the increased burden is more distinctly seen.

There is only one important compensation resulting from the appreciation of gold which any part of the British nation derives from its effect upon general national finance. England is a great creditor in relation to other nations. Very large amounts of British capital have been lent at fixed rates of interest to Governments, national and local, and to companies engaged in railway or other enterprises abroad. Now it is obvious that the aggregate amount of this indebtedness for principal and interest, so far as it stands on a gold basis, has been in reality very much enhanced. The nations responsible for it have no other means of discharging the obligations connected with it but that of the produce of their industry; and, owing to the fall of prices, very much more of this produce must be sent than before in order to meet the constantly recurring liability for interest and sinking fund. This incident in the great monetary disturbance was brought prominently before the Gold and Silver Commission, and the arguments of those who regard it as a

national advantage are summed up in the following extract from the report :—

> As regards the country at large, a clear gain can be shown, owing to the large investments of British capital made in foreign countries at a time when prices were high. With every fall of prices the real return on this capital increases, and the country gains.

At this point the subject is left by the Commissioners. But we may with advantage pursue it a little further. To whom does this gain accrue? and are there any interests in this country which are injured by it? It is obvious, in the first place, that the holders of foreign securities carrying a fixed rate of interest, in common with holders of home securities of the like kind, participate largely in the advantage, even if they do not receive the whole of it.

But to come to the second question. A little reflection is sufficient to show that the "debtor nations" are the poorer to the extent of the increased amount of produce which they have to remit in discharge of their fixed obligations. To them this increase is as real a loss as if it had been destroyed by fire or sunk in the ocean Some compensation they do undoubtedly receive, and at whose expense we shall presently see. I shall certainly not attempt to estimate, except in the roughest manner, the amount of this loss. In 1887 Mr.

Giffen calculated that the interest on British capital invested in foreign and colonial public loans, shares of companies, and bank deposits, was £85,318,000 per annum. No account is here taken of repayments of capital through sinking funds or otherwise, nor, on the other hand, for re-investments abroad of interest or repayments of capital not brought home. So much of the amount as is actually remitted on balance is obviously sent in the shape of the products of industry of the countries from which it is received. If we assume that the net amount remitted is £60,000,000, and that the prices of such products have fallen in value 30 per cent since the average date at which the investments were made, it will appear that the annual loss sustained by the remitting countries, in consequence of the fall of prices, is £18,000,000; that is to say, about nine shillings per head of the population of the United Kingdom. Those who think this estimate too little or too much may increase or lessen it at their pleasure. Whatever the sum may be, it is the gross measure of the gain to the creditor nation, and the gross measure of the loss to the debtor nations.

But the important point to which I desire to draw attention is that the debtor nations are buyers of the products of British industry. To the extent, therefore, that they are compelled

to part with their own productions, in increased quantity, in discharge of debt — and therefore, so to speak, gratuitously — they have less remaining for the purpose of exchange. Their "buying power" is by so much diminished, and they must either take less of our manufactures or must obtain them at lower prices. As a matter of fact, there can be no doubt that they have obtained them at lower prices. This is the compensation just referred to, but it is clearly obtained at the expense of the British industries engaged in producing for foreign markets, and it is one of the causes of depression in these industries, and one which largely accounts for the lessened prices of their products. In short, because of their dependence upon foreign markets, those who are employed in such industries, whether as capitalists or workpeople, have a manifest and very close interest in the fortunes of the debtor countries. That which hurts these hurts the industries engaged in ministering to their wants. It thus appears that the supposed national advantage occasioned by the appreciation of gold, resulting from the fact that a certain number of British citizens have large amounts of capital invested abroad, is one mainly confined to them, and that it brings with it a necessary disadvantage to the industries of this nation. Thus the appreciation of gold, regarded as a factor in national

finance, not only adds to the burden of taxation which must be borne by our industries, but tends also to damage the markets for their products abroad, and to reduce the prices of these products.

I have said, just now, that British national expenditure has not been lessened since the great fall of prices began. It has, in truth, very largely increased. In 1876-1877 it was £76,329,554; in 1892-1893 it reached £90,375,365, and the estimates for 1894-1895 put it at £95,458,000. The sum to be provided has thus augmented by £19,128,446, or more than 25 per cent; and, of course, the real increase in the share of the national production appropriated by the Government is very much greater. Similarly the cost of local administration has been enlarged, even where the amount reckoned in money has not changed.

It may be said that the Government, being a great buyer of commodities, must benefit substantially by the fall of prices, and this fact makes the enlarged expenditure just referred to all the more remarkable. This feature in the relation of the monetary question to that of national finance was discussed at some length by Mr. Goschen, at Liverpool, in January 1887. He recognised the addition to the weight of taxation resulting from the augmented purchasing power of gold, and

declared that reduced expenditure had become necessary, and that it was possible, though admitting the great difficulty of effecting it in an important degree. Summing up his views upon the whole matter, he said, however, that in his opinion the Treasury had much more to gain from the prosperity of industry and trade than from low prices. From this conclusion no one, I imagine, will dissent.

But there is a further consideration. The Government, as representing the nation, is a great debtor. It owes to its creditors, apart from constantly accruing liabilities for current expenses, no less a sum than £671,042,842. Twenty years ago the National Debt was £782,404,954. It has, therefore, been reduced in figures by £111,362,112. But in reality has the debt been reduced at all? Unquestionably it has not. It is, like current taxation, a charge upon the whole of the resources of the country, and mainly upon the fruits of its industry. And if it were to be paid off now, it is obvious, in accordance with the principle laid down at the beginning of this chapter, that a very much larger share of these would have to be appropriated for the purpose than that requisite in 1872-73. The policy of setting aside each year a portion of the revenue for repayment of debt is unquestionably sound; but it ought to be recognised that

every hundred pounds thus appropriated represents a much greater amount of wealth than it did when the debt was contracted, greater even than it did twenty years ago. For such increase there is no compensation arising from the appreciation of the standard unit.

CHAPTER VII

THE METALLIC BASIS OF CREDIT

Credit is trust. When you say to a man, in employing him to carry out a particular enterprise, "I give you credit for sufficient ability," you express your confidence that he has at his command the power and resource required for its accomplishment. You do not mean that he has, there and then, secured possession of all the instruments and means necessary for the successful execution of your purpose, but that he will be able to obtain them in due time. Economic credit is trust in a man's power to command a definite thing —money; not money in the wide signification given to the word in an earlier chapter, for credit itself stands in that larger category, but the money which is alone legal tender, and which, in this country, is ultimately gold. Bank of England notes are legal tender, and since their immediate convertibility into gold is rigidly secured by statute, it is upon the whole stock of such notes and of gold coin

outside the issue department of the Bank that the great fabric of English credit rests. Every one who gives credit expects, whether he thinks of it at the time or not, to have returned to him in due course either in gold, or in that which will command gold, the amount of the credit.

The vast deposits of the banks are credits given to them in the firm confidence that these institutions have it in their power to repay them in gold or Bank of England notes if required. But we know that if they were called upon simultaneously thus to discharge these obligations, they could not do so. They would not be able to pay, in fact, more than about 4d. in the pound. Such a demand is, however, inconceivable, and even if any considerable proportion of the deposits were asked for and obtained, the recipients would not know what to do with the money withdrawn. The very reason for the existence of deposit-banking is that the owners of money find it vastly less risky, troublesome, and expensive to place it in a bank than to keep it themselves. Moreover, banking has become an almost universal habit, and a habit long established is hard to disturb. Even in periods of wild alarm money withdrawn from banks is quickly returned. Confidence, too, begets confidence. There is an instructive story, and a true one, of a scared depositor taking out her money during a panic, and experi-

encing some surprise at its being given to her without hesitation. Waiting for a time near the bank counter, she at length returned the gold coins she had withdrawn, saying, "I see more are paying in than drawing out." The safety of deposit-banking is confidence, and this is partly the result of habit, and partly of the knowledge that anything like wholesale and simultaneous withdrawal is impossible. And the confidence is maintained, although the fact is perfectly well understood that the amount of money in hand or within reach is very small compared with the amount of deposits.

Credit, then, including credit instruments, is the main substance of the business of bankers. They are credit merchants, and the very purpose for which they receive it is that they may employ it profitably in giving it to others who can use it more profitably still. In order to show how very small is the proportion of money dealt in by bankers, I quote the following particulars collected by Mr. G. H. Pownall, showing the average amount of coin, of Bank of England notes, of country bank-notes, and of bills and cheques, in every £100 received by the Manchester banks in the year 1881 :—

Receipts of Manchester Banks in 1881

	£
Coin	6·1
Bank of England notes . . .	13·8
Country Bank-notes . . .	0·1
Cheques and Bills . . .	80·0
	100·0

It thus appears that of every £100 paid into the Manchester banks in 1881, not less than £80, 2s. (including country bank-notes) consisted of credit instruments, and only £6, 2s. was coin. Still more remarkable are the particulars of the receipts of the London banks in the same year, which were also collected and compiled by Mr. Pownall. They are—

Receipts of London Banks in 1881

	£
Coin	·728
Bank of England notes . .	2·039
Cheques and Bills . . .	97·233
	100·000

In London, therefore, of every £100 paid into the banks, the amount of credit instruments was £97, 4s. 8d., whilst only a fraction over 14s. 6d. was in the form of coin. The larger proportion of credit instruments used in London is not a proof that banking is more fully developed there than in

Manchester. It is simply an indication of the difference between the characteristic business of the two cities. In Manchester—an industrial centre—a relatively larger quantity of coin is needed for payment of wages; in London—a great financial centre—the preponderating payments are of a wholesale kind, and are made in cheques or bills. In the smaller towns, and in country districts, it is probable that the proportion of coin to credit instruments is greater than in Manchester. Even there it may safely be affirmed that cheques or bills are chiefly used in the settlement of all but comparatively small transactions including the payment of wages. I am not aware that any statistics similar to these just quoted have been prepared, showing the composition of bankers' receipts at other mercantile and industrial centres, and as my object now is not one requiring exactness, it may be taken as granted that the Manchester figures represent approximately the proportions of coin, Bank of England notes, and credit paper received by banks throughout the country outside London.

Now the practice of keeping a banking account may be assumed to have become almost universal in the United Kingdom even twelve years ago, amongst all classes except those whose incomes consist of wages or small salaries, and that there is not now much room for its extension, except as an

incident in the general growth of trade. We have, therefore, materials sufficiently definite to present a striking picture of the extent to which credit instruments take the place of gold, or of notes secured by gold, in the monetary system of this country. It is important, therefore, to inquire, On what basis does this huge proportion of from 80 to 97 per cent of paper money rest?

The aggregate amount of credit instruments existing at any given time is determined by three considerations. It is enlarged when trade is active, abundant, and profitable, and diminished when it is slow, contracted, and unprofitable. In the former case confidence is strong; in the latter it is weak. Secondly, the amount of these instruments is also dependent upon the volume of the gold and Bank of England note reserve, and especially by that held in the banking department of the Bank. To this reserve is added day by day all gold and notes not elsewhere needed, and from it is taken whatever may be required to supply any extraordinary demand, whether for export or for use at home. The periodical temporary requirements of the Scotch banks always cause a perceptible drop in the quantity of gold held at the central store, unless there should be at the same time an equally large influx. Similarly a momentary increase of demand for coin in any part of the country, either because of an im-

portant local extension of trade, or to provide against an actual or apprehended spasm of distrust, is immediately felt at the Bank of England. And of course any considerable demand for gold to be sent abroad can be supplied only there.

But there is a third and a more subtle influence tending to determine the amount of credit instruments in use. During the last twenty-three years successive new demands of great importance have been made upon the world's supplies of gold, concurrently with a diminished production—diminished on the whole, though latterly increasing. These new demands, which will be specified in a subsequent chapter, have kept alive an almost constant apprehension, the effect of which has been persistent caution in the giving and taking of credit. This dependence of the whole country upon the single reserve held by the Bank of England might be regarded with complete composure, if it were always large enough to meet all likely requirements without falling so low as to create uneasiness. But the Bank is itself a business institution, established, like all others, for the purpose of gain, and, no more than they, can it afford to keep an undue amount of idle money. The principal method used to reduce or prevent an unprofitable accumulation is to lower the rate of discount, and this process tends to "drive gold out of the

country." It is not adopted, of course, without regard to contingencies which may be foreseen, but the main object is to keep as little unemployed money as is compatible with the Bank's own safety, having in view all possible demands upon its stock. And, *vice versâ*, the chief mode of attracting gold hither, in order to strengthen the central reserve, is to raise the rate.

But, again and again, during the last twenty years serious apprehensions have been aroused by the reduction of the reserve towards the danger point, and it may even be said that at no time, during that interval, has there been entire freedom from uneasiness, tacit or expressed, amongst observant monetary authorities. Attention was drawn to the assumed inadequacy of the reserve of gold by Mr. Bagehot in his *Lombard Street*, published in 1873. The main considerations by which he was induced to write this well-known book were the imminent disappearance of the reserve in the panics of 1857 and 1866, and the heavy demands made upon it by Germany during the changes beginning in 1871, by which the monetary system of the newly-founded empire was established on a gold basis. To discuss the remedies proposed by Mr. Bagehot, and those which have been proposed since 1873, including the plan suggested by Mr. Goschen in 1891, would carry me too far away from my pre-

sent purpose, and I only allude to them in order to emphasise the fact that during the last twenty years the conviction has existed in the minds of leading authorities that the reserve of gold upon which the great volume of British credit is built is too narrow to ensure the stability of credit under all circumstances. What has been the consequence? The consequence has been that all persons extensively interested in banking, commercial, and industrial enterprises, including, of course, the directors of the Bank of England, have never ceased to watch, more closely and persistently than they ever did before, the fluctuations in the reserve, and the inward and outward currents of gold to and from the country. And well they might. For since 1871 the available supply of gold in the world has been subjected to new demands on a gigantic scale, the effects of which, direct and indirect, upon our own monetary system could neither be foreseen nor provided against, without constant vigilance and the prompt application of remedies. First came the requirements of Germany in 1871-1874, amounting altogether to about £80,000,000, and following that the absorption of a large amount by Holland, Scandinavia, and Italy, for the purpose of establishing monetary systems based on gold. On 1st January 1879 the United States abandoned the use of inconvertible paper money. In anticipation

of this event, and after its occurrence, a very large amount of gold—certainly not less than £120,000,000—has been retained from the American mines or imported from abroad. Added to these demands are the steadily continuous accumulations of France and Russia, which, within the last twenty years, have taken off great quantities. India, too, has been an important and almost constant absorber of gold during this period.

Enough has now been adduced, I think, to establish a good case in favour of the following propositions:—

(1.) That the monetary system of the United Kingdom, characterised as it is by a vast preponderance of credit instruments based on gold, is peculiarly sensitive to the influences of important changes in the demand for, and supply of, that metal in other countries.

(2.) That the extraordinary requirements of gold abroad during the last twenty-two years, together with the absence of an appreciable increase of supply, have, by keeping alive an almost constant state of apprehension, powerfully restricted the use of credit, including credit instruments.

(3.) That this restriction has had the same effect as a restriction in the volume of money in use, viz. to reduce the prices of merchandise and of real property, to diminish the profits of industry and commerce, and to augment the burdens of the

nation as a whole, and in particular of persons engaged in the production and distribution of wealth.

These propositions I now proceed to support by quotations from the writings of economic authorities of the highest rank, all of whom are, or were when they wrote, in favour of maintaining the present monetary system of this country.

CHAPTER VIII

DECLARATIONS OF LEADING AUTHORITIES UPON THE MOVEMENTS OF GOLD SINCE 1871, AND THEIR EFFECTS

In a paper read before the London Statistical Society on 21st January 1879, and entitled "The Fall of Prices of Commodities in recent Years," Mr. Robert Giffen, after demonstrating that a very great fall in the prices of commodities had occurred since 1873, and that a lower level had been reached than that following the crisis of 1866, proceeded to state the causes of the fall. The first, he said, was the great failures of 1875, and the collapse of credit which followed; the second was the bad home harvests of 1875, 1876, and 1877; and the third, Mr. Giffen described in the following terms:—

A third cause which must be mentioned is the extraordinary demand for gold for the new coinage of Germany, and for the United States on its resumption of specie payments during the last few years. It is a little difficult to consider this point except in connection

with the question of the supply of gold, and any variation in that supply which may have occurred; but what I desire to bring out is that, apart from a permanent diminution of the supply, whether absolutely or in relation to the growing wants of the world, which would necessarily have a permanent effect on prices, extraordinary demands like those referred to would tend to produce a momentarily extreme fall. The reason is that a sudden pressure on the stock of the precious metals at a given period tends to disturb the money markets of the countries using them; makes money dear, or creates a steady apprehension that it may at any moment become dear; and so by weakening the speculation in commodities, and making it really difficult for merchants and traders to hold the stocks they would otherwise hold, contracts business and assists a fall in prices. It is conceivable that after such a pressure the current supply of the metals may again be found sufficient to meet the current demands with prices raised to their former level; but while the pressure lasts prices are low.

Now the extraordinary demands of the last few years —I think I may say eight years, the German lock-up having commenced in 1871—having certainly been of a kind to produce some momentary effect, even on the assumption that the supply of gold, when the pressure is removed, remains sufficient for the wants of the world with prices at their former level. Altogether, during the last six years Germany has coined 84 millions of gold, very little of this being recoinage. The accumulation of gold in the United States, again, principally during the last two years, amounts to about 30 millions sterling, the stock of gold in the country

above what it had been for several years previous having been increased by that amount. These two sums amount to 114 millions, and if we allow for other extraordinary demands, such as that for Holland, which has been substituting a gold for a silver money, and at the same time make deductions for what Germany may have recoined, we may say in round numbers that the extraordinary demands for gold during the last eight years have amounted to 120 millions, or 15 millions a year. As the annual production of gold eight years ago was estimated at from 20 to 22 millions only, and has since rather fallen off, it is quite plain that these extraordinary demands can have left very little for the ordinary wants—the wear and tear of coinage, losses, use in fine arts, and new coinage to correspond with the wants of populations increasing in numbers and wealth.

We come then to the question, whether ordinary demands have continued the same, to which the answer must, of course, be that coincident with the gradually declining supply of gold there must have been an enormous increase of current demands. The increase of population in the gold-using countries alone must have been nearly 50 per cent. In the United Kingdom alone the annual rate of increase has been for long nearly 1 per cent per annum, 0·83 per cent between 1861 and 1871, which gives 28 per cent in thirty years, while in the Australian colonies the rate of increase is of course much greater. Suppose the world's annual supply of gold before 1848, say 6 millions sterling, was quite sufficient to maintain equilibrium then, which I doubt, the natural increment of population before 1848 would make the present usual requirement from

the gold-using communities in existence before 1848, or their descendants, about 9 millions. But the wealth per head has increased enormously. In the paper I read last year on recent accumulations of capital in the United Kingdom, the rate of increase in the ten years ending 1875 was estimated at 27 per cent, and this rate of increase being deduced from the actual rate of increase in the assessments to the income-tax, is not subject to the doubts which may be entertained respecting the totals of the accumulations themselves. Whatever the figures may be at the beginning and end of the period, such has been the rate of increase. Not only, then, must the requirements of gold-using people be increased by 50 per cent, to allow for the natural increment of population, but another 50 per cent must be added for the greater wealth per head. This would further raise the usual requirements, according to the previous 1848 standard, from the above sum of 9 millions, which allows for the increase of population only, to 13½ millions.

Nor is this all. The extension of the area of gold-using countries since 1848, first, by the practical inclusion of France, and next, by the more recent inclusion of Germany and the United States, has no doubt added to the usual demands to an extent it is unnecessary to determine exactly, but at least by several millions. Thus, while during the last thirty years the annual yield of gold has been falling away from its first superabundance, the current demands for the metal have certainly been growing with marvellous rapidity. If there was much need twenty years ago of new channels for new gold supplies to prevent an enormous rise in prices, it is at least possible that more recently the

increasing current demands have been sufficient to use up the diminishing annual supply. So far as we can judge, the point of junction of the two curves must have been at some date within the last ten years, though in such matters precision is of course impossible. In this view the fall of prices in the last ten years has been aggravated by a subtler cause than the extraordinary demands for gold which have existed. These demands have come upon a market which apparently had no surplus to spare. *They have consequently been supplied very largely by a continued pressure upon existing stocks, till an adjustment has at length been made by a contraction of trade and a fall in values.*

It may be said, perhaps, that the usual requirements of gold-using countries have been changed from what they were by the extension of the cheque and Clearing-house system, by the diminished use of gold in the arts, and by similar means. Perhaps there is some diminished use of gold in the arts, but, of course, the only really important question in this matter is the use of gold in coinage, and I should doubt if any great economy in the use of gold has been established in the last thirty years. Excluding Germany and the United States, which have just been added to the number, the principal gold-using countries besides the United Kingdom and its colonies, are France, Portugal, Egypt, and the South American countries; but it would be difficult to show, I think, that the cheque system, or any other system of economising money, has been greatly extended in those countries in the period. In the United Kingdom, again, all the recognised expedients for economising money, especially the cheque and Clearing-house system, seem to have been as fully operative thirty years ago

as they are now. The United Kingdom was very fully "banked" before 1850, the growth of banks and banking business having since been no more than in proportion to the increasing wealth of the community. The circumstances are such, however, that a considerable allowance may be made for the introduction of economising expedients, without altering the fact that the current gold requirements of the world have increased enormously since 1848, while the annual supplies, which threatened an incalculable rise of prices, have been dwindling away.

If the scarcity of gold has as yet contributed very little to our money troubles or the fall in prices, it must, at least, be about to have that effect if no great change comes. Whether such a change is likely to come in the shape of an increased gold supply it will be for geologists and mineralogists to judge; but it is not reassuring to see how little comes practically of the recent gold discoveries in India and the rediscovery in Midian. Whether, on the other hand, change may come in the shape of economising expedients will be a point of no little interest for bankers and all other business men, and for legislators. Considering the slowness with which such expedients become effective when they are first introduced, and the perfection to which they have been brought in countries like England where they are introduced, I feel great doubts whether such relief can come in this way. On the whole, I see no other outlet from the situation than in the gradual adjustment of prices to the relatively small and smaller supply of gold, which must result from the increasing numbers and wealth of the populations of gold-using countries.

Mr. Giffen concludes these observations on the question of the supply of and demand for gold, as it presented itself to his mind in 1879, by saying: "We ought to deprecate any change in silver-using countries in the direction of substituting gold for any part of the silver in use. *It would be nothing short of calamitous to business if another demand for gold like the recent demands for Germany and the United States were now to spring up. Even a much less demand would prove rather a serious affair before many years had elapsed.*"

Six years later—in May 1885—Mr. Giffen pointed, with good reason, to the further drafts upon the gold supplies by the United States, Italy, Holland, and the Scandinavian countries, which had occurred within the interval, together with the continued fall of prices, as a justification of the fears expressed in 1879. His observations upon the manner in which these further demands, as well as the previous one proceeding from Germany, acted upon credit and prices are striking and instructive. He writes:—

The course of the money [loan] market has also been such, I believe, as to indicate a strain upon the supplies of gold. It is sometimes argued that, if gold had been really scarce in the last ten or twelve years, the rate of discount and the interest of money would have been higher than when gold was relatively more abundant.

Consequently, it is said that, as the rate of discount and the rate of money have been lower than they were, the evidence of the money market is that gold has not been scarce. Over long periods, however, the rate of discount and the interest of money do not depend on the scarcity or abundance of "money," using the term in its strict sense, but on the scarcity or abundance of [loanable] capital relative to the demands of borrowers. There may be any conceivable rates of discount and rates of interest for money at any conceivable range of prices for commodities. The way scarcity or abundance of gold would tell upon the money market, would be by producing monetary stringencies and periods of temporary difficulty and discredit, by which perhaps the tendency to inflation in prices at one time would be checked, and the tendency to depression at another would be aggravated. The average rates over the whole period when these stringencies were occurring might be lower than at times when they were fewer, but the mere fact of successive stringencies would help to produce the effect described on prices. Now the course of the money market since 1871, when the German Government began to draw gold from London, has been full of such stringencies. The crises of 1873 and 1875 were, no doubt, precipitated by them, and since 1876, in almost every year except 1879 and 1880, there has been a stringency, of greater or less severity, directly traceable to or aggravated by the extraordinary demands for gold and the difficulty of supplying them.

Looking at all the facts, therefore, it appears impossible to avoid the conclusion, that the recent course of prices, so different from what it was just after the Australian and Californian gold discoveries, is the result

in part of the diminished production and the increased extraordinary demands upon the supply of gold. It is suggested, indeed, that the increase of banking facilities and other economies in the use of gold may have compensated the security. But the answer clearly is that, in the period between 1850 and 1865, and down to 1873, the increase of banking facilities and similar economies was as great relatively to the arrangements existing just before as anything that has taken place since.

The same reply may also be made to the suggestion that the multiplication of commodities accounts for the entire change that has occurred. There is no reason to suppose that the multiplication of commodities relatively to the previous production has proceeded at a greater rate since 1873 than in the twenty years before that. Yet before 1873 prices were rising, notwithstanding the multiplication of commodities; and since that date the tendency has been to decline. The one thing which has changed, therefore, appears to be the supply of gold and the demands upon it; and to that cause largely we must, accordingly, ascribe the change in the course of prices which has occurred.

I quote now from another authority, the late Professor J. E. Thorold Rogers, who, writing in the *Princeton Review* in 1879, before the later and fuller development of the appreciation of gold had taken place, said:—

There is no doubt that prices, profits, and wages are falling in very many industries which have hitherto been prosperous. We will attempt to enumerate the

principal causes which have effected this result. Some of them are local; some are shared by other countries.

The first cause in importance, the most general, and in all probability the most enduring, is the rise in the economical value of gold. The fact has been commented on, with considerable but unequal force, by M. Emile de Laveleye, in a recent number of the *Revue des Deux Mondes*, where he alleges, on good grounds, that the annual produce of this metal is not more than sufficient to cover the annual wear and tear of the currencies. But while the area of civilisation is widening, and, therefore, the demand for an adequate currency is being extended, the most populous state of Europe has abandoned a silver for a gold currency, and has had, as a fruit of its successful war with France, an exceptional power of attracting gold to itself, with singular success indeed, but to the incredible misfortune of its people. Germany has effected a monetary revolution on the grandest scale, and has beggared its own industries, for the rise of prices in Germany during the four years after the war was over was unparalleled. Now, it is perfectly true that when a gradual scarcity in the amount of the metallic currency circulating in any one country occurs, it is to a certain extent possible to resist a general fall in prices by substitutes for the precious metals, especially if the country in which the scarcity occurs is willing to adopt such substitutes with confidence and familiarity. But unless we are to assert that the values of gold and silver do not depend on the demand which exists for them, and the means for supplying that demand, it must follow that a large demand brought to bear on a limited supply will affect the value of these precious

metals, and through them lower prices. Nor do European countries find themselves generally able to circulate the equivalents of a metallic currency to the extent which, for example, England does. The treasure held by the Bank of France is enormous, being nearly equal to its note circulation. It is understood that Germany has a considerable hoard of gold coin and bullion, which for all practical purposes is withdrawn from circulation. But to the general fact that these two countries require a far larger amount of money for purposes of trade than England does — France is supposed to need three times as much—must be added that the political relations of the two countries are so far unsatisfactory as to suggest a further strengthening of their monetary position. Nations do not keep more gold or silver than they need; but they measure their own needs, and sometimes their fears measure their needs for them.

Taking into account the growing intercourse of civilised nations, and particularly the sensitiveness which they feel at any event which may check the activity or derange the machinery of trade and production, it appears that at no time has the drain on the existing stock of gold been so sharp and so rapid as at present. Nor does the proof of the fact depend solely on the phenomenon of lowered prices, or in the fact that the demand for gold has been exceptionally great. It is proved by the decline in the value of silver as compared with gold. The writer has been informed by those who are best competent to give an opinion, that no traceable rise in prices has occurred in those countries which use a silver standard only, and that this is particularly the case in India, where the loss which the

Government incurs arises from the necessity of meeting liabilities due to England in a currency which has increased in costliness by all the difference between the old and the present value of silver as measured by gold. But it will be plain that when the dearness of gold is manifested by a fall in prices, there must be a loss of profits, not only on stocks which have accumulated under the agency of higher prices, but on those parts of a producer's capital which were called into permanent existence while those higher prices ruled, on buildings, plant, and machinery.

It is instructive to notice that the extraordinary perturbations in the movements of gold and their consequences, so fully described in the preceding extracts, were foreseen by so excellent an authority as the *Economist*, which, on 15th February 1873, published an article on "The Future Gold Supply," the concluding one of a series in which "The Gold Question" was discussed at considerable length. It was assumed that the future annual production of gold would be £20,000,000, and the final paragraph of the article runs :—

Our conclusion therefore is, that the better probability of the next few years is an excessive demand for gold compared with the current supply. We have a regular annual demand for £12,000,000, or upwards, leaving an excess of £8,000,000 for any extraordinary demands ; *but one known demand* of this sort [the German] seems likely to take far more than this excess for several years

to come, and there are heavy contingent demands which it is needful to keep in mind. What the result will be it would be needless to speculate. Compensation will, perhaps, be found in a greater economy of existing stocks, as well as in a pressure to produce more, which may have some result. But if the demands continue, and if little can be made of the last expedients suggested, we should rather expect that within the next decade gold will rise in value, instead of continuing the fall which was arrested in 1862—in other words, that the general range of prices is rather more likely to fall during the next ten years than it is to rise. We must again repeat, however, that the point is one on which we have no pretension to dogmatise.

In the report of the Gold and Silver Commission, published in 1888, the question of the effect of a great general fall of prices, which all the Commissioners admit, is dealt with separately by the six gentlemen who were, at that time, known as mono-metallists. This is signed by Lord Herschell, Mr. C. W. Freemantle, Sir John Lubbock, Sir T. H. Farrar, Mr. J. W. Birch, and Mr. Leonard Courtney. Their conclusion is briefly stated in the following extract :—

So far as the fall in prices can be connected with the currency, it cannot be denied that it is attended with great inconveniences.

It must tend to diminish the margin of profit, or even to cause it to disappear altogether, and this necessarily results in an effort on the part of the manu-

facturer to economise the cost of production by reducing the wages of the operatives.

Even if the manufacturers could succeed in reducing wages sufficiently to maintain their former position, this could only be done after considerable struggles and an amount of friction very undesirable.

It is true that real wages depend not on their nominal amount, but on their purchasing power, and that the wage-earning class may be in the same position as before, although they receive lower nominal wages.

But this is not immediately obvious, and does not prevent the disturbance of trade and the ill-feeling which result from an effort to reduce wages.

Further, it seems by no means clear that there has been a fall in the price of all that the wage-earner needs, and upon which his wages are expended, equivalent even to the reduction of wages which has, in fact, taken place.

CHAPTER IX

THE APPRECIATION OF GOLD: COMMERCIAL AND INDUSTRIAL EFFECTS

It is a characteristic of deeply-seated and subtle original forces that their ultimate consequences are wrought out through intermediate agencies, often differing widely in kind and in mode of operation. These agencies are usually palpable enough, whilst the originating cause is, at least for a time, concealed, and therefore ignored. Naturally, then, it is to the intermediate forces that the resulting phenomena are attributed, and if the phenomena are disagreeable or injurious, efforts to remove them are directed rather to the secondary than to the original source. Accordingly, the commercial and industrial effects of the appreciation of gold have been ascribed to over-production of commodities, to increased and intensified protection abroad, to the growth of foreign competition, to the pressure of railway rates, taxation, rents, royalties, and other fixed charges, and to the high cost of labour. In the

current literature of the last twenty years all these have been alleged as reasons for low prices and unremunerative margins, and they were so cited by witnesses before the Royal Commission on the Depression of Trade, which sat in 1887 and 1888. A forecast of these complaints, and of their real cause, was made so far back as in 1871, by the late Mr. Ernest Seyd, whose clear perception of the momentous consequences of the great monetary dislocation then about to begin is very remarkable. He wrote:—

It is a great mistake to suppose that the adoption of the gold valuation by other states besides England will be beneficial. It will only lead to the destruction of the monetary equilibrium hitherto existing, and cause a fall in the value of silver, from which England's trade and the Indian silver valuation will suffer more than all other interests, grievous as the general decline of prosperity all over the world will be. The strong doctrinism existing in England as regards the gold-valuation is so blind, that when the time of depression sets in there will be this special feature. The economical authorities of the country will refuse to listen to the cause here foreshadowed, every possible attempt will be made to prove that the decline of commerce is due to all sorts of causes and irreconcilable matters. The workman and his strikes will be the first convenient target; then speculation and over-trading will have their turn. Later on, when foreign nations have recourse to protection, when a number of other secondary

causes develop themselves, then many would-be wise men will have the opportunity of pointing to specific reasons which, in their eyes, account for the falling off in every branch of trade.

Now, of course, periods of declining prices occurred before 1873, and they were accompanied by complaints such as those which have been common enough during the past twenty years. They occurred after the commercial crises of 1847, 1857, and 1866, and have been described as "post panic periods" by Mr. John Mills, of Manchester, who, in papers upon "Credit Cycles," read before the Statistical Society of that city in 1867 and 1871, set forth with great clearness and force the course of the decennial credit cycle, which until twenty years ago was a constantly recurring feature of British commercial history. But the characteristic of the general downward movements of prices before 1873 was that the course of the decline was always arrested within two or three years, and was succeeded by a recovery, slow perhaps at first, yet sure, and gradually increasing in strength. Within the last twenty years, however, we have witnessed an almost unbroken, though sometimes slow decline of prices, and it is this persistent depreciation, its accompaniments, and consequences, which we have now to examine.

But, first, it is necessary to get as clear a notion

as possible of the extent and the progression of the fall. These have been ascertained over a very wide field, and, on the whole, with greater exactness by Mr. Augustus Sauerbeck than by any other statistician. Mr. Sauerbeck's "index numbers" are calculated from the average annual wholesale prices of the following forty-five commodities:—

English wheat	West India sugar	Jute
American wheat	Java sugar	Wool (Merino)
Flour	Coffee (two sorts)	Wool (English)
Barley	Tea (two sorts)	Silk
Oats	Pig-iron	Hides
Maize	Iron bars	Leather
Potatoes	Copper	Tallow
Rice	Tin	Palm oil
Prime beef	Lead	Olive oil
Middling beef	Coal (London)	Seed oil
Prime mutton	Coal (export)	Petroleum
Middling mutton	American cotton	Soda crystals
Pork	Indian cotton	Nitrate of soda
Bacon	Flax	Indigo
Butter	Hemp	Timber

It must be observed that several of these commodities are in the state in which they pass directly into consumption, whilst others are in the raw or partly manufactured condition. Secondly, they represent nearly all the articles which, either in their existing or in their manufactured form, constitute the materials of trade; and, thirdly, although, owing to their variety, complexity, and constantly

varying character, few manufactures are included, the prices of these would follow approximately, but not always closely, those of the raw materials from which they are made. Finally, some attempt is made, though necessarily a somewhat imperfect one, to allow for the widely different importance of the several commodities, by sometimes taking the prices of two—and in the case of bread materials, of three—descriptions in the same category.

The basis of comparison is the prices of the eleven years, 1867-77 inclusive. These embrace the four years of low prices succeeding the panic of 1866, the three years of rising prices, 1871-73, and the first four years of the great fall which has occurred since 1873. The average prices of the forty-five commodities is represented by the symbol 100, and the variation from this figure, above or below, indicates the average rise or fall from the basis, that of the average prices of the eleven years, 1867-77.

In the following table the first column shows the average level of prices of the forty-five commodities, thus worked out, in each year since 1869. The second represents in like manner the average prices of silver in London. The third and fourth columns, calculated from the first and second, indicate the values of gold and silver respectively, as measured by the forty-five commodities:—

Years.	Average Value in relation to Gold of		Average Value in relation to forty-five Commodities of	
	Forty-five Commodities.	Silver.	Gold.	Silver.
		60·84 = 100.		
1867-77	100	100	100	100
1870	96	99·6	104	103·7
1871	100	99·7	100	99·7
1872	109	99·2	91·7	91
1873	111	97·4	90	88·7
1874	102	95·8	98	93·9
1875	96	93·3	104	97·2
1876	95	86·7	105·2	91·3
1877	94	90·2	106·3	96
1878	87	86·4	115	99·3
1879	83	84·2	120·5	104·4
1880	88	85·9	113·6	97·6
1881	85	85	117·6	100
1882	84	84·9	119·2	101·2
1883	82	83·1	122	101·3
1884	76	83·3	131·5	101·6
1885	72	79·9	139	111
1886	69	74·6	145	108
1887	68	73·3	147	107·7
1888	70	70·4	142·8	100·6
1889	72	70·2	138·8	98·9
1890	72	78·4	138·8	108·9
1891	72	74·1	138·8	102·9
1892	68	65·4	147	96
1893	68	58·3	147	85·7

A careful study of the changes indicated in the foregoing table is essential to a thorough understanding of the monetary problem. In the first column, showing the course of prices of the forty-five commodities as measured by gold, it will be noticed that, in 1870, the level was 4 per cent below the datum line—the average prices of 1867-77. This was the lowest level reached after, and

mainly as a consequence of, the financial crisis of 1866. A reaction then began which was greatly reinforced by the industrial and commercial activity following upon the close of the Franco-German war. The re-establishment of peace, together with the financial stimulus supplied by the payment of the war indemnity, gave an extraordinary impetus to manufactures and trade, particularly in Germany, and the productive resources of this country were called upon for enormous supplies of manufactures of all sorts, and in particular of coal, machinery, iron, and steel, and other instruments required for permanent and reproductive works abroad and at home. The years 1872 and 1873 were, consequently, years of great commercial activity, and in the subsequent fall of prices down to 1879, the effect of reaction from this abnormal period is apparent. But we can only regard this movement as a contributory cause of the decline. For there occurred in 1873 the abandonment of the joint standard, which, by common consent, is regarded as the underlying, if not the most efficient cause. It can hardly be doubted that the reactionary force, whatever may have been its magnitude, had spent itself before the end of 1879, since in the next year a recovery is apparent, and then the downward course is resumed, broken only by the somewhat higher levels of 1888-91.

The fall in the gold price of silver, shown in the second column, though not in close correspondence with that of commodities, is sufficiently approximate to arrest attention, and to warn us against treating the fall in the gold price of silver as a phenomenon to be explained only by considerations affecting the demand for and supply of silver. Still these are occasionally apparent, as, for instance, in the higher level reached in 1890, after the adoption of the United States Silver Purchase Act, which occasioned a new and very large demand for the white metal from the American Treasury, and induced a strong but temporary speculative investment in silver. From this movement a reaction occurred in 1892, and in 1893 silver again declined upon the repeal of the Act of 1890.

The third and fourth columns are very instructive. They represent, respectively, the values of gold and silver as reckoned against the forty-five selected commodities. The persistent and almost steady advance in the value of gold presents a striking contrast with the comparatively unimportant, though not altogether slight variations in that of silver. Unquestionably, however, the inference is justified, that during the last twenty years silver has proved a much more stable standard of value than gold. This conclusion is borne out, too, by statistics of the contemporary course of prices in India.

Other tables of index numbers have been prepared, the best known of which are those of the *Economist*, the very comprehensive one published in Mr. Adolph Soetbeer's *Materials for the Illustration and Criticism of the Currency Question*, published in Berlin in 1886, and Mr. Giffen's calculations of the prices of imports and exports from the official statistics of the foreign trade of the United Kingdom. These differ somewhat from the results brought out by Mr. Sauerbeck, mainly because they are framed upon different bases, but substantially the figures are identical, in so far as they show an almost continuously downward course of prices of commodities during the last twenty years, and the descent to a lower level within the last decade than any previously reached during the present century.

There is no means of determining, with equally approximate exactness, the fall in the prices of real property. This is known, however, to have been very great. I now proceed to discuss the connection between the fall of prices and its various symptoms and consequences, of which so much has been heard for a long time past.

CHAPTER X

THE FALL OF PRICES, THE THEORY OF OVER-PRODUCTION, AND MERCANTILE MENTAL MOODS

THE notion that low prices are a consequence and a symptom of a generally excessive production of commodities is not entertained by those who have made a careful study of economic movements. Very often, however, this notion not unnaturally gains a strong hold upon the minds of men who, smarting from losses occasioned by the depreciation of the commodities which are the subject of their own business, can see no deeper into the causes than that the supply of them has increased, or the demand has fallen off, or that both of these changes have happened. In any case, they say, there is over-production, and with this conclusion they are satisfied, not caring to inquire why the relations of supply and demand have altered with such disagreeable results to themselves. Hearing like complaints and possibly like explanations from others engaged in businesses out-

side their own, they are confirmed in their belief that over-production is general. The lapse of years with a continued downward movement of prices, as well as the diffusion of fuller knowledge and more accurate thinking, have greatly thinned the ranks of those who hold the doctrine of over-production. It is, however, worth while to notice briefly two or three considerations which may be of service to those who are still inclined to entertain it.

In the first place, it must be admitted that in any market there may be temporary over-production. But whenever this state of things occurs, it brings with it the means of correction. The fall of prices discourages supply and encourages demand, and thus the glut is cured. Secondly, since wealth is the necessary result of production and exchange, it follows that the consequence of increased production and exchange is increased wealth, of which, economically speaking, mankind cannot have too much. Temporary over-production is, therefore, an indication either that the machinery of exchange is for a time out of order, or that there has been under-production somewhere of the articles for which the over-produced commodities would, under normal conditions, have been exchanged.

Before dismissing this idea that the depreciation of commodities has been brought about by in-

creased or excessive production, it will be useful to think out rather more fully the course of events in the markets where depreciation has occurred, and the manner in which these events act upon the minds of the men who are daily engaged in the process of determining prices. For, after all, although in any market it is the quantity offered for sale in relation to the quantity demanded which fixes prices, these quantities are themselves controlled by human thought and human will. No one doubts, for example, that the greatly extended area over which gold is now used for monetary purposes, relatively to the supply of it, has had an important share, to say the least, in the lowering of prices. But even if it were possible to settle arithmetically the proportions which the new demands bear to the available supply, including the current receipts from the mines, no decisive issue could be raised until account had been taken of the altered mental moods of business men in all markets, induced by altered circumstances of demand and supply of gold. Amongst these circumstances are the keen disposition to accumulate gold shown by the Governments of France, Germany, and Russia, the preference of Indian hoarders for gold, and the apprehensions so well described by Mr. Giffen in the quotation given in a preceding chapter, which have restricted the use of credit and credit instruments. In this

case there is added to the actual requirements of gold for monetary purposes a vague, though highly potent dread of further requirements of unknown proportions, and doubts of insufficient supply. These act upon the market with all the force of an immediate and imperative demand. In the impressive words of the late Professor Thorold Rogers, already quoted, "Nations do not keep more gold than they need, but they measure their own needs, and sometimes their fears measure their needs for them."

But my immediate purpose is to consider the influence of mental moods in determining prices in falling markets for merchandise. The fact of an enormous and practically an almost uninterrupted decline of general prices in this country, within the last twenty years, is undisputed and indisputable. Now, every man of experience knows that in a falling market the disposition to sell is paramount. No one will hold more than he can help, unless he is looking for a momentary reaction, and when it comes he loses no time in getting rid of what he has bought, even with a very small profit. If it does not come, he still sells, pocketing his loss lest this should become greater. There still exist on the counting-house walls of some old Manchester mercantile firms two coloured prints, which by contrast are meant to convey an impressive practical

lesson. Both are actual portraits of bygone celebrities. One is that of a portly, jocund, and evidently prosperous man, and beneath it is the motto—his own—"Sell and repent." The other is the likeness of a thin, keen, and unhappy-looking man, under which runs the legend, "I'll have my price." These eloquent representations are meant to inculcate the virtue of being a ready seller in a weak market. And they suggest very forcibly the prevailing mental mood of dealers in almost every kind of commodity during the last twenty years.

The effect upon prices of this disposition has been greatly enhanced by a change in methods of business which, though not quite unknown before, is practically a development of the last quarter of a century. I refer to the practice of dealing in contracts for future delivery, which exists in the cotton, grain, and some other branches of commerce. The system has undoubtedly great advantages, notwithstanding the gambling by which it is accompanied. In the cotton industry, for example, it affords to the planter a method of insurance against a fall of prices whilst his crop is growing, and to the spinner a means of securing a prospective supply of raw material at a given price, enabling him to accept contracts for his production of goods without incurring the risk of an intervening rise in the price of cotton. But clearly this system

has had the effect of adding to the actually existing supply in every market, where it has been adopted, a further indefinite quantity. All who have had experience in such markets are aware of the powerful influence which the prices of "futures" have upon those current for commodities actually possessed. And when the long prevailing disposition to sell is borne in mind, it must be obvious that the addition of a prospective supply has substantially assisted the general downward movement of prices.

It may be said that there cannot be sellers without buyers, and that if determined selling has been the rule, it must have been accompanied by a corresponding aversion to buying. That is quite true; but it must be remembered that in every market there are always willing buyers "at a price." The only question in their view is whether or not the price is sufficiently low to induce them to purchase. And since it is the business of manufacturers and merchants to transform and transfer the materials of commerce, they are always in the position of being both buyers and sellers whenever they can see the prospect of a profit. And the consequence of the ruling tendency to anticipate a downward rather than an upward course of prices has been, not to extinguish buyers, but to necessitate the creation of sufficient inducement to buy.

The point of the preceding observations is, that the prevailing mental mood in all commercial markets in gold standard countries has been that of persistent selling, which has greatly accentuated the downward tendency of prices, and that this tendency has been further strengthened by the growth of the system of contracts for future delivery.

It must further be noticed that, notwithstanding the talk which has been heard of over-production and over-supply, the average amount of stocks of commodities existing in the principal markets, during the last twenty years, has been very much less in proportion to the volume of the current trade than those held in the previous twenty years. In some cases, indeed, stocks have been absolutely less. The world's commerce is carried on in a much more hand-to-mouth fashion than it used to be. This remark applies equally to raw products and to manufactures. It is, doubtless, quite true that this change is what we should expect, in view of quickened means of transport. The large reserves of former times are not now necessary. Not the less, however, is the absence of great accumulations an argument against the theory of over-production. At the same time it may be admitted that, so far as the effect upon prices is concerned, over-production acts in precisely the same way as the habit of per-

sistent selling. The two forces are, however, distinctly different as to their origin. The former is a result of mistake; the latter of deliberate calculation, which, when traced to its source, is found to rest upon monetary unsettlement, and a contraction in the volume of money and monetary substitutes in use.

CHAPTER XI

THE FALL OF PRICES AND THE GROWTH OF PROTECTIONISM ABROAD

In the evidence given before the Royal Commission on the Depression of Trade and Industry, the growth of Protectionism in foreign countries, and its outcome in the shape of increased import duties, was frequently referred to as a cause of the prevailing unprofitableness of British industry. British manufactures, it was said, being more heavily taxed, were increasingly excluded, and competing native industries were fostered. The result was restricted markets abroad, loss and diversion of trade and keener competition amongst home producers. There can be no doubt that these complaints were well founded, and, so far as I am aware, no competent writer or speaker on questions of international trade has denied that much injury, more or less enduring, has been done to British industrial and commercial interests by the reactionary tariff policy pursued by several important countries within the

last eighteen years. In France the beginning of the movement may, perhaps, be traced to the financial exigencies arising out of the Franco-German war, and the heavy indemnity paid by France to Germany. In view of the expiration in 1872 of the Anglo-French commercial treaty of 1860, the French Government urged that in negotiating a new one, it would be necessary, for the purposes of obtaining additional revenue, to raise the duties on imports. The Protectionists of France, seizing the opportunity, succeeded, with the countenance of M. Thiers, in securing higher duties. This backward step, though not very great in comparison with those since taken, was the beginning of a similar movement in other European countries which had been previously brought within the operation of the treaty system started in 1860. The customs tariff of Austria was raised in 1877 and 1879; that of Russia in 1877, 1881, and in subsequent years; that of Germany in 1879. France further advanced her import duties in 1882 and in 1892, Spain in 1877, 1882, and again in 1892, Italy in 1882, Greece in 1884, and Switzerland in 1885. A striking characteristic of these strongly Protectionist movements since 1877, is that the plea of low prices, especially of agricultural produce, furnished a powerful support to them. It weighed heavily on the mind of Prince Bismarck

when he used his influence to establish the German tariff of 1879. The argument was that low prices were the result of the competition of imported produce, and the manufacturing and agricultural interests in these countries joined hands in applying what they contended was the proper cure, viz. to restrict importation by the requirement of higher duties from foreign products. In a "Report upon the Monetary Question," prepared in 1885, the Bankers' Union of Paris and the Provinces expressly states that the fall of prices, particularly of grain, was the prime cause of the Protectionist cry which led to the increase of import duties in the tariff of 1882, and blames the French Parliament for having yielded to this cry instead of instituting a thorough inquiry into the real reason for low prices, viz. the abandonment of the joint standard.

I am aware that the various Governments concerned had also in view the increasing of their respective revenues from customs. Unquestionably, however, the idea of raising prices in order to correct the depreciation of commodities which everybody saw, was an important motive in bringing about the retrograde policy.

But, quite apart from actual changes in foreign tariffs, the fall of prices has itself indirectly increased their protective effect. This aspect of the question has hitherto received singularly little attention. Most

of the duties prescribed in these tariffs are specific, that is to say, they are fixed at so much per article or per unit of measurement, weight, or quantity. If, for example, the duty upon a given article worth say ten shillings in 1871, was the equivalent of three shillings in Germany or France, the rate of duty was then 30 per cent. But if the price has since declined to six shillings, the rate of duty has been increased to 50 per cent without any alteration in the tariff. Startling as these merely illustrative figures are, there can be no doubt that actual instances might be adduced, proving that they do not exaggerate the increase of duty which has thus come about. In any case, it is certain that the decline of prices within the last twenty years has greatly and automatically augmented the *ad valorem* equivalents of the old duties.

In two ways, therefore, the fall of prices has raised, cumulatively and enormously, the barriers to the export of British productions to Protectionist countries. And since the manufacturing industries of the United Kingdom are, in a degree far exceeding those of any other nation, employed in producing for foreign markets, it is clear that for us the depreciation of commodities has a serious and even a commanding interest, viewed only as the main instigator and support of renewed Protectionism amongst the Continental nations.

This consideration may well claim the thoughtful study of the friends of Free Trade in all countries. They are often taunted with the fact, which cannot be denied, that the sanguine anticipations of Richard Cobden, and even the more cautious, though not less confident, predictions of Sir Robert Peel have not been justified. The Free Trade movement received two great impulses, the first beginning with the repeal of the English Corn Law, which was quickly followed by the removal of all protective duties, and subsequently, by a complete simplification of the customs tariff under the masterly hand of Mr. Gladstone. How imperative was the need for the reform, and how clearly this was discerned even before the Anti-Corn Law agitation began, may be learnt from a report of a Committee of the House of Commons which was appointed in 1840, on the motion of Mr. Hume, to inquire into the import duties and how far they were imposed for revenue purposes. The Committee said :—

The tariff of the United Kingdom presents neither congruity nor unity of purpose. No general principles seem to have been applied. The tariff often aims at incompatible ends; the duties are sometimes meant to be both productive of revenue and for protection, objects which are frequently inconsistent with each other. Hence they sometimes operate to the complete exclusion of

foreign produce, and in so far no revenue can of course be received; and sometimes, when the duty is inordinately high, the amount of revenue is, in consequence, trifling. They do not make the receipt of revenue the main consideration, but allow that primary object of fiscal regulations to be thwarted by the attempt to protect a great variety of particular interests at the expense of revenue, and of the commercial intercourse with other countries. Whilst the tariff has been made subordinate to many small producing interests at home, by the sacrifice of revenue, in order to support their interest, the same principle of interference is largely applied by the various discriminating duties, to the produce of our colonies, by which exclusive advantages are given to the colonial interests at the expense of the mother country.

This report was the groundwork of the English Free Trade movement, although the precipitating force which gave it momentum was the popular cry for untaxed bread. A feeble endeavour to resuscitate the dead policy of Protection was made in 1849 and 1850, but the task was seen to be as hopeless as that of an attempt to reanimate a corpse, and it has never again been seriously taken up. The adoption of Free Trade in this country occurred at an exceedingly fortunate time. It was almost immediately followed by the great gold discoveries in California and Australia, by a rapid growth of railways and ocean steam navigation, and by a period of international peace. Under the impulse

of these vitalising forces the commerce of the world greatly increased, but our own share of it was unquestionably, and pre-eminently, enlarged by the freeing of our trade from the shackles of monopoly and an antiquated customs tariff.

But the advantage of the Free Trade policy was manifest before the new forces came into being, although their advent tended to obscure it. That is one reason why the advantage was not quickly perceived by other nations. Another was that international Free Trade was an entirely novel idea, in complete opposition to the then received maxims of commercial policy. In the earlier stages of its adoption it was an experiment, and it was not put into practice until every effort had been exhausted to secure the co-operation of other nations. When advocating a bold and unconditional continuance in the enterprise of tariff reform, Sir Robert Peel said: "I have no guarantee to give you that other countries will immediately follow our example. Wearied with our long and unavailing efforts to enter into satisfactory commercial treaties with other nations, we have resolved at length to consult our own interests, and not to punish other countries for the wrong they do us in continuing their high duties upon the importation of our products and manufactures, by continuing high duties ourselves." Sir Robert then went on to show how far, and why, the

steps already taken towards Free Trade had extended British commerce and enlarged the prosperity of the nation, notwithstanding that, since this course had been entered upon, foreign tariffs had been raised against British productions. He added:— "Depend upon it your example will ultimately prevail. When your example could be quoted in favour of restriction, it was quoted largely. When your example can be quoted in favour of relaxation as conducive to your interest, it may perhaps excite in foreign Governments, in foreign Boards of Trade, but little interest or feeling; but the sense of the people, of the great body of consumers will prevail; and, in spite of the desires of the Governments and Board of Trade to raise revenue by restrictive duties, reason and common-sense will induce relaxation of high duties. That is my firm belief."

It is remarkable that the second great impulse towards Free Trade did not come in precisely the way indicated by Sir Robert Peel. Between 1848 and 1860 the other forces, to which I have alluded, came into operation, and in particular the new flow of gold, which not only stimulated commerce and industry in a wonderful manner, but lightened also the burden of taxation. It was, therefore, not from the people that the next move in the direction of untrammelled international trade

came, but from their Governments. I refer, of course, to the initiation of the treaty system by the then ruler of France, under the sagacious counsel of Mr. Cobden. The Governments of other countries quickly followed his lead, and very soon Europe was united by treaty bonds which, at one time, seemed likely to liberate its commerce entirely from the yoke of the Protectionist system. It furnished an object lesson which every one could understand, and in Germany, France, Switzerland, Italy, and other countries, all of which had already solitary and able advocates of Free Trade, opinion in its favour was gradually being formed. Its progress was, however, rudely arrested by the outbreak of the Franco-German war, the heavy cost of which, and of the armed peace which supervened, furnished the occasion and the excuse for a return to a fiscal policy based on Protection. This began in France, and other countries quickly followed the example. Adam Smith wrote:—"There is no art which one Government sooner learns of another than that of draining money from the pockets of the people." Accordingly, when the Government of France, which in 1860 had led the way on the European Continent towards Free Trade, sought in 1872 to increase the revenue by raising the taxes on imports, those of Germany and other states were not disinclined to follow. But neither in France,

nor elsewhere, was the retrograde movement easy, and there is good ground for the opinion that it would not have achieved the success by which it has been attended, but for the enormous and almost uninterrupted fall of prices of the last twenty years.

I have dwelt upon this aspect of the monetary question because its importance has, hitherto, been strangely overlooked by most disputants in current controversies, and because without it, it is impossible to explain the Protectionist reaction in Europe which set in about twenty years ago.

There is a further consideration which must not be disregarded. There can be no doubt that the protected manufacturing industries of the Continent have been exceedingly profitable since the retrograde movement began. Of course, their power of competition with our own in neutral markets has been greatly weakened, except where, as in France, they have been occasionally aided by bounties on exports. But in their own home markets they have enjoyed, in a large degree, immunity from outside competition. These industries have, consequently, been highly prosperous, and no small amount of British capital has found and is still finding its way into them. In Italy, France, Spain, Portugal, Russia, and even in Germany, the extent of British interest in manufacturing industry

is known by those who are conversant with movements of this kind to be, in the aggregate, very considerable, and if a statement could be prepared of British investments in such enterprises its publication would excite a good deal of surprise.

CHAPTER XII

TAXATION, FIXED CHARGES, AND CUSTOMARY PRICES

THE work of investigating the results of an appreciation of gold would be very imperfectly performed if it were confined to those which proceed directly from a fall of prices of commodities and real property. We must take account also of prices which have not fallen. Foremost amongst these is the price of government, national and local. In a previous chapter I have shown that taxation is essentially an appropriation of a share of the products of industry for the purpose of defraying the expense of government, and that the effect of a general and great decline in the prices of these products is the same as if the money amount of the taxes had been greatly increased, even when this remains unaltered. An exact analysis of the several items of national and municipal taxation would reveal, no doubt, some to which this general statement does not apply. But such items are either unimportant, or else they are affected by circumstances tending to counteract any

reduction which has taken place. They may consequently be neglected, so far as my present purpose is concerned, which is to elucidate broadly, yet clearly, the connection between the appreciation of gold and the incidence of taxation upon industry.

The simplest and most easily intelligible example of this connection is presented by the case of an agriculturist farming his own land. Let it be assumed that the cultivated area is 200 acres, that it is entirely employed in wheat growing, and that the production is at the rate of 28 bushels per acre. The entire amount of taxation, national and local, on such a farm would have been in the years 1867-77,—the years furnishing the basis of Mr. Sauerbeck's index numbers,—about £100, and it would be the same now; for although the income tax would at present be somewhat less, the local rates would be more. The present price of wheat is almost exactly one-half of the average of 1867-77. At that time the cultivator could have discharged all annual claims for taxation by the sale of 304 bushels of wheat, leaving 5296 bushels to be disposed of to cover the cost of production and for other purposes. Now, however, the payment of taxes requires that he should part with 608 bushels, and only 4992 bushels would remain. The burden of taxation is therefore, without any alteration in its amount, actually doubled.

In this illustrative example I have selected, for the sake of distinctness and emphasis, an extreme case. But it is not an impossible, nor even an improbable one. And the principle involved in it is applicable to every kind of industry in which the prices of the product have fallen. It is from the sale of these that all the expenses of production are paid; and since taxes constitute a part of these expenses, the demands of the tax-gatherer, if unaltered during a period when the price of the product has diminished, require that a larger quantity than before of the whole production must be sold in order to satisfy them. It is quite true that by lessening the cost of production in some other way the proprietor of the industry may receive compensation, or he may not. With this question I have nothing to do at present, since I am only endeavouring to bring out the fact, which I think must now be quite clear, that an important decline in prices of the products of industry enhances greatly the real weight of taxation even when, as stated in money, this remains unchanged.

Precisely the same principle applies to all fixed and irreducible charges. It is unnecessary, therefore, to explain the manner in which these also have become enhanced within the last twenty years, though remaining nominally unaltered. A mere enumeration of the more prominent of them will suffice to show

how substantial and far-reaching is the effect of their practical increase. They include the principle of all mortgage and other liabilities contracted before or during the fall of prices, and the annual interest, where this has not been adequately reduced; ground rents and royalties; railway and canal charges for carriage; annuities and pensions; fire and life insurance premiums; dock and harbour dues and tolls; postal and telegraph charges, and every kind of fixed payment small or large.

To this list must be added all fees and charges which by custom have acquired the force of legal and unalterable payments, such as the fees of professional men, school and college fees, the prices of newspapers, and of a multitude of minor articles sold by retail in shops, hotels, public-houses, or elsewhere.

In many of these instances, however, if the price has not altered the quality is improved, and the compensation thus brought about is, no doubt, equivalent to a reduction of price. It must also be observed that in a multitude of instances, where fees and other payments are fixed, the recipient is not necessarily benefited. For the most part physicians, lawyers, and other professional men, have had to share in the loss of income experienced by farmers, manufacturers, and merchants in the way of diminished employment. They have had the

benefit of a fixed or "irreducible minimum wage" —to use a phrase well understood in these days— but this has not insured them against a reduced income. The case of fire and life insurance premiums is peculiar. It is hardly possible that the companies can gain anything by the maintenance of premiums, since their old liabilities, constantly maturing, are contracted in terms of gold. Moreover, to the extent that they hold real property, or mortgages upon estates which have greatly fallen in value, they are likely to have sustained losses by the appreciation of gold.

It is obvious, however, that most of the irreducible charges which I have named, as well as taxation, have become practically heavier in consequence of the fall of prices, and that they take from the whole produce of industry and trade a larger share than before. The strong agitation for a reduction of railway rates, which has been a pronounced and almost constant feature in the commercial and industrial history of the past ten years, is a proof that the increased burden has, in this case, been acutely felt; and that in the efforts to reduce the cost of production and distribution these charges have, because of their importance and prominence, received an especial degree of attention. The railway companies may justly plead that they too are sharing some of the increased

burdens which have fallen upon other industrial interests. They are large payers of taxes, they have heavy mortgage or other obligations, carrying a fixed rate of interest, and their dividends are on the whole exceedingly moderate, it may even be said small. But there is this marked difference between them and the proprietors of ordinary industrial enterprises. Their ordinary capital stock upon which the dividends are reckoned is never reduced or adjusted to the real market value of their property, and in not a few cases this has been artificially or adventitiously enhanced in past times by various means well known to those who are at all familiar with railway history. But in a private enterprise, the continuance, year by year, over a long period of an over-valued property would be considered a serious defect. This is, of course, the affair of the companies themselves; but it greatly weakens the plea of low dividends as an objection to a reduction of railway rates. Moreover, in private enterprises competition is perfectly free, and if a new competitor can erect a more efficient rival establishment at reduced cost alongside an old one, he may do so, and cause the old one to become practically valueless. But this kind of competition would not be allowed in the case of railways; and although it might be possible to put down a new line between two given points at less

cost, and to yield a profit with lower freight rates than those charged by the line already existing, this would not be deemed by Parliament a sufficient reason for sanctioning the new work.

The question of railway rates is evidently an involved one. It is clear, however, that their maintenance at old levels imposes upon the industry and commerce of the country a heavier burden because of the fall of prices. A simple illustration, in continuance of that already used with reference to taxation, will make this fact quite plain. The wheat grower cultivating 200 acres, and producing 5600 bushels per annum, sends it by rail to a market, the rate of carriage being 10s. per ton. At the average prices of 1867-77, the cost of conveying this produce to market would have been £75, equivalent to 231 bushels. At the present price the equivalent would be 462 bushels. I have already shown that the practically augmented incidence of taxation would, in such a case, in consequence of the fall of prices, have compelled the surrender of an additional 304 bushels on this account, and we have now to put to them 231 bushels more, making 535 bushels out of a total product of 5600 bushels, or nearly 10 per cent of the whole crop, due not to increased taxation or increased railway charges as reckoned in money, but solely to a fall

in the price of the commodity, which has in fact augmented them. Again I remark that this hypothetical case is an extreme one, but it is neither impossible nor improbable.

It is perhaps unnecessary to state that not all the fixed charges previously enumerated are directly applicable to industry. Many of them, however, do so apply, and to this extent they operate in exactly the same way as taxation and railway rates.

CHAPTER XIII

WAGES, WAGE-EARNERS, AND THE COST OF LIVING

I APPROACH now an exceedingly intricate part of this investigation. How far, and in what ways has the fall of prices affected the rates of wages, the earners of wages, and the cost of living?

It is acknowledged on all sides that, although the increased purchasing power of gold has become manifest in the wholesale merchandise markets, and in the prices of real estate, few very important alterations have yet taken place in the rates of wages. Anything like a precise statement of these changes is unfortunately impossible. In some industries, no doubt, rates of wages have fallen substantially, in others but slightly, or not at all. Hence it has been said that those are not friends of the manual labourer who are looking for a restoration of prosperity by means tending to raise prices. It is assumed that the cost of living has been reduced more than have the earnings of the workman. It is argued, therefore, that whatever

injury the appreciation of gold may have inflicted upon certain classes, it has brought more or less of advantage for the masses. There is so much that is apparently true and forcible in this contention, that it cannot be justly disregarded.

The first point to be noticed is that no adequate notion of the effect produced upon wages, by the disturbance of the standard, can be formed upon a simple consideration of the *rates* of wages whether by piece or by time. These may, on the whole, have suffered no very large reduction, and yet the effect upon the condition of the whole body of workers may be the same as if the rate had fallen greatly. What we have to look at is the aggregate amount paid to wage-earners now in comparison with that paid in more prosperous times, and with the aggregate number to be supported now as well as then. Here, again, the acknowledgment is freely made that the number of the unemployed, or but partially employed, in town and country, has for a long time past been greater than usual, and that the demonstrations made by them and on their behalf, each winter, are good evidence that large numbers of willing labourers can find no profitable work to do. It must also be conceded, that in the textile manufacturing towns the amount of enforced idleness has long been, except pending disputes, wonderfully small, and that during no previous

period of depression of trade and industry has the suffering of the workpeople been relatively so bearable. Official returns undoubtedly show that the pauper list has for some time past been a very heavy one, especially in London, in the purely agricultural districts of Southern and Midland England, in Wales, and in the mineral districts of the North. It is, however, by no means so heavy as in previous periods of bad trade. To what, then, do we owe this comparatively small decline in the rate of wages on the one hand, and, on the other, the comparative limitation of extreme and widespread misery ?

To take the latter question first. It must be observed, that during the past twenty years organisation amongst the wage-earning classes for provident purposes has enormously extended. Trade unions have largely increased the number of their contributors, and it is well known that the funds of these institutions have in recent years been most severely pressed upon by the great numbers of unemployed members who have had to be supported. Then again, the personal savings of workpeople and their families have stood between them and legal poor relief. The increase of pauperism affords, therefore, no adequate measure of the amount of compulsory idleness and loss of earnings. It is obvious, too, that the cheapness of

the commonest necessaries of life has done much to mitigate the poverty resulting from lack of employment. All these considerations serve to show, however, not that the wage-earners have felt lightly the effects of depression of trade, but that in one way or another they have had past accumulations—personal and associated—to fall back upon, and have had also a certain compensation in the prevailing low cost of bare living.

Obviously, moreover, the increased charge upon provident funds owing to want of employment is equivalent to a reduction of earnings. It would, indeed, be exceedingly instructive if some reliable statement could be obtained showing the extent to which trade unions and other societies for mutual aid have been burdened with the cost of maintaining those who are out of work from no fault of their own. Certain it is, that the regular contributions from members of the societies have been substantially increased, in some cases by 50 per cent, and that in numerous instances special levies have been required. It is hardly to be doubted, however, that uncertainty of employment, and knowledge that times were bad, have driven many who were at work to join these societies, and by contributing something from their earnings, to ensure themselves a provision in case of loss of occupation. Thus, whether by the sacrifice

of accumulations or by subscriptions to the unions, or by extra levies, there can be no doubt that the falling off of employment has imposed upon the wage-earning classes, as a whole, a loss which is equivalent to a reduction of wages, in addition to that which has taken place directly.

To come to the other question—Why has the fall in rates of wages been less than that in the prices of commodities in the wholesale markets? To say that this retardation is due to the influence of trade unions is but to offer a partial explanation. The relief of the unemployed afforded by these associations does, of course, tend to sustain wages, because it diminishes the stress of competition amongst labourers. A number of workmen who are impelled by actual want may be driven by competition to labour for reduced payment, and an organisation which prevents them from arriving at this extremity does, without doubt, tend very effectually to uphold the rate of wages. This is from every point of view one of the most useful functions of trade societies in times of temporary depression, and it cannot be denied that, besides saving the public poor funds from a heavy load of liability, it has greatly helped to sustain wages in recent years.

But a second influence tending in the same direction is the unwillingness of employers to

abandon the enterprises in which they are engaged so long as they can save, by continuing them, even a portion of their standing expenses. Nay, further, this unwillingness to cease producing grows, through stress of circumstances, into a determination to secure the largest possible production, in order to reduce to the lowest point the cost of production. And again, the fall in the prices of machinery and plant has of itself stimulated the erection of new works, whilst inventive genius has been strained to the utmost to devise more rapid and more economical modes of manufacture. New cotton spinning-mills, for example, have been erected, or old ones extended, for no other reason than this. But these efforts tending to increase production in unprofitable times tend also, for a while, to increase the demand for labour, and therefore to maintain wages. Thus the very unprofitableness of industrial enterprise, and the fall in prices, have hitherto done much to delay the fall in the rates of wages.

One answer, then, to the contention that the fall of prices has been beneficial to wage-earners is that the partial advantage gained by the latter from the appreciation of gold is illusory or transient. It is illusory, because, as I have shown, the wage-earning classes are in fact suffering indirectly through want of employment and the cost of maintaining the unemployed. It may be added,

that although retail prices of a few absolute necessaries have probably fallen in nearly the same proportion as have wholesale prices, those of many other articles have not, and that, in fact, workmen as well as other people are sustaining the inconvenience of a diminished income without a corresponding reduction in all the items of household and personal expenditure. It may fairly be held, too, that even where the fall of prices has brought some advantage to those who are steadily employed, and whose wages have not been reduced—a comparatively small number—the advantage is not certain to be retained. For a time, no doubt, wages may withstand the downward tendency, through influences previously indicated, and through others of a like temporary nature. But it is hardly possible that rates of wages can permanently escape the consequences of prolonged unprofitable trade and the enlarged purchasing power of money. The economic principle that labour is in this respect like commodities, that its price is subject to the law of supply and demand, every one must admit. And so long as population is increasing, and trade and industry remain unprofitable, it is manifest that forces are at work which must be tending to reduce the rates of wages. The resource from which the earnings of these classes are paid is the whole of the wealth accruing from industrial and com-

mercial enterprise, and although the wage-earners are not the first to suffer from a diminution of this wealth, they must eventually do so.

But here a very important consideration arises. Within the last quarter of a century great changes have taken place in the circumstances and the condition of the wage-earning classes. Education has become universal in this country, the premature employment in industry of the young has been stopped, the sanitary environment has to a large extent been improved, and for the most part the standard of comfort has risen. These changes have tended powerfully to increase the efficiency of labour, and consequently to augment its reward. The extension of trade unions, too, has gone hand in hand with these elevating influences. In any case, then, it was to be expected that the position of the wage-earner would be much more favourable, even in bad times, than that of previous generations in similar circumstances. Physically and mentally the race has advanced, and it would be a strange thing if it had not, for this was the very object of the legislative and other means directed to the improvement of the poorer ranks. It is a sound, and indeed an obvious inference, therefore, that if the acknowledged depressing influence of the monetary dislocation should be removed, and the profits of industrial enterprise become larger, the wage-

earner will secure a full share of the advantage. It is more than likely that the leaders of the trade unions, who have studied the monetary question, are well assured of this principle, since they have, in all instances known to me, declared themselves in favour of the restoration of the joint standard, whenever they have expressed any opinion at all upon the question, even although they believe —perhaps *because* they believe—that it will lead to a rise in general prices.

I cannot well leave this part of my subject without some reference to the two great labour disputes of 1893—those in the cotton-spinning and coal-mining industries. The former began early in November 1892, and terminated in March 1893, after dragging on over twenty weeks. The number of persons directly affected was 50,000, with the families dependent upon them. But many more engaged in weaving and other processes were also thrown out of work in consequence of the scarcity of yarn. The colliery dispute commenced in July and ended in November. In this case from 200,000 to 250,000 men and boys with their families lost their earnings, and widespread interruption of work took place in the iron and steel, and many other industries. In both cases the conflict arose out of a proposal to reduce the rates of wages as a measure of economy enforced by lessened margins; in both,

it was acknowledged that the industry had become unprofitable through the fall of prices. In both, again, it was contended by the representatives of the workpeople that the proper course was to maintain the rate of wages, and to lessen the production in order to raise the prices of the product.

It does not fall within the lines of the present treatise to discuss at length the relative merits of these opposite methods of dealing with a condition of falling prices and unprofitable "margins." These conflicts afford, however, a typical and impressive illustration of the great difficulty of "adjusting" the price of labour to the prices of the commodities into which it enters, whenever a great decline in these prices has occurred. On the part of the workpeople, the contention appears to be that rates of wages must be regarded, like all fixed charges, as determined, so far at least as that they shall not fall beyond a certain limit. If prices fall relatively below this limit, they must be raised by lessening production. *Hence the struggle for the "living wage" is essentially a struggle against low prices of commodities.*

A word must now be said as to the interest in low prices of wage-earners and others as consumers. Everybody is a consumer, and therefore the fall of prices must be regarded, from this point of view, as a benefit to all who have come within the range of

it. In every household where incomes have not diminished and have not been prevented from increasing, the advantage is unquestionable, although it has not affected all branches of expenditure. Even where incomes have been reduced, or where their increase has been checked, the greater purchasing power of money has furnished a certain compensation. The advantage has come, however, by slow and almost imperceptible degrees. For, in the first place, retail prices do not give way so rapidly as do those in the wholesale markets, from which the index numbers previously quoted are compiled; and, secondly, where the commodity is not extensively consumed, or where the retail price is "customary," or out of the range of competition, or where the expense of retailing is relatively heavy, hardly any change has occurred, and possibly may never happen. Moreover, the circumstances, the habits, and the needs of families are so constantly varying, that the gain from the fall of prices is often difficult to detect and still more difficult to calculate.

Broadly, then, it may be affirmed that, whilst the decline of prices has tended to reduce the cost of living, the reduction has come about very slowly, and is certainly not in proportion to the fall in the wholesale markets. And there is good reason why it should not be. Retail prices include not only

the wholesale cost of the commodity, but must cover also the remuneration of the retailer, the expenses of his business establishment, and of carriage; and, in many cases, these constitute a very large share of the price paid by the consumer. It must also be observed that the economy has not extended to all departments of household and personal expenditure.

I have investigated, with some care, the saving of expenditure due to the fall of prices in respect of a family spending 30s. per week, and of one spending £300 per annum. I take for convenience the year 1877 as a starting point, and compare the expenditure then with the expenditure in 1893. The fall in the prices of food products in the wholesale markets within this interval was 30 per cent. In the same interval the decline in the prices of food supplied to the Manchester Infirmary was 26·5 per cent. The food bought by this institution is purchased, however, at almost wholesale prices, and for reasons already adduced the advantage gained by private consumers cannot possibly have been anything like so great. I assume, then, that the fall in the prices of all the food purchased by a family of five persons spending 30s. per week is at the rate of only 18 per cent, in those of clothing 12 per cent, and in rent 7 per cent, and that on other items there has been no saving. The result shows that

such a family has gained upon the whole of its expenditure 12·43 per cent. In the case of a household of five persons and one domestic servant, spending £300 a year, the advantage is proportionately even less. A relatively larger quantity of its food consists of articles and descriptions of which retail prices have fallen less than those entering more extensively into the supplies of an artizan's household. I therefore take the reduction in respect of food at only 15 per cent, and of clothing and rent at 10 per cent. In this way the total gain from the decline of prices enjoyed by a family spending £300 per annum appears to be not more than 7·53 per cent. But Mr. Sauerbeck's index numbers show that wholesale prices of commodities generally were, in 1893, 27·66 per cent lower than in 1877, and 32 per cent lower than in the eleven years 1867-77.

There appears to me, then, to be substantial ground for the conclusion that the proportion of saving in expenditure realised by the great bulk of the people in this country is not more than from one-third to one-half of the proportion in which wholesale prices have declined within the last eighteen or twenty years. The reasons for this arrest of benefit I have already dwelt upon. The investigation does not, indeed, lead to the inference that the masses of the people have no interest in

low wholesale prices, but it certainly affords ground for something more than doubt as to the extent of the benefit, and as to the balance of advantage, when all its attendant circumstances are taken into account.

I wish to add that I have read this chapter to one of the best-informed trade union officials in the North of England, who cordially endorses its statements, especially those referring to the losses incurred by wage-earners from irregular employment, and from increased contributions to the funds of the unions, consequent upon enlarged claims for the support of the disemployed. He also thinks that my estimate of the saving, from lessened cost of living, in the expenditure of a workman's family is substantially correct.

CHAPTER XIV

TRADE BETWEEN GOLD AND SILVER STANDARD COUNTRIES

It has been shown, in a preceding chapter, that the Joint Standard was, in fact, up to 1873, the common standard of value throughout the civilised world, except where the circulation consisted of inconvertible paper money. In some countries the legal tender unit was of silver, in others of gold and silver, and in others of gold. Since, however, the relative values of the two metals were equalised by the action of the mint laws of the Latin Union, there was no greater variation in the rates of exchange between any two of the three classes of countries than those which occurred, or might have occurred, between any two of the same class. Although, therefore, such variations were constantly arising, and were matters of interest and computation amongst international bankers and financiers, they attracted little attention outside these groups.

But soon after the "curious mechanism," the

"equalising machine," of the Latin Union—as Mr. Bagehot called it—was done away with, a new page of commercial history was begun. At first no one knew what to make of the extraordinary and persistent fall in the gold value of silver, and the concurrent and proportionate fall in the exchanges with the silver standard countries of the East—India, China, and the rest. Few persons thought of looking anywhere for the cause of the fall except to the demonetising of silver in Germany, and the increased production of silver in the United States. Accordingly, when the subject was brought under the notice of the House of Commons early in 1876, a Committee was appointed to "consider and report upon the causes of *the depreciation of the price of silver*, and the effects of such depreciation upon the exchange between India and England."

The report of the Committee was presented in July, the investigation having occupied less than four months. During this short interval a large amount of information was brought together, but this was inconclusive upon several important points. Mr. Goschen, the chairman of the Committee, was consequently able to do little more than digest and put in order the material facts elicited by the inquiry. The report attracted, however, marked attention everywhere, partly because of its ability and the freshness of the intelligence conveyed, and

partly because of the fact that whilst the Committee was sitting, the fall in the gold price of silver was going on at an alarming pace. In 1872, the average price of silver in London was $60\frac{5}{16}$d. per ounce; in 1873, $59\frac{1}{4}$d.; in 1874, $58\frac{5}{16}$d.; and in 1875, $56\frac{7}{8}$d. From 56d., the quotation at the end of 1875, the price fell to $46\frac{3}{4}$d. in July 1876, from which there was a rapid and sustained recovery. It was evident, indeed, that the extraordinary decline of the earlier part of the year was the product of uncertainty and groundless fear of a deluge of supply,—a fear which the publication of Mr. Goschen's report did much to remove.

Some wholesome observations of Mr. Bagehot upon the currency question as it presented itself when the report appeared, are worth reproducing here. He wrote :—

Now, from full information, we see the nature of the evil from which we are suffering. We are not suffering from a depreciation of silver as against commodities, in the countries where silver is the standard of value, for there is no supply sufficient to produce such a depreciation, nor time, if there had been such a supply, to diffuse it, and there is no such depreciation in fact. We are not suffering from a depreciation of silver as against gold, caused by a sudden excess in the supply of silver, for the new supplies of silver have been only moderate, and none of them have come here. We are not suffering from a depreciation of silver as against

gold, caused by a diminution in the cost of production of silver, for there has been no time, nor anything approaching to time, to say what the ultimate cost of production will be. No doubt certain mines of singular fertility have been discovered, but it is not silver produced in the best mine which determines the price of silver, as a whole, any more than it is the corn grown on the best land which determines the price of corn as a whole. That which does determine it is the cost of production in the worst mine which can maintain itself in working. The producer in the least favourable circumstances always fixes the price. Those in better circumstances take that price and get an extra profit. What we are suffering from is the apprehension of increased production of silver suddenly supervening on a market previously perturbed, upon which one Government [Germany] had forced an extra supply, from which a union of other Governments [the Latin Union] had refused to take, as usual, any supply, and in which another Government [Great Britain] by the increase of the tribute it requires from a silver importing country [India] has temporarily, if not permanently lessened the demand.

I have quoted this extract because it shows that Mr. Bagehot was very near the discovery, in the summer of 1876, that the real change lying at the root of the currency disturbance—then only in its early stages—was an increase in the purchasing power of gold, not a decrease in that of silver.

But the point to which I wish now to draw attention is that the fall in the gold price of silver

in 1875-76, and the appointment of the House of Commons Committee on silver, were the means of compelling merchants trading with silver standard countries, as well as statesmen, economists, and others, to study closely for the first time the greatly altered conditions of commerce between gold and silver standard countries, as manifested in the violent fluctuations of the rates of exchange. A new and very embarrassing element of uncertainty was brought into the trading relationships between, for example, England on the one hand and India on the other. Means of removing, to a great extent, this new risk, were found after a time through the machinery of the Exchange banks. The nature of the uncertainty and the method by which these institutions were enabled largely to correct it, may be best shown by an illustrative case.

An English merchant is engaged in exporting manufactures to India, either on his own account, or for account of a correspondent in the East, or for their joint account. Twenty years ago neither of them, in making his calculations, would have thought any more about the rate of exchange between the gold money paid for the goods in England, and the silver money for which they were destined to be sold in India, than do two merchants in England and Germany, both gold standard

countries, at the present time. But the serious fall in the gold price of silver, or, what is the same thing, the serious rise in the silver price of gold, which became apparent in 1875, was the occasion of very heavy losses upon transactions affording at the time that they were entered into the prospect of profit. Such prospective profit was, however, converted into loss, not by alterations in the prices at which the goods were sold in India, but by the process of exchanging the silver money received there for gold money here. These losses were aggravated, in some instances, in that of the Straits Settlements for example, by the fact that imports from England were sold upon long credits. The importer, or his English correspondent, found himself, consequently, after a fall in the rate of exchange, a heavy loser, not only upon current consignments, but also upon those previously sold and not paid for, and thus very large sums were swept away by an unexpected monetary change of which neither the cause nor the termination could be seen.

One of the first steps taken to prevent the continuance of liability to such disasters was to institute the system of prompt payment for imports in the silver standard countries, and this alteration may be noted by the way as a part of that tendency to extinguish credit previously dwelt upon, which is a

product of the great monetary disturbance. It must be observed, too, that another change, resulting partly from this cause, and partly from the extension of long distance telegraphs, was that the practice of exporting goods from this country on account of the exporter gave place very extensively to a method by which they were bought, out and out, here by the importer or the distributor in the markets to which they were sent. But the prominent feature in this system was that before the goods were despatched from England, contracts were entered into with the international banks, by which the rate of exchange was fixed beforehand. An insurance against a disturbance of calculations by future changes in the relative values of silver and gold was thus effected.

In the supposed case, the English merchant sells to his Indian correspondent goods of specified description, amounting altogether to say £3000, to be shipped in three monthly instalments. He immediately enters into a contract with an exchange bank, to deliver to it drafts on India for £1000 per month at specified rates per rupee, thus freeing himself and his correspondent in India against the risk of loss from a future fall in the rate of exchange. At the times specified the bank receives the bills, drawn in rupees at the agreed rate, and accompanied, as security, by the shipping documents, which give the

bank a lien upon the goods. The bills are forwarded to the branch of the bank at the port of destination, where the amounts are collected from the importer. But, so far, the risk of fluctuation in the rate of exchange is merely transferred from the merchant to the banker. How does *he* get rid of it? By the purchase, at the Indian port, of bills drawn on England against shipments of produce. These, too, are bought, under contracts, at specified rates of exchange, and paid for by means of the rupees collected for outward bills. The homeward bills, with the shipping papers, are forwarded to England, and their amounts in sterling, when received from the importers of the produce here, furnish the funds employed in buying the outward bills first described. Care is taken by the banks that these opposite transactions shall approximately balance each other, and thus the circuit of insurance is completed. The loss resulting from a fall or a rise in the rates of exchange on the current of bills inward or outward, is thus balanced by the profit, contemporaneously realised, upon those passing in the contrary direction.

Apart, then, from the very great losses incurred before this method of insurance against great fluctuations in the rates of exchange between gold and silver standard countries came into operation, it may be said, with perfect truth, that in so far as

it has been possible to maintain it, no very serious *commercial* trouble has arisen from the long-continued fall in the gold price of silver. In the trade with India the system has, on the whole, worked well; but in that with China, and still more in the trade with the smaller silver standard markets, it has not been found completely practicable, for reasons which I need not now stop to explain. In a very great degree, however, the purely mercantile derangement and loss occasioned by the monetary dislocation have been eliminated in the trade between gold and silver standard countries.

We must now proceed a step further. We must inquire, what has been the effect upon the prices of commodities in the gold countries of the monetary change in question? This effect is quite separate from, and additional to, that described in preceding chapters. It is an effect produced *through the medium of the exchanges*, and since it is held by some respected authorities to be of little weight, the question must be examined somewhat minutely.

It is contended, on the one hand, that the fall in the gold price of silver has in this way tended powerfully to depress the prices of commodities in gold standard countries, and consequently in the United Kingdom, whilst it has altered very little those in the silver standard countries. This is especially conspicuous, it is said, in respect of com-

modities which are the subjects of trade between the two classes of markets, although the consequence is by no means confined to such commodities. Two examples—one drawn from the export and the other from the import branch of British commerce with India—will suffice to illustrate this influence of falling Indian exchanges upon prices at home.

A Manchester merchant has sold, let us suppose, to his correspondent at Calcutta, 5000 pieces of a certain description of cotton goods at 5 rupees per piece, the rate of exchange being 1s. 6d. per rupee. The English equivalent is 7s. 6d. per piece. The next day he receives from Calcutta a second order for the same description at the same rupee price. Meanwhile the rate of exchange has dropped to 1s. 5½d. per rupee, and the equivalent now is only 7s. 3½d. Freights and other charges remaining unaltered, he finds that he can make another purchase only by buying the goods at 2½d. per piece less than before, and accordingly he goes into the market with a reduced "limit." The manufacturer of the goods, seeing no reason why he should accept a lower price, refuses the offer. The Calcutta buyer is willing to pay exactly the same price in his own money as before; the Manchester manufacturer is willing to accept the same in *his* money, but no business can be done. The question then is, how is the difference to be got rid of? Is the Calcutta man to pay more

or the Manchester man to accept less? Neither sees any reason, in the conditions of his own business, to give way. This typical case represents the circumstances of the whole export trade to silver standard countries at such a moment. It represents, too, the circumstances of such trade at each stage in the downward course of the exchanges with the silver countries during the past twenty years. As a matter of fact, the prevailing result has been a fall in English prices equivalent to the fall in the rate of exchange. The English producer has had to bear the consequences of it.

But it is contended by some that this result is mainly due to other causes, and not to the fall in exchange. If the question be asked, Why should the "higgling" of the market, after each successive drop in the rate of exchange, have told almost constantly against the producer of exports? two answers may be given. One is that the demand has fallen below the supply; the other is that the purchasing power of gold has increased, whilst that of silver has altered very little. The answers are distinct, but they are not contradictory, and both are correct. "Supply" and "demand" are always conditioned by price. In every market there is, at a given time, an enlarged potential demand at a lower price, or an enlarged potential supply at a higher one, and at the actual price, demand and supply are equal.

In the supposed case, the price when the first order was executed was 7s. 6d. per piece, and the demand at that price was just equal to the supply. On the next day the demand in Manchester at that price had entirely ceased, although the buyer in Calcutta was still willing to go on purchasing at the same price in rupees as before, and the Manchester manufacturer was willing to go on selling at the same price in sterling as before. The conditions of demand in Calcutta have not altered, nor have the conditions of supply in Manchester. What has happened is an alteration in the relative values of the money current in one place and that current in the other, and a trial of endurance ensues in order to determine who is to bear the loss consequent upon the fact that 5 rupees have now become equivalent to only 7s. 3½d. instead of 7s. 6d. As a matter of fact, we know that the English producer has usually had to bear the loss, but what we have to ascertain is how it is that he has been compelled to do so.

In considering this question we must go back to the general conditions which have attended the markets in the gold standard countries since the monetary disturbance began,—conditions so well described by Mr. Giffen and Professor Thorold Rogers in the passages quoted in a previous chapter. These are uncertainty and apprehension as to the supply

of gold in relation to the requirements of it, perturbation and unsettlement in the commercial markets, caution in the giving and receiving of credit, and a general lack of confidence in the maintenance of prices. These symptoms have necessarily been accompanied by a prevailing disposition to sell, and an unwillingness to hold stocks of commodities. In most markets the persistent seller has come off better than the persevering stickler for full prices. It is not surprising then that, living in an atmosphere of this kind, the endurance of the English producer in the contest with the Indian buyer over the question of who is to bear the brunt of the fall in exchange, has generally proved less effective than that of the latter.

Other circumstances supporting this view may be named. The frequency with which falling Eastern exchanges have been quickly followed by a decline in the English prices of goods exported to Eastern markets has created a bias of expectancy, powerfully reinforcing the determination to sell, and inclining manufacturers to anticipate a fall of prices following quickly upon a fall in exchange. Again, the change in the method of conducting the export business, already described, has strengthened the Indian buyer in his resistance to an upward movement of rupee prices, in order to compensate a fall in exchange. The system of buying imports for future arrival at

the Indian ports places the importer in the position of having always an assured provision in prospect, enabling him to hold off for a time.

We are now taking account of motives acting upon the minds, respectively, of the producer in England and the buyer for distribution in India. Every man of experience in any market knows well how powerful, and, at times, how irresistible are such influences. Demand and supply are, of course, the controlling factors, but no examination of important movements of prices can be regarded as satisfactory or complete which does not take account of the mental moods, the opinions, the expectations, the hopes and the fears of those who, as buyers and sellers, are the makers of prices, because it is they, acting under one or more of these varied moods, who determine the volume of the current demand and supply.

I take next an illustration of the effect of a fall in Eastern exchange upon the gold prices of commodities which are exported from India to England. A London importer receives, by telegraph, from his correspondent at Bombay, an offer of 3000 quarters of wheat, at a price, in rupees, which will enable him to sell them with a profit at 30s. per quarter. The wheat market in London being at that moment steady, but not active, he is enabled to dispose of only 1000 quarters at that price, although he re-

ceives bids for the remaining 2000 quarters at 29s. per quarter. In the course of the day he learns that the Indian exchange, that is to say, the gold value of the rupee, has fallen sufficiently to enable him to accept the offers at 29s. per quarter without lessening his profit, and yet to give his Bombay correspondent the required price in rupees. He accordingly sells the 2000 quarters at 1s. per quarter less than the price he had been able to obtain a short time before. Other dealers in Indian wheat act in like manner. In such a market it is exceedingly likely that the prices of all wheats with which that of India competes will also fall; but in any case they cannot fail to be powerfully affected, and the alteration will be the result simply of a decrease in the rate of exchange between silver and gold money. I have purposely selected the case of an inactive market in order to bring out the more clearly the effect of falling exchange upon gold prices. Markets are not, of course, always in this condition, and if, in the supposed instance, there had been other tendencies going to strengthen the position of sellers, the price obtained for the 2000 quarters would not have been so low as 29s. per quarter. But the essential fact is that, whatever the state of the market, the "supply at a price" is increased by a fall of the Indian exchanges.

It may be said, indeed, that India is not the

principal source of our supply of foreign wheat, and that the circumstances I have been describing cannot have a controlling influence over the general course of prices. The Indian supply of foreign wheat to this country is, however, second in importance only to that of the United States. Moreover, in all markets which are in an inactive or indeterminate condition, it is the keenest sellers—not necessarily the largest—who settle the course of prices, and, as we have seen, a fall in Eastern exchange tends instantly to create keen and energetic sellers of Indian wheat.

The point of the foregoing observations is, not that the fall in exchange during the last twenty years has been the sole or even a continuously operating factor in bringing about a decline in the prices of imports from silver standard countries, but that at each stage of the fall it has exercised a powerful, and at times an exceedingly effective influence in that direction. And the same remark applies to the downward movement in the prices of commodities exported from the gold to the silver standard markets.

The tendency of the depreciation of silver in relation to gold to lower the prices of commodities in gold standard countries, through the action of the exchanges, is not often denied, and it is admitted by the "monometallist" members of the Gold and

Silver Commission. They do not, indeed, allow that its effect has been very great, and make no attempt to estimate it. On the other hand, those who have had to bear the brunt of the fall in prices, and whose experience has compelled them to study closely the course of prices in the markets where they are daily engaged, and their connection with fluctuations in the exchanges, are, for the most part, strongly impressed with the idea that this tendency has all along been of momentous importance. The undetermined factor in this question is, in short, simply the extent to which the fall of exchange has depressed prices in gold standard countries, not the reality of its influence. That the fall does stimulate exports of commodities from, and discourage imports to, the silver standard countries, is commonly believed. Necessarily, therefore, agreement with this principle carries with it agreement with the principle that the fall in exchange increases the supply of commodities in the gold countries, by the double operation of augmenting imports of some descriptions and lessening exports of others. And, of course, the conclusion follows that such increase of supply must tend to drive down prices of commodities where gold is the standard of value.

But there is a further question arising out of the foregoing observations. If the consequence of the monetary disturbance has been to stimulate

exports from silver standard countries, has it not given to producers there—agricultural and manufacturing alike—an advantage over their competitors amongst the gold standard nations? This point has been much discussed within the last ten years, and it was the subject of careful and minute examination in the year 1888 by the Board of Directors of the Manchester Chamber of Commerce. The circumstances then investigated referred to the prodigious growth of the cotton spinning industry in India since 1873. The inquiry was undertaken in compliance with the following resolution, passed at a general meeting of the members of the Chamber held on 31st October 1887:—

In view of the recent very rapid increase of cotton spinning in India, and the exports of yarn therefrom, more especially to China and Japan, while at the same time there has been a very serious check to the growth of Lancashire yarn exports to those countries, the Directors are requested to examine and report to a special meeting of the Chamber as to the causes and circumstances which have thus enabled Bombay spinners to supersede those of Lancashire.

The inquiry began in January 1888, and was continued until the beginning of July, by a Committee of the whole Board. The Committee being unable to arrive at a unanimous conclusion, two

Reports were prepared, one of which was adopted by a majority of 10 votes to 7. The following is a copy of this Report:—

The Committee, having held twenty-three meetings, and examined numerous well-informed witnesses, report as follows:—

I. The principal circumstance that has favoured the rapid increase of mills in India, and enabled them to a great extent to supply China and Japan with yarns which formerly were shipped from Lancashire, is their geographical position, which to-day gives them an advantage of at least $\frac{3}{4}$d. per pound on the portion of their output that is shipped to China and Japan, and $\frac{13}{16}$d. to $\frac{7}{8}$d. per pound on what is consumed in India itself. This is an estimate of the net advantage to the Indian spinner over his rival in England, arising from his proximity to the cotton-fields on the one hand, and to the consuming markets on the other; after allowing for his extra outlay for machinery, and consequently enhanced interest and depreciation, as well as greater expenditure in such items as imported coals, stores, etc.

II. Superadded to the geographical advantage which it enjoys, the Indian spinning industry, it will be remembered, was for a long time fostered by the import duty of $3\frac{1}{2}$ per cent levied on English yarn, which equalled about 7 per cent per annum on the capital invested in the mills. This so assisted in stimulating the trade, that more mills were built than could profitably be employed, as shown by a fall of nearly 40 per cent, on the average, in the shares of nineteen principal mills in Bombay during the six months ending March 1885, and at the end of that year thirty-

five out of fifty-two mills paid no dividend. It cannot be doubted that Indian spun yarns, being thus thrown on the Eastern markets below cost price, had a further powerful influence in the direction of displacing English coarse yarns, and the former having practically gained a monopoly, the newest and best-appointed mills in Bombay are now earning very large profits, and, as might be expected, many new mills are in course of erection there.

III. The Committee have further had under consideration whether amongst the "causes and circumstances" that, as expressed in the resolution, have "enabled Bombay spinners to supersede those of Lancashire," the fall in the value of silver has had any important part. The advantage derived from this cause cannot extend to the main items of the cost of erecting and working mills, namely, machinery, cotton, coals, and imported stores, as the outlay on these in rupees increases in precise ratio to the fall in the gold value of silver; but wages, local taxation, and perhaps other small items, are not immediately affected by that fall, and whilst the process of adjustment is incomplete, the Bombay spinner is advantaged. The advantage thus accruing to him has been represented by one witness as ·30d. per lb., and by another as ·51d., that is, on the assumption that no adjustment has taken place as between wages, etc., paid in silver in Bombay, and in gold in Lancashire, since exchange was at 24d., viz. in 1872. But then, it is also in evidence before the Committee, that at the earlier period just referred to, freight and all other charges incidental to the transport of cotton and of yarns were much higher, viz. 2·175d. then as against 1·060d. now, or, to put

the case precisely, the Bombay spinner, after paying the then higher rates of freight and other transport charges on his machinery, coals, etc., had a greater net advantage in such charges on cotton and yarn, in competing with Lancashire, than he possesses to-day by ·99d., which it will be seen is more than double the benefit set down above as having accrued to him on the items of wages, etc., during the fall in exchange.

Accordingly, as might be expected, it has been shown in evidence that the most important and sudden expansion of the new industry took place in Bombay when these high transport charges were current, and whilst exchange still remained at about the par of 24d.; whereas, during many subsequent years almost no further extension took place, although exchange the while fell rapidly. It may even be added that so great were the advantages enjoyed by the Bombay spinner over his rival in Lancashire at the time referred to, that he was able to initiate, viz. in 1871-5, the competition with him which has since proved so formidable in the neutral markets of China and Japan, although he had then to pay the Indian Government an export duty of 3 per cent, from which the Lancashire spinner was, of course, exempt.

The Committee do not overlook the fact that the Indian spinner escapes the embarrassment to which his English competitor is subject, consequent on sudden fluctuations in the gold value of silver; but they are of opinion that apart from any benefit he has in this respect, or may derive from a low value of the rupee, the natural advantages that he has all along enjoyed, as set forth above, are sufficient to account for his having been able to obtain a virtual monopoly of the

Eastern markets, as far as coarse yarns produced from Indian-grown cotton are concerned.

The Report of the minority, signed by nine directors, runs as follows:—

In prosecuting the inquiry prescribed by the resolution of the Chamber, the Board deemed it necessary to ascertain, in the first place, the present cost of spinning No. 20s. bundled mule yarn in Bombay and in Lancashire, converting the Bombay figures into sterling at the rate of 17d. per rupee. The extent to which the competition between the Bombay and the Lancashire spinner is affected by their respective geographical positions was then considered. The next step was to determine how far the divergence between the values of silver and gold *inter se*, which has been going on during the last fourteen years, has imposed upon the Lancashire spinner a relative disadvantage when competing with the Bombay spinner in the yarn markets of India and China. Finally, the history of the Bombay cotton spinning industry was investigated for the purpose of ascertaining the effect of any other changes which may have tended to encourage the export of Bombay yarn to China.

The Cost of Spinning.—The evidence presented to the Board upon the present cost of spinning in Bombay and Lancashire varies considerably. It shows, however, when the Bombay figures are converted into sterling, at the rate of 17d. per rupee, that in Lancashire true 20s. bundled mule yarn is produced at a cost of from ·25d. to ·45d. per lb. less than it is in Bombay, notwithstanding that the hours of working in Bombay are 80 per week, whilst in Lancashire they are only 56½ per week.

Geographical Considerations.—The Bombay spinner incurs no appreciable expense in the carriage of cotton or yarn from or to the local markets for these commodities. His Lancashire competitor is burdened, however, with an addition of ·54d. per lb. to the cost of his raw material—that being the amount required to cover the expense of transmission from Bombay to Liverpool, and the selling charges there. The yarn he produces has also to bear a heavier rate of freight to China than has that of the Bombay spinner. When shipped to Bombay, it is obvious that the whole of the cost of conveyance from Manchester to Bombay is an extra charge from which the Bombay spinner is exempt. These relative disadvantages falling on the Lancashire producer are shown in the following tables:—

On 20s. Yarn shipped to India

	Per lb. d.
Cost of bringing cotton from Bombay to Liverpool—say of 1·17 lb. of cotton required for 1 lb. of yarn	·54
Cost of taking yarn from Manchester to Bombay	·49
	1·03

On 20s. Yarn shipped to China

Cost of bringing cotton from Bombay to Liverpool, as above	·54
Cost of taking yarn from Manchester to China	·50
	1·04
Less cost of taking yarn from Bombay to China	·35
	·69

It appears, then, that owing to the greater distance of the Lancashire spinner from the Indian cotton market, and from the yarn markets of Bombay and China, he incurs an expense greater than that borne by his Bombay competitor,—reckoning the latter at the reduced rate of exchange of 17d. per rupee,—of 1·03d. per lb. when selling 20s. yarn in the Indian, and of ·69d. per lb. when selling it in the China market. In the year 1872, the cost of bringing cotton from Bombay to Liverpool was 1·392d. per lb., and of taking yarn from Manchester to Bombay ·985d. per lb., the two items added together making 2·377d. per lb. Within the last sixteen years, therefore, the disadvantage falling upon the Lancashire spinner when competing with the Bombay spinner in the Bombay market, and arising from geographical considerations, has diminished to the extent of 1·345d. per lb., or upwards of 56 per cent.

Effect of the Fall in the Value of Silver as measured in Gold.—For the purposes of this inquiry it has been assumed that the current value of the rupee as measured in gold, that is to say, the current rate of Indian exchange, is 17d., and that the normal rate, prior to 1873, was 24d. In considering the effect of this fall in exchange, it is necessary to keep in view the monetary conditions under which the Bombay and the Lancashire producer respectively carry out their operations. The outlay of the former in producing his yarn is made in silver money, and he gets his returns for the yarn he sells in India or China in the same kind of money. The variations of exchange in his case, therefore, make no difference to him as regards his returns. In the case of the Lancashire producer, however, the outlay upon production is all made in gold money, as well as

the greater part of the cost of transporting cotton and yarn, while his returns for yarn sold in India and China are in silver money, which on being remitted to him, yields a reduced sterling amount at every stage of the fall in the gold value of the rupee, and of the silver dollar. Momentarily, the whole of the loss thus arising from a decline in Eastern exchange constitutes a relative disadvantage to the Lancashire spinner. Subsequently, however, portions of this relative disadvantage are removed by an adjustment of the prices of cotton and some other requisites of spinning, as between India and England. It becomes necessary, therefore, to analyse the items of the cost of production, in order to determine the ultimate net effect of a fall in exchange upon the relative positions of the two competitors. After careful examination of these items the following subdivision was arrived at:—

1. Items in which quick adjustment takes place:—

a. Cotton.

b. Coal and imported stores.

In new transactions, the cost of cotton under the altered exchange is equalised to both producers, by an adjustment of prices in Bombay and Liverpool. In respect of coal and other stores imported into Bombay from England, adjustment also very soon takes place, though not so rapidly as in the case of cotton.

2. Items in the cost of spinning, in which no adjustment takes place, viz. wages, rates, taxes, and land carriage.

3. Charges paid in gold in connection with the import of cotton and the export of yarn, in which also no adjustment takes place.

4. Items in which adjustment is deferred for a

considerable time (say till machinery is replaced), viz. depreciation and interest on fixed investment in machinery.

In view of the fact that—so far as the first of these categories is concerned—adjustment comes about quickly, no account is taken of the momentary disadvantage borne by the Lancashire spinner in respect of the items comprised in it, although such momentary advantage has tended powerfully to divert the demand from Lancashire to Bombay. The net relative disadvantage falling upon him (with exchange at 17d. per rupee instead of 24d.) under the remaining heads are :—

a. When Yarn is shipped to Bombay

	Net disadvantage. per lb. d.
2. Items in the cost of spinning, not adjusted	·51
3. Transport charges paid in gold, not adjusted	·34
Permanent disadvantage arising from the fall in exchange	·85
4. Items on which adjustment is long deferred	·12
Total disadvantage arising from fall in exchange	·97

b. When Yarn is shipped to China

2. Items in the cost of spinning, not adjusted	·51
3. Transport charges paid in gold, not adjusted	·35
Permanent disadvantage arising from the fall in exchange . . .	·86
4. Items on which adjustment is long deferred	·12
Total disadvantage arising from fall in exchange	·98

When the Bombay mill industry began, the intention was to supply India only. There was a presumptive advantage in competing against imported yarn, in view of the then heavy transport charges and the import duty of 3½ per cent then in force, which the latter had to bear. The industry did not, however, increase quickly for some time, but in 1873-4-5 rapid extension took place, seventeen new mills having been started in the last of these years. After this, owing doubtless to the removal of the import duty, to the disappearance of profits on cotton spinning everywhere, and to the lessened cost of transit between India and England, a great collapse of the industry took place, and many of the mills were sold at very low prices. Subsequently, and no doubt at first under pressure to find a new outlet for the production of the existing mills, the export trade to China and Japan was rapidly developed, and of late years has continued to increase; the shipments from India, which in 1877 were 7,000,000 lbs., having sprung up to 113,000,000 lbs. in 1887.

Upon consideration of the foregoing statement of facts, we are led to the conclusion that the principal cause which has enabled Bombay spinners to supersede those of Lancashire in exporting yarn to China and Japan is the great fall in Eastern exchange since 1873. The removal of the export duty of 3 per cent on Indian yarns, which was effected in August 1875, was undoubtedly a contributory cause. A further circumstance tending to encourage the export of yarn from Bombay to China and Japan is the decline which has taken place in the rates of freight from that port to those countries. In view, however, of the fact that the geographical advantage in favour of Bombay has been reduced since 1872, from 2·377d. per lb. to 1·03d. per

lb., and that a great decline has also occurred in the rates of freight from Liverpool to China and Japan, it appears that this geographical advantage enjoyed by the Bombay spinner has been lessening, whilst his power to compete with Lancashire has been increasing. Therefore, although an important geographical advantage still remains to the Bombay spinner, it is actually less than it was before Bombay yarns superseded those of Lancashire in the markets of the Far East.

These Reports are of especial interest, because they are the outcome of the most thorough and detailed investigation ever made into the altered conditions under which competing industries are carried in gold and silver standard communities respectively, since the great monetary disturbance began. I leave them to tell, each its own story, observing here only, that the attempt of the Indian Government to establish a gold standard in India, initiated in June 1893, has called forth from many friends of Indian industries, and particularly from the proprietors of Bombay cotton spinning mills, loud protests, on the ground that the exports of Indian productions would thereby be discouraged. Their complaint is identical with that which formed the subject of the Manchester investigation of 1888.

It should be added that, at a general meeting of the members of the Chamber, held in December 1888, the Report of the minority of the Board was adopted by 64 votes to 52.

CHAPTER XV

INDIA AND THE MONETARY QUESTION

The interest of India in the currency question has, from the first, been one of its most prominent features, and the cessation of the coinage of silver at the mints of the supreme Government, which took place on 26th June 1893, is everywhere recognised as an event of the highest significance in the monetary history of our day. It was then announced that the Governor-General in Council had, with the approval of the Home Administration, ordered the closing of the Indian mints to the free coinage of silver. This momentous step was avowedly taken with a view to the establishment in India of a gold standard, with a currency consisting mainly of silver coins circulating at a fixed rate to gold. But the precipitating cause was a prevailing and well-founded impression that the United States Government would very soon put a stop to its large purchases of silver under the Windom-Sherman Act of 1890, and thus launch the silver market, and

with it the Indian exchanges, upon a downward course which would be most damaging if not disastrous for Indian national finance. The Administration of the Dependency desired, while there was yet time to avert a crisis, to fix the relative values of the rupee and the sovereign, in order that its Treasury might be free from the further loss which would ensue from having to provide a larger number of rupees than were then necessary to discharge its continually recurring sterling indebtedness in London. The course taken for the purpose of preventing this loss is an experiment of great interest; but before discussing the subject, it will be well to consider the way in which the economic interests of India, and in particular those of the Indian exchequer, have been affected by the monetary disturbance of the last twenty years.

The external commercial and financial relations of India are peculiarly complicated, because the standard of value and the monetary circulation of the Dependency are silver; because, also, a very large amount, approximately £16,000,000 a year, of debt has to be discharged in London by the Government; and, further, because the ancient and still surviving practice of the people of holding accumulated wealth in the form of silver and gold necessitates the constant importation of treasure from abroad. In no other country do similar conditions exist

together, and a clear comprehension of their bearing upon the foreign trade of the country and the finances of its Government is essential to a right understanding of the interests of India in the monetary question.

The £16,000,000 a year, or thereabout, of debt constantly accruing at home is, to some extent, simply a current mercantile transaction between the India Office in London and the Treasury in Calcutta, arising out of the exports of military and other stores sent to India for the service of the Government. Most of it, however, is for interest on loans or for other fixed obligations. The mode by which the debt is discharged is this. The Secretary of State for India sells, through the agency of the Bank of England, in London, his drafts or telegraphic transfer orders—called collectively "Council drafts"—on the Indian Treasuries, for as high a price per rupee in English money as he can get. He is, in fact, selling the rupees in the hands of the Indian Government to English buyers who happen to require money in India, and to whom it is convenient to exchange English money for it. They require the rupees in order to pay for Indian produce exported. It is obvious, therefore, that the exported produce thus paid for is not exchanged for a corresponding amount of imports of merchandise or treasure into India, excepting the comparatively small quantity of

Government stores just mentioned. Hence the statistics of Indian foreign trade always show an excess of exports of merchandise, and this excess represents, roughly, the payment of India's debt to England. It follows, further, that the larger the amount of this debt the larger must be the proportion of the exports from India which is not counterbalanced by imports.

But again, India produces no silver, and not very much gold, and the inveterate demand for these metals for hoarding is met entirely in the one case, and largely in the other, by imported supplies of these metals. Until the recent closing of the mints nearly all the imported silver was coined, passing first into the circulation and then into the hoards either in the form of coin or through the melting-pot. And it is interesting to notice that for several years after the appreciation of gold began to be strikingly manifest, very large amounts of that metal have been taken for this purpose, in preference to silver, by the richer natives.

The Superintendent of Post Offices in the North-West Provinces prepared a report, in 1886, upon the increased absorption of gold in India, founded upon information largely derived from independent sources, and by means of somewhat minute inquiries instituted by himself. He enjoyed special facilities for the pursuit of his investigation, because of his

knowledge of the amounts of treasure passing through the post, under the postal insurance system. His conclusion was that the absorption of gold in the North-West Provinces had been for some time previously, and was still increasing. The causes of the increase were—first, a vast improvement in the earnings of the working-classes in large towns, and their extended use of gold for personal and household ornaments; secondly, the greatly enlarged production and sale, at Benares and elsewhere, of artistic clothing fabrics in the manufacture of which gold thread and gold lace are extensively used; thirdly, the growing tendency of the agricultural classes to keep their savings in gold; fourthly, the scare produced by rumours of a possible Russian invasion; and, lastly, the gradual advance in the Indian price of gold, and the consequent inducement to purchase a commodity which was thus evidently increasing in value. This accentuated tendency to hoard gold influenced not only the more ignorant portion of the people, but also the more intelligent natives—university men and lawyers amongst the rest. One example was given of a native prince, who had set apart a very large sum in silver to be exchanged for gold, and for whom from 40,000 to 45,000 rupees' worth of gold was being purchased every month. Good harvests, internal peace, and the employment of native troops in military opera-

tions outside India, had raised the economic status of the towns and the agricultural villages, and with that improvement had come a desire to hold gold,—a desire which, the writer said, had been much stimulated by the advancing value of that metal as expressed in Indian money.

It appears, then, that the enormous amount of merchandise exported from India is paid for by the following various means:—

1. Merchandise, chiefly manufactures.
2. Council drafts.
3. Gold and silver.

Now the normal and permanent condition of Indian foreign trade is that, on balance, the exports consist entirely of merchandise. Both gold and silver are exported, but, save during one or two years in a century, there is always an excess of imports of gold, and, without exception, always an excess of imports of silver. It is clear, therefore, that the imported merchandise, Council drafts, and treasure received in exchange, compete with each other; and since the Council drafts represent debt which must be paid, any increase in their amount, except such small portion of it as may arise from the Government stores' account, intensifies the competition between merchandise and the precious metals as means of payment for the commodities exported from India. The annexed tables present

an epitome of the course of Indian trade during the last twenty years viewed in the light of these observations. The first four lines in each table represent quinquennial averages :—

	Exports of Merchandise.	Average rate of Exchange.	
	Rx.	Per Rupee.	
		s. d.	
1870-71 } 1874-75 }	57,030,300	1 10·569	{ Annual average
1875-76 } 1879-80 }	62,495,500	1 8·534	,,
1880-81 } 1884-85 }	82,293,100	1 7·644	,,
1885-86 } 1889-90 }	92,681,000	1 5·107	,,
1890-91	100,227,000	1 6·090	{ Year ended 31st March
1891-92	108,174,000	1 4·733	,,
1892-93	106,575,700	1 2·985	,,

	Imports of Merchandise.	Imports of Council Drafts.	Net Imports of Gold.	Net Imports of Silver.
	Rx.	Rx.	Rx.	Rx.
1870-71 } 1874-75 }	32,181,100	12,539,300	2,329,400	3,065,500
1875-76 } 1879-80 }	37,622,800	15,757,600	615,000	7,054,200
1880-81 } 1884-85 }	50,631,400	20,788,900	4,712,900	6,080,700
1885-86 } 1889-90 }	61,197,600	20,153,300	3,074,300	9,635,100
1890-91	69,034,900	20,086,600	5,636,100	14,175,100
1891-92	66,587,500	25,018,300	2,413,800	9,022,200
1892-93	62,618,400	27,937,800	{ Net exports 2,812,700 }	12,863,600

The imports of merchandise here shown do not include the amount of the stores consigned by the India Office to the Government of India, because their value is included in the Council drafts, and if they had been reckoned amongst the imports of merchandise they would have been stated twice. Again, the great falling off in the net imports of gold in 1875-76 to 1879-80, and the concurrent expansion in the imports of silver, is accounted for mainly, if not entirely, by the famines which occurred within these five years. The distress which came over wide districts lessened the power to save, and compelled multitudes of families to part with their ornaments and hoards, whilst the activity of the internal grain trade and the rise in prices of food necessitated an extension of the rupee circulation. After the effects of the famines had passed away, however, the importation of gold was again resumed on a full scale, and it was stimulated, as already stated, by the advancing value of the metal. The very large imports of silver in 1890-91 and in 1892-93 also claim attention. In the earlier of these two years the increase was caused by the strong speculation in silver which occurred on the passing of the Windom-Sherman Silver Purchase Act in the United States. In the second, it was the result of an anticipation that the Indian mints would be closed, in consequence of which

bankers and merchants desired to get as much silver as possible into the country for the purpose of having it coined whilst there was opportunity to do so.

A comparison of the figures for 1870-71 to 1874-75 with those of the year 1892-93 shows the following changes:—

	Rx.
Increased exports of merchandise .	49,545,500
Increased imports of merchandise .	30,437,300
Increased imports of Council drafts	15,398,500
Increased imports of treasure .	4,656,000
Total increase of imports .	50,491,800

It must be noticed that in 1892-93 there was the exceedingly rare occurrence of an export, on balance, of gold from India. Only once before during the last sixty years has a like event happened, viz. in 1878-79, when a net export occurred of Rx. 896,200. The export of Rx. 2,812,700 in 1892-93 may with some confidence be attributed to the high price of gold in India, and the temptation offered to native speculators and hoarders to realise the profit obtainable upon their purchases made in previous years. Gold, in short, became a profitable commodity to export, and the quantity actually sent out in 1892-93 may properly be added to the exports of merchandise, which will

then amount to Rx. 109,388,700. Adjusting the figures accordingly, the summary table last given appears in the following amended form :—

	Rx.
Increased exports of merchandise .	52,358,200
Increased imports of merchandise .	30,437,300
Increased imports of Council drafts	15,398,500
Increased imports of treasure .	7,468,700
Total increase of imports .	53,304,500

A comparison of these several increases, with the actual amounts of the respective average exports and imports in 1870-71 to 1874-75, brings out the following proportions :—

	Increase per cent.
Exports of merchandise . . .	91·80
Imports of merchandise . . .	94·57
Imports of Council drafts . .	122·28
Imports of treasure . . .	138·44
Total imports	106·36

The statistics thus brought together furnish the means of gaining a broad view of the alterations which have taken place in the external trade of India within the last twenty years, and the conclusions to which they point are very instructive. They show—

1. That the whole amount of the trade has enormously increased.

2. That the imports of merchandise have increased in a ratio greater than the exports of 2·7 per cent.

3. That the imports of Council drafts have been augmented in a proportion far exceeding that of the increase of merchandise imported.

4. That the imports of treasure have also greatly increased, but that in part this is accounted for by special and transient circumstances.

The second of these conclusions calls for particular examination, because it appears, at first sight, to destroy the contention that the fall in the Indian exchange has discouraged imports of merchandise into India. A trade which has increased to the extent of 94·57 per cent within little more than twenty years cannot, it may be said, be in a bad way. But it is necessary to look a little further. The statistics under consideration are given in rupees, the value of which in relation to commodities has, by general consent, altered very little within the period in question. Converting the rupees into sterling at the average rates of exchange current in each period, we get the following results:—

Imports of merchandise, 1892-93 .	£39,097,360
Average annual imports of merchandise, 1870-71 to 1874-75 .	30,262,301
Increase . . .	£8,835,059
Increase per cent . .	29·19

It is thus clear that, when worked out on the basis of gold, the increase of imports of merchandise into India within the last twenty years has been at the rate, not of 94·57 per cent, but of only 29·19 per cent, equivalent to less than $1\frac{1}{2}$ per cent per annum. Considering that the railway system of India has grown from 5382 miles to 18,042 miles between the end of 1872 and the end of 1892, that vast tracts of country have, in the interval, been brought within the range of external trade, and that the condition of the people has substantially improved, this cannot certainly be regarded as an important rate of increase. Viewed in this way, the apparently large augmentation of 98·77 per cent in the exports of merchandise also dwindles to very moderate dimensions.

But, in discussing the question of the fall in exchange upon the imports into India, and into all countries having at once a silver standard of value, and a great foreign debt to discharge every year, the really important consideration is, not the amount of the imports as stated in its own currency, but the prices as stated in gold at which these must be obtained from the creditor country. Reverting to the summary statement, in tens of rupees, of the increase of Indian foreign transactions previously given, it is plain that but for the necessity of having to provide in 1892-93 Rx. 15,398,500 more to

discharge her foreign debt than in 1870-71 to 1874-75, India would have been able to take so much larger an amount in value of merchandise or treasure, or of both. Provision having, however, to be made for the additional indebtedness, so much less in value of these must be imported, and then the question is simply whether the quantity must be reduced, or the prices as stated in gold. And the question appears to have been solved, not by a falling off in the quantity of the imports, but by a reduction in their sterling prices. Thus we are brought round again by another road to the conclusion, that the fall in exchange has either not lessened the volume of imports into India at all, except so far as Council drafts have taken the place of merchandise, or at least has had a much smaller effect upon its bulk than upon the prices, in gold, at which the imports have been obtained. The consequences of the fall in exchange have, in short, taken the form rather of reduced gold prices than of diminished quantity.

It is a warrantable inference from the statistics which I have been considering, that the economic interests of the people of India have probably not suffered much in consequence of the fall in exchange, except from the necessity which it has imposed of supplying a larger amount of the produce of Indian labour in order to discharge the constantly accruing

sterling debt. This is no doubt a very important exception, and although the loss involved in it is one primarily affecting the Government, it obviously falls at last upon the people, who would have benefited either in the shape of reduced taxation or in some other way, if the rulers of the country had not been compelled to take many crores of rupees from the Treasury in order to meet additional obligations created simply by a currency disturbance, for which rupees no economic equivalent was received.

As already shown, the exports of merchandise in 1892-93, including Rx. 2,812,700 of gold, were Rx. 109,388,400. In the five years 1870-71 to 1874-75, the average annual amount was Rx. 57,030,300. The increase in the interval was, therefore, Rx. 52,358,100, or at the rate of 91·8 per cent. Converting these amounts into sterling at the respective rates of exchange, the equivalents are :—

Exports of merchandise in 1892-93	£68,299,382
Average annual exports of merchandise 1870-71 to 1874-75 .	53,629,868
Increase .	£14,669,514
Increase per cent .	27·35

Measured in gold, therefore, the ratio of increase

of exports appears, like that of imports, very small. In quantity it is, of course, more accurately represented by 91·8 per cent shown in the comparison of the amounts stated in tens of rupees, or at the rate of 4·59 per cent per annum. Large as this rate of increase undoubtedly is, it falls greatly short of the rate at which the export trade of India extended in the twenty years preceding. In 1850-51 to 1854-55 the average annual exports were only Rx. 19,346,100; in 1870-71 to 1874-75 they reached Rx. 57,030,300, showing an expansion of Rx. 37,684,200, or at the rate of 194·81 per cent, equivalent to 9·74 per cent per annum. This is more than double the rate of progress within the last twenty years.

Now I am well aware of the caution which is necessary in comparing the statistics of these two periods. In the earlier one, the administration of India passed from the East India Company into the hands of the British Government, its boundaries were greatly enlarged, and railways were introduced. But within the later period of twenty years also the area of the Dependency has been much extended, and the length of the railway system has been trebled. The country, moreover, has on the whole been peaceful and prosperous.

The relevancy and importance of the comparison thus made of the growth of the Indian export trade

before and since 1873 are obvious when the question is asked, what has been the effect of the fall in exchange upon that trade? There is a general agreement that it has tended to encourage exports from India. But in what way has it done so? Some say, "By increasing their amount," and this answer is usually accepted without question by those who have not studied for themselves the somewhat intricate statistics of the Indian trade. But this view does not accord with the conclusion arrived at by Lord Herschell's Committee upon the Indian Currency, appointed in October 1892. In its report, dated 31st May 1893, the Committee, referring to the "alleged stimulation of exports" by the fall in exchange, says:—

> Although one may be inclined, regarding the matter theoretically, to accept the proposition that the suggested stimulus would be the result of a falling exchange, an examination of the statistics of exported produce does not appear to afford any substantial foundation for the view that in practice this stimulus, assuming it to have existed, has had any prevailing influence on the course of trade.

With this conclusion, the figures which I have quoted, and the known facts as to the course of prices in India and in England during the last twenty years, are in entire harmony. It is acknowledged that prices in India have altered very little

during this interval, except where railways have penetrated new regions, and that there the prices of exportable produce have risen because the local markets have become accessible to a new demand. Surely there is sufficient in this important change, together with the natural tendency towards increase in Indian foreign trade, to account for its growth at the rate of 4·59 per cent per annum since 1873, in face of the fact that in the twenty years preceding the progress was at the rate of 9·74 per cent per annum.

It seems clear, indeed, that the position of the Indian producer of exportable merchandise—wheat, for example—has not altered by reason of the fall in exchange. It is true that where new railways have come within his reach he has obtained higher prices, but that is not a consequence of the fall in exchange. His sole advantage has been that, although his produce has been put upon the European markets at an enormous reduction of price, he himself has obtained the same price as before in his own money. He has been able, in short, with every fall in exchange, to undersell his European competitors, who could only just make ends meet, without hurting himself. And this condition must necessarily continue with every further fall in Indian exchange.

Once more, then, we are brought to the conclusion

that the decline in Indian exchange is a potential factor in determining prices in the European markets. It does not follow, of course, that because the Indian producer can afford to undersell his European or American competitor he necessarily does so. In a normal market, it is the most costly portion of the product offered for sale which determines the price. And, at intervals, this has been the case in the wheat markets of Europe during the last twenty years. But, within that period, the prevailing tendency has from various causes, already abundantly explained, been towards lower prices. In such a condition of things the desire to sell is general and persistent, and every experienced merchant knows that then it is neither the largest producer, nor the one whose merchandise is most costly to produce, who rules the market, but the one who can afford, and who, under the stress of competition, is willing to become, the freest seller. It is in this way, I conceive, that the fall in Indian exchange has influenced prices in the European markets, more than by increasing the quantity of produce exported hither.

It also appears to me to be unquestionably true, that to whatever extent the fall may have checked the increase in the quantity of imports into India, its main effect has been to lower the gold prices of them. In short, exchange of commodities with the gold standard countries has gone on with probably

little diminution in volume, but necessarily upon a diminished gold valuation. If this view be correct, it applies also to the trade of every nation having a silver standard, and to every nation, whether its standard be silver or not, which during the last twenty years has had an external gold debt to discharge by means of the produce of its industry.

I turn now to the finances of India, and inquire —In what way and to what extent have these been affected by the monetary disturbance between the relative values of silver and gold?

The mode by which the constantly accruing debt of the Indian Government here is discharged has already been explained, and the fact has been noted that whilst its revenue is received in silver, the payments to be made on its behalf by the India Office in London must be effected in gold or the equivalent of gold. And, further, that the wide divergence in the ratio of exchange between the two metals has brought upon the Indian Exchequer two very grave evils. It has greatly augmented the amount of the debt for which the Government has to provide, and it has introduced into the Indian budget a most serious and embarrassing element of uncertainty never known until twenty years ago. The table printed on page 163 shows that the average amount of the Council drafts by which the

gold debt was discharged in the five years 1870-71 to 1874-75 was Rx. 12,539,300 per annum. In 1892-93 the amount was Rx. 27,937,800. The difference—Rx. 15,398,500—is sufficient to swallow up three-fourths of the land revenue, the chief item of the Indian national income. But this difference is not all attributable to the fall in exchange. Yet, after every proper deduction is made, there remain at least Rx. 7,500,000 which may fairly be put down to that cause. Even this amount is more by Rx. 1,103,000 than the whole of the excise and customs revenue of 1892-93.

It was for the purpose of diminishing this loss, and still more of preventing its further increase, that the mints of India were closed to the coinage of silver towards the end of June 1893. This action, which was avowedly taken as an experiment, had for its object the attainment of a rate of exchange, of 1s. 4d. per rupee, or 15 rupees to the sovereign. The average actual rate in 1890-91 was 1s. 6·09d.; in 1891-92, 1s. 4·733d., and in 1892-93, 1s. 2·985d.

It is right to state that the Government of India had, in 1882, and afterwards, consistently advocated the restoration of the joint standard by international agreement as the best method of removing the loss, and the danger of further loss, from fluctuating and falling exchange. Appeals to the Home Adminis-

tration of this nature always met with an unfavourable response, and at last, early in 1892, the Indian Government began to consider seriously other means of dealing with the difficulty. In a despatch, dated 21st June of that year, the Viceroy—Lord Lansdowne—and his colleagues described the position of the Government, and proposed that in the absence of any other cure for the instability of the relative values of gold and silver, the Indian mints should be at once closed to the free coinage of the latter with a view to the establishment in India of a gold standard. In an earlier part of the despatch expression is given to the regretful convictions of the Government of India, that the denial of the desired remedy would compel resort to another, not of its choice, which it evidently regarded as somewhat doubtful. The following is an extract from this document:—

We fear that a refusal on the part of Great Britain to adopt the system of double legal tender may be fatal to an international agreement for the free coinage of both gold and silver on a sufficiently wide basis; and we believe that a limited increase in the quantity of silver used as currency will exercise a very trifling influence (if any) in raising, or preventing a fall in, the gold price of silver, while it will be wholly without effect in the far more important matter of preventing fluctuations in the relative value of the two metals. We greatly regret this state of affairs, both because we

believe that no other country is so deeply interested in, or would benefit so greatly by, a uniform standard of value throughout the civilised world as Great Britain, with her vast system of trade, and the great extent of her finance, and because the final rejection of an international agreement for free coinage of both gold and silver will leave this country [India] face to face with a problem of the greatest difficulty.

We take this opportunity of again calling your Lordships' special attention to the extreme gravity of the present position—a position so fraught with danger that inaction involves at least as great risk, and as much responsibility, as would the undertaking of an enterprise even more hazardous than the introduction of a gold standard into India.

This letter produced so decisive an effect at home, that on 30th September a telegram was despatched to Calcutta by the Secretary of State in London, announcing that a Committee would be appointed "to advise upon the expediency of taking any steps for the modification of the law relating to currency in India."

The Committee was appointed on 21st October, and on 30th May 1893 its report was presented to the Secretary of State for India. After a full examination of the evidence and other information placed before it, the Committee submitted the following recommendations:—

While conscious of the gravity of the suggestion, we cannot, in view of the serious evils with which the

Government of India may at any time be confronted, if matters are left as they are, advise your Lordship to overrule the proposals for the closing of the mints, and the adoption of a gold standard which that Government, with their responsibility and deep interest in the success of the measures suggested, have submitted to you.

But we consider that the following modifications of these proposals are advisable. The closing of the mints against the free coinage of silver should be accompanied by an announcement that, though closed to the public, they will be used by the Government for the coinage of rupees in exchange for gold at a ratio to be then fixed, say 1s. 4d. per rupee; and that, at the Government treasuries, gold will be received in satisfaction of public dues at the same ratio.

We do not feel ourselves able to indicate any special time or contingency when action should be taken. It has been seen that the difficulties to be dealt with have become continually greater; that a deficit has been already created, and an increase of that deficit is threatened; that there are at the present moment peculiar grounds for apprehension, and that the apprehended dangers may become real with little notice. It may also happen that, if action is delayed until these are realised, and if no step is taken by the Indian Government to anticipate them, the difficulty of acting with effect will be made greater by the delay. It is obvious that nothing should be done prematurely, or without full deliberation; but having in view these considerations, we think that it should be in the discretion of the Government of India, with the approval of the Secretary of State in Council, to take the re-

quisite steps, if and when it appears to them and to him necessary to do so.

These recommendations were signed by all the members of the Committee, except its chairman—Lord Herschell—who, being a member of the Home Administration, in whose hands the final decision would rest, thought it right to abstain from attaching his signature to this final portion of the report.

In a note appended to the report Mr. Leonard Courtney signified his agreement with the recommendations of his colleagues only on the ground that a course which appeared to him preferable, viz. the restoration of the joint standard, was not then attainable. He added:—

I am myself drawn to the conclusion that the Home Government is the greatest obstacle, perhaps the only obstacle, to the establishment of an international agreement for the use of silver as money, which, without attempting to restore the position of twenty years since, would relieve India from the anxiety of a further depreciation of its revenue in relation to its liabilities. The problem may be thus stated:—The Indian Government asks permission to adopt a certain course, but, as is well understood, not the course it would of its own free will first desire to be adopted. In considering whether the course actually proposed should be sanctioned, we cannot refuse to consider whether there are invincible obstacles to the entertainment of the course which would be the first preference of India.

The prospect that the United States Legislature would shortly repeal the Windom-Sherman Silver Act of 1890, under which the Treasury had taken 54,000,000 ounces of silver per annum from the current supply, was the predominant motive for the recommendation of the Committee. It was foreseen that the consequence of the withdrawal of a demand for so large an amount would be a heavy fall in the sterling price of silver, possibly to a point (31·332d. per ounce) at which the equivalent value of the rupee would be only 1s. So great a fall would involve a further charge upon the Indian Exchequer arising out of its remittance operations of Rx. 6,162,000 per annum. The consideration of means of meeting so vast an addition to the burdens of the Treasury the Committee regarded as beyond its province; but the report shows very clearly that the Committee saw no way by which this new contingent liability could be satisfactorily provided for, either through increased taxation or reduced expenditure.

The only question submitted to the Committee was whether or not the Indian Government should be allowed to stop the free coinage of silver with a view to the introduction of a gold standard. The answer was affirmative, but the responsibility for the adoption of this policy rests with the Home Government, by which it was sanctioned.

Criticism of the Indian currency experiment

has rained thick and fast since it was announced in the midsummer of 1893. It has been condemned both by monometallists and bimetallists, and even Mr. Goschen has ventured to declare that it is a "bold step," a "very serious step," a "gigantic measure"; that it would be "an immense task" to keep up the gold value of the rupee at a particular point, and that the Indian Government must not be too impatient in looking for the success of its policy. He has, however, expressed the opinion that even the most sanguine friends of this policy cannot regard it as anything more than "a makeshift and a temporary solution of a very great difficulty." These views were expressed in the House of Commons on 21st September, three months after the mints were closed. The Chancellor of the Exchequer —Sir William Harcourt—speaking on behalf of the Government, said the course decided upon was "only an experiment" of which nobody could exactly tell how it would result.

On this occasion the Chancellor of the Exchequer made an important misstatement, of which I have nowhere seen a correction. Answering a charge against the Government, which he put into the words, "If you had adopted another system you would have done good instead of harm to India," Sir William Harcourt replied: "The plan we declined to adopt was the plan of bimetallism, which,

in the opinion of the Royal Commission upon that subject, would have worked a grievous injury to India." But what the six "monometallist Commissioners" reported was this:—

We pass on, then, to the next point, namely, assuming such a stable ratio [between gold and silver on the basis of approximately the market ratio] to be secured, what effect would it have upon the evils with which we have to deal? Fluctuations of exchange between countries having a different standard, so far as they depend upon the varying relation of silver to gold, would cease, and the perplexities and difficulties which now so severely beset the Indian Government would be at an end, subject to this qualification, that so far as the burden on the Indian Exchequer is due to the fall which has taken place in the gold price of silver, that burden would continue permanently. *But it must be remembered that in the view of the Indian Government—and upon this point we agree with them—this would involve less danger and evil than the continuance of the present state of uncertainty with the risk of a future fall.*

With this view the six "bimetallist" members of the Commission, in their separate report, express concurrence.

The correction of this erroneous statement of the opinion of the Royal Commission is the more called for, because Sir William Harcourt declared that the supposed opinion was "one of the principal reasons why we [the Government] did not adopt the sugges-

tion that there should be an attempt to establish bimetallism in India, or for India."

The great experiment of the Government is still on its trial. For a brief period after it was initiated there was a large demand for Council drafts, because there was a momentary expectation that the value of the rupee was about to rise. Very soon, however, the demand fell off, and the Secretary of State practically refused to sell because he could not get his price, and because it was hoped that when, towards the close of the year, the period during which the export of produce from India is at the full should begin, higher rates of exchange would prevail. The course of events did not justify this expectation; and whilst rupees were accumulating in the Indian treasury, the debt of the Indian Government was also accumulating in London. In order to provide for its discharge, and prevent the forced sale of Council drafts in large amounts at whatever price might be necessary, the Government introduced a bill into Parliament authorising the negotiation of an Indian gold loan in London up to the limit of £10,000,000. The bill was adopted in December 1893, giving rise to very instructive debates in both Houses. In both, the policy of the Government was defended with considerable force, particularly in the House of Lords by the Secretary of State and by the Lord Chancellor, but always on

the ground that it was an experiment justified by the great straits to which the Indian Administration was driven, and the greater danger by which it was threatened in consequence of the cessation of purchases of silver by the United States Treasury. The Lord Chancellor observed that the choice lay between the course actually adopted and that of seeking an international arrangement for the establishment of the Joint Standard. Both attempts were, however, necessarily of the nature of experiment. Of the two he thought the closing of the Indian mints was less open to objection because of the difficulty of arriving at an agreement as to a ratio.

CHAPTER XVI

PROPOSED CONVERSION OF INDIA RUPEE DEBT INTO GOLD DEBT

IN the concluding portion of this book, some considerations will be adduced in support of the belief that the great nations of the world will ultimately be driven to co-operate in the re-establishment of the Joint Standard. In the meantime there is one step which the Government of India may take with great advantage, whether or not the present currency experiment should succeed.

In recent years the principle has been generally accepted that the Indian Government should borrow in India rather than in England. Excellent reasons may be given in favour of this preference so far as past years are concerned; but I venture to think that, on purely financial grounds, the time has come when it is most desirable to borrow in England, and I am even so bold as to believe that it would be profitable to do so, and to use the borrowed money in paying off rupee bonds.

I proceed to show the advantage of adopting this course by working out the results in respect of each £1,000,000 borrowed in gold in London at 3 per cent. I assume the issue price to be 99, but it is by no means impossible that 100 might be obtained, the present market price of India 3 per cent gold stock being 100½ to 101.

One million of pounds sterling of India gold bonds issued at 99 would produce £990,000, which at the present exchange rate of 1s. 2d. per rupee would pay off 4 per cent rupee bonds to the extent of Rs. 16,971,428, and the annexed statement shows the gain upon the operation :—

		Rupees.
Interest saved on Rs. 16,971,428 at 4 per cent .		678,857
But interest must be paid on £1,000,000 at 3 per cent . .	£30,000	
Council drafts required to remit home £30,000 for interest at 1s. 2d. exchange . .		514,286
Minimum annual saving so long as exchange does not fall below 1s. 2d. . . .		164,571
Council drafts required to remit home £30,000 at 1s. 1d. exchange . . .		553,846
Council drafts required to remit home £30,000 at 1s. exchange		600,000
Council drafts required to remit home £30,000 at 11d. exchange		654,545
Council drafts required to remit home £30,000 at 10½d. exchange		685,714

It thus appears that even if the rate of exchange were to fall further there would still be a net advantage in substituting gold for silver debt, until the almost inconceivably low rate of 10½d. per rupee should be reached. If, on the other hand, exchange were to rise, the required amount of Council drafts would diminish as follows :—

	Rupees.
Council drafts required to remit home £30,000 at 1s. 3d. exchange	480,000
Council drafts required to remit home £30,000 at 1s. 4d.	450,000
Saving per annum at 1s. 3d. exchange .	193,000
Saving per annum at 1s. 4d. exchange .	223,000
The saving on every £10,000,000 would amount, at 1s. 3d. exchange, to . . .	1,930,000
The saving on every £10,000,000 would amount, at 1s. 4d. exchange, to . . .	2,230,000

The existing amount of rupee debt is about Rx. 103,000,000. Upon most of this the rate of interest is 4 per cent, and the greater part is repayable, at the option of the Government, upon giving three months' notice. A gold loan of £50,000,000 would enable the Indian Government to discharge rupee bonds amounting to Rx. 84,857,140, leaving still nearly Rx. 20,000,000 of rupee debt in existence. The saving of interest derived from the conversion would be, at 1s. 2d.

exchange, Rx. 822,855; at 1s. 3d., Rx. 965,000; and at 1s. 4d., Rx. 1,115,000 per annum.

At present the amount of rupee bonds "enfaced" for payment of interest in London is Rx. 25,757,000. It may be assumed, therefore, that to this extent they are in the hands of European, mostly British, investors.

Up to this amount the new gold loan would simply displace rupee paper held in Europe. So far, therefore, no increase of Council drafts would be required to provide for European interest, whilst there would be, as shown above, an appreciable saving in the whole amount needed for interest in consequence of the conversion of 4 per cent rupee, into 3 per cent sterling securities.

It is hardly possible that any of the new 3 per cent stock would find its way to India, but £15,300,000 of it would be required to pay off the holders of the Rx. 25,757,000 held here. Upon the remainder—£34,700,000—the annual interest would be £1,031,000, and this is the extreme limit of the increase of Council drafts resulting from the conversion upon its completion. This would, however, not involve any new charge upon the Indian treasury, unless the rate of exchange should fall to 10½d. per rupee. On the contrary there would be a clear gain, as already shown, augmenting with every upward movement of the rate.

The proposed conversion has the further recommendation, that the process of carrying it out would powerfully assist the Government in its endeavour to raise the value of the rupee to 1s. 4d., because the £34,700,000 of the new loan remaining over and above the sum needed to pay off Rx. 25,757,000 of "enfaced paper" would become, for the time being, a debt due, and to be paid to India. But before this would be discharged the hindrances to the success of the Indian currency experiment would almost certainly have disappeared, if ever they are to do so. And if, meanwhile, an international arrangement for the restoration of the Joint Standard should be concluded, at a ratio of, say, 22 to 1, equal to 1s. 4·27d. per rupee, the Indian treasury would have a substantial gain, resulting partly from the conversion, and partly from the rise of exchange to that point.

The only possible objection to the suggested conversion which occurs to me is a political one. It is extremely desirable not to discourage investment in Government securities by native Indians. To what extent they now hold rupee paper, I do not know, but this objection, if good at all, is only an argument in favour of limiting the amount to be converted, not against conversion itself.

CHAPTER XVII

THE MONETARY QUESTION IN GERMANY, FRANCE, AND THE UNITED STATES

In no part of the European Continent has the monetary question been discussed so widely, or with so much earnestness, as in Germany. Economic writers of varied capacity and knowledge have put forth their views in favour of or against the restoration of the joint standard almost as bountifully as have their contemporaries in England. The argumentative portion of their dissertations in some instances ranks high, but for the most part it is valuable chiefly for its local colouring, for the evidence which it affords of the environment—past and present—of the writers. This criticism may, no doubt, be applied also, in a large measure, to English writers and speakers on the currency problem. But Germany has given us the fullest collection of facts bearing upon this subject in Herr Adolph Soetbeer's *Materials for the Illustration and Criticism of the Economic Relations of the Precious*

Metals, and of the Currency Question, two editions of which appeared successively in 1885 and 1886. An English translation of the work was published in the appendix to the *Final Report of the Gold and Silver Commission* in 1888.

But it is rather the state of public opinion in Germany than the literature of the question which is of immediate interest to English readers. In Germany, as in England, there are the two camps of monometallists and bimetallists dividing the national legislature and the mass of intelligent people, whose interests, or divergent views upon social and economic subjects incline them to one side or the other. It is probable that, hitherto, the balance of active and influential opinion has favoured the retention of the existing gold standard, and some of the reasons for the undoubted strength of monometallist opinion—whether it be in the ascendant or not—are as interesting as they are obvious.

The currency reform of 1871-73 gave Germany for the first time a uniform system of money. Before this was introduced, there were in circulation seventeen varieties of gold coins, sixty-six different kinds of silver coins, and forty-six descriptions of notes. The standard of value was silver, and the metallic circulation consisted chiefly of that metal. But the confusion arising from the numerous sorts of money, and the dissatisfaction due to the

imperfect condition of some of them, were universal. It was necessary that the cashier in a merchant's office should be an expert, spending much time in discriminating between, and calculating the respective values of, the coins presented for payment. Bank cheques were all but unknown, and there was no clearing-house. Every one, therefore, welcomed heartily a change which gave a uniform and acceptable currency, and brought in its train the modern banking system with its economising and simplifying expedients.

It is surely not surprising that these valuable and all-pervading reforms became associated in the minds of the people, and especially in the minds of business men, with the gold standard which was the foundation of the new monetary system. There has, consequently, long been a strong presumption at the root of public opinion in favour of the existing monetary arrangement, and a corresponding indisposition to disturb it. When once the benefits of a great and sorely needed reform have been brought home to the mind of any community, proposals to alter it are always looked upon with suspicion. And this natural conservatism is especially strong when the question is one involving principles and phenomena so complex and recondite as those of currency. Precisely the same aversion to change has been a marked feature of English discussions of the currency

problem. Here and in Germany alike, multitudes of intelligent men, even amongst those who have suffered severely from the monetary disturbance, have found satisfying reasons for avoiding inquiry into a perplexing subject in such prudential maxims as, "Better endure the ills we have than fly to those we know not of." There is much force in the observations made years ago by Mr. Bagehot and Professor Jevons, to the effect that in nothing are the English people so conservative as in questions of currency. And certainly this dictum has been quite as true in respect of the German people since they began to reap the advantages of the great monetary reform of 1871-73.

But there is another reason for the apparent absence of wide popular interest in the monetary controversy in Germany, in spite of the activity with which it has been at times carried on there within the last twenty years. The fall of prices—especially of agricultural products — which took place after 1873 was keenly felt. It was pointedly recognised by Prince Bismarck in 1879 and 1885. On both occasions he attributed it to the severity of foreign competition, and the remedy he advocated and applied was Protection. Speaking in the latter year, he drew attention to the fact that notwithstanding the higher duties imposed upon imports, the price of grain was then no more than it was

before the duties were raised, six years earlier. He either did not know, or found it inconvenient to state, that in a Free Trade market—in England—the annual average price of wheat had fallen in the interval from 46s. 5d. per quarter to 32s. 10d.; and that of barley, from 40s. 2d. per quarter to 30s. 1d. With curious inconsistency, he pointed to the absence of any advance of prices in Germany as destroying the arguments of those who had predicted that the Protectionist policy of 1879 would increase the cost of living, and at the same time as a reason for still further raising the import duties. He said, however :—

I hope that the price of corn may increase. I hold its increase to be necessary. There must be a limit at which the State must try to raise the price of corn. I asked you to imagine the price of rye falling fifty pfennig; or I will name the price which now and again really occurs in the inner Russian governments, the price of one mark. Is it not quite clear that our agriculture would then be absolutely ruined—that it would not be able to exist any longer—and with it all the labourers and all the capitalists dependent upon it? Quite apart from the farmer, who is, of course, a *corpus vile* on which the town-folk can experiment—though it must be remembered that the towns would no longer have buyers in the farmers; the labourers would be without employment, and would stream to the towns. In short, it is undoubtedly a national calamity when the price of corn, the everyday means of subsistence, falls

below the rate at which it can be cultivated with us. I will regard the maxim as admitted, that there is a limit below which the price of corn cannot fall without the ruin of our entire economic life.

I have quoted these words of Prince Bismarck for the purpose of indicating that, in Germany, the fall of prices was not unheeded, but that the connection between this fall and the monetary disturbance was obscured by Protectionist legislation. This was extended to manufactures as well as to agricultural products. Generally prices were not advanced by this expedient; but they were prevented from falling, and thus another explanation of the absence of a very keen popular interest in the currency controversy is accounted for by the Protectionist tariff policy of 1879 and 1885.

But within the last three years Germany has begun to retrace the steps taken in 1879, and subsequently, on the road of Protectionism. Towards the close of 1891, the Emperor and his chancellor—Count Caprivi—recognising the growing need of the country for extended foreign trade, and the seriously narrowing effect of the commercial policy of the preceding twelve years, determined to reverse it. Treaties of commerce were entered into with Austria-Hungary, Italy, Switzerland, and Belgium, with reciprocal reductions of import duties, and

binding each party not to increase these duties for a period of ten years. This movement was significant, because it marked the beginning of a reaction from the forward march of Protectionism on the Continent, started between 1872 and 1878. France started it, in 1873, by raising her tariff on the plea that the increased internal taxation necessitated by the Franco-German struggle, the war indemnity, and the extended armaments with which she resolved to burden herself, had made it requisite to impose "compensatory" import duties. Then came the great fall of prices and the industrial depression of 1876-79, which led to combinations of agricultural and manufacturing interests in most Continental countries for the purpose of enforcing higher protective tariffs. In Germany and France the Governments were only too ready to yield to the pressure, seeing in it, as they thought, the means of drawing a larger revenue from the pockets of the people. Further movements in the same direction, and prompted by the same motives, followed the downward course of prices in the next decade, and in France the edifice of Protection was crowned by the tariff which came into force in February 1892. More than a year before that, however, the German Emperor had discerned the folly of this race for pre-eminence in the erection of barriers to international trade, and had resolved to put an end to it,

so far as he could, by reviving the abandoned treaty system of which the Anglo-French Convention of 1860 was the forerunner. The result was the Central European arrangements of 1891-92. To these another has just been added, bringing the great empire of Russia within the peaceful bonds of a commercial compact of certain duration, and a further convention is being prepared which will link together Russia and Austria-Hungary.

The decisive reaction thus clearly manifest in Germany has not been allowed to make progress without the strenuous and almost fierce opposition of the agriculturists (the agrarians) and others who had been taught to recognise in Protectionism the only cure for the distresses occasioned by the great fall of prices from which they had suffered most severely. This opposition reached its height during the negotiations with Russia in the latter half of 1893. But before the treaty which resulted from them had reached the critical stage in its passage through the Reichstag, the heads of the Government had succeeded by firmness and tact in detaching from the agrarian party a substantial contingent, and the convention at length received the approval of the Legislature.

A probable consequence of the experience gained in the course of the Russo-German treaty negotiations is that the great and unsolved problem of

the monetary policy of the leading commercial nations will receive much closer consideration than has yet been given to it in Germany. An Imperial Commission is now investigating the subject, and there is reason to believe that in the highest quarters it is regarded with the seriousness which its importance demands. It may be true, as has been surmised, that the appointment of the Commission has been hastened in order to provide consolation for the agrarians in their defeat, or possibly to induce some of them to withdraw their opposition to the treaty. But this is a minor consideration. The really important fact is that the last ground of hope for those who have looked for the maintenance of a policy of high Protection in Germany is gone. Their minds will, therefore, now be free to examine with the better prospect of success the real cause of industrial depression in gold-standard countries, and to take their part in discovering and applying the proper remedy. The occasion is opportune; for assuredly the monetary question has within the last six months assumed a new and almost an acute phase. The repeal of the Silver Purchase Act in the United States and the suspension of the coinage of silver in India have brought fresh confusion into the monetary and commercial affairs of the whole world, and there is something more than probability in the view that an attempt, much more serious and

earnest than any hitherto made, to settle the question by an international agreement will be brought about by the force of circumstances. At previous international monetary conferences the apparent indifference of Germany and England has always been the great stumbling-block. It is at all events satisfactory to find that this last defeat of Protectionism in Germany is likely to prove the occasion of a more serious treatment of the currency problem in that country than it has so far received.

In France, as in Germany, the gravity and urgency of the monetary problem have been very much hidden by the growing power of Protectionism, which since 1872 has gained almost unquestioned control over the Legislature. This obscuration is the more remarkable because of the practical advantages of the joint standard maintained by the French mint law of 1803-1873. Even there, however, signs are not wanting of a return to more rational methods. At the close of a recent meeting of the French Society of Agriculture, an address upon the monetary question was delivered by M. Allard, formerly Director of the Belgian mint, and an economist of repute throughout Europe and America. After the address a Bimetallist League for France was founded. M. Cernuschi has been

elected its president, and MM. Jules Roche and Méline, vice-presidents. The Joint Standard was the subject of earnest discussion amongst French economic writers twenty years ago, and the teachings of one of them, M. Wolowski, which made a strong impression upon the mind of Professor Jevons, have done much to establish the soundness of the theory upon which the arguments of the bimetallists are built. But, since 1873, the glamour of Protectionism has all but completely closed the eyes of French statesmen and the French public to the fact that the fall of prices and the depression of trade which it is intended to remedy have a monetary origin. It may perhaps be said that the acceptance by M. Méline, the Protectionist parliamentary leader, of a prominent position in the Bimetallist League is calculated to throw discredit upon the new departure. But perhaps a wiser view of the matter, which Free Traders will appreciate, is that a prospect has at length arisen of the French people directing their attention to the real source of the evils afflicting the industries of their country, in common with those of other nations having a gold standard. For although France has a very large amount of silver in her currency, this has, ever since the mints were closed to its free coinage, been kept at par with gold, and her standard has consequently been exactly the same as our own.

It may be observed that French Free Traders have for a long time past directed attention to the monetary origin of the troubles which Protectionists were endeavouring to remove by increased import duties, and that in the *Revue Agricole* M. Zolla, a Free Trade writer, has discussed very fully the connection between the appreciation of gold and agricultural depression. It seems not at all unlikely that the new league, supported as it is by both the advocates and the opponents of Protection, will do much towards disseminating more liberal ideas in France with reference to foreign commercial policy, and, at the same time, to arouse a much stronger interest in the solution of the monetary problem than has yet been seen in that country.

The monetary history of the United States is an exceedingly interesting one, full as it is of varied and sometimes contrary legislative action. At the time of the Declaration of Independence, and until 1834, the monetary system was, in law and in practice, bimetallic. In that year, the legal ratio, which had been 15 to 1, was altered to 16 to 1 by Act of Congress. The disproportion between this new ratio and that existing in France, led to the disappearance of silver, which had previously been very abundant. Gold having become the solitary metallic element in the full legal tender coinage, was by an

Act of 1853 recognised as such. In 1861, however, the over-issue of greenbacks brought about the expulsion of gold, and when specie payments were resumed at the beginning of 1879, the gold standard was again established, with the modification arising from the passing of the Bland Bill in 1878 over the veto of President Hayes. This measure provided for the coinage of not less than $2,000,000 nor more than $4,000,000 per month of silver money. In 1890, the Windom-Sherman Act was substituted for the Bland Act, and under it the Treasury was required to purchase 4,500,000 ounces of silver at the market price, giving in exchange Treasury notes, which entered into circulation at par with the other note issues, and with gold. Since 1878, therefore, the circulation of the United States has always embraced a large proportion of silver, either in the shape of coin or as bullion reserve, represented by notes.

It is obvious that to the extent that silver has thus taken the place of gold, or rather, has been made auxiliary to it, the appreciation of the latter metal has been checked. But the standard has all along been gold, because the silver coin and silver notes have always been kept at par. There can be no doubt, however, that the course pursued by the United States in the Acts of 1878 and 1890 has had two very important results. It has greatly

mitigated the monetary disturbance of the last twenty years, both by making gold less scarce, and by absorbing silver which other nations had refused to take. But this advantage has probably been gained at the expense of prolonging the period of disturbance, and of postponing a crisis which has begun only since the closing of the Indian mints and the repeal of the Windom-Sherman Act.

The strong support which legislation in favour of the use of silver has commanded in the United States, since 1878, has in this country been erroneously ascribed to the influence of the silver mining interests of the Western States. That influence is undoubtedly considerable, especially in the Senate, but it is utterly insufficient to account for such legislation. Public opinion in the United States is, and has long been, highly favourable to the general adoption amongst the leading commercial nations of the Joint Standard. Indeed, most of the leading economic, banking, and commercial authorities steadily opposed the Acts of 1878 and 1890, on the ground that they deferred the inevitable crisis which in the long-run would, they held, compel other countries to join in the re-establishment of that standard. It may, therefore, be confidently assumed that Congress will be quite ready to take part in this enterprise whenever it is seriously

entered upon by a sufficient number of other nations, but there is not the least likelihood that any new action tending to restore stability between the relative values of silver and gold will be undertaken by the United States alone.

CHAPTER XVIII

SUMMARY AND CONCLUSION

The central and all-important fact, around which the monetary controversy ranges, is the extraordinary fall of prices in gold-standard countries since 1874, and the comparatively inconsiderable change of prices where silver is the standard of value. A fall so great, so prolonged, and so slightly interrupted, has never occurred in any age, or in any community, except in association with great monetary perturbations. In investigating the connection between the present decline of prices and the abandonment of the Joint Standard, I have dwelt especially upon the immense part played by credit and credit instruments in modern times, and the way in which the employment of these has been affected by the monetary dislocation. This phase of the question has, I conceive, been too much obscured by the great prominence given to statistics of the supply of, and the demand for, gold. Such statistics I have neglected, as far as possible, not

because they are unimportant, but because the conclusion to which they point is not questioned. Every one recognises (1) that the adoption of a gold standard by Germany in 1871-73, and the subsequent stoppage of free silver coinage in the Latin Union, have, together with the resumption of gold specie payments in the United States, created vast new demands for the metal; (2) that the conviction has been forced on governments of countries in which gold was not previously the standard of value, that they should have recourse to it as speedily as possible; and (3) that these new demands, actual and prospective, have occasioned a disposition to accumulate gold—as in France, in Russia, and elsewhere—as a precautionary measure, and, in the opinion of respected authorities, with a view to the adoption of a gold currency. Even in India the private absorption of gold has, as I have shown, been stimulated by its growing dearness as a profitable mode of investing savings. And now the Indian Administration, with the approval of the Home Government, has entered upon a currency experiment, the complete success of which will require it to obtain and to keep a substantial store of gold. It is further recognised that the consumption of gold for other than monetary purposes is large, and is rather increasing than diminishing, and that the

current supply during the last twenty years has been by a long way insufficient to satisfy all these requirements without increasing its relative scarcity, and consequently its purchasing power, that is to say its value.

I have sought to give proper consideration to the views of those—a diminishing number—who attribute the fall of prices largely if not mainly to over-production, or to improvements in methods of production and distribution. To what has been said upon the first of these supposed causes of low prices, it may be added that those who hold it are in this difficulty: Increased production means increased wealth, and the period which has elapsed since 1874 has been distinguished by circumstances peculiarly favourable to prosperity. It has been a period of international peace, of great progress in the arts of peace, and of the efficiency of labour. It is incredible, therefore, that the realisation of the fruit of these beneficent forces, viz. increased abundance, should have produced the diminished rewards of industry of which so much has been heard during the last twenty years. On one ground, and only on one, can the theory of over-production as a cause of these diminished rewards be made intelligible. It may be said that the fall of prices, to which they are attributed, is due to the altered proportions between the wealth to be

exchanged and the volume of the instruments of exchange. But this is obviously a monetary consideration unconsciously disregarded by the over-productionists. It is also the missing link in the chain of reasoning by which those who attribute the fall of prices to improved methods of production and distribution arrive at their conclusion. In Chapter V. I have adduced reasons, which appear to me to be adequate, in support of the view that such improvements do not of themselves affect the level of general prices.

It must be admitted, indeed, that the monetary origin of the fall of prices and all its consequences are now widely and prevailingly acknowledged. Upon that question there is hardly any dispute. But it is held by many respected authorities that—although the purchasing power of gold has increased, the standard of value has altered, the burdens upon industry have been greatly augmented, its rewards lessened, and confusion and distress have been brought into commercial and industrial life at a time when other conditions were eminently favourable to abounding prosperity—no practicable remedy can be found. The gold countries have no choice but to abandon themselves to a condition confessedly unsatisfactory and full of uncertainties.

On the other hand, a large and increasing

number of persons in all the leading commercial states see in the restitution of the Joint Standard a sufficient and feasible cure for these evils. It is becoming every day more manifest that on one side or the other all thoughtful people must stand, for no third course is before us. Of the enormous public advantage which would follow the attainment of an approximately stable standard of value no one entertains the least doubt. Nor is there any question that, during its existence, the Joint Standard worked so well that it made every one oblivious of the fact that he was enjoying its benefits,—just as a man with a sound constitution and a healthy life is wholly unconscious that he is in possession of heart and lungs until these organs begin to fail.

The proposed remedy has encountered strenuous opposition in this country ever since it was suggested about sixteen years ago. Its opponents have in the interval diminished in number very greatly, but they are still numerous, and many of them are influential. There are, too, multitudes of intelligent people who, without distinctly taking a side, are tacitly averse to change. Why, they ask, should we throw overboard a system which has become one of our established institutions, and under which British industry and trade made such astonishing progress for a long period, in favour of

a new-fangled scheme of which we have had no experience. The question is natural enough, but it is sufficiently answered when it is stated that our present currency arrangements were made only in 1819; that between that year and 1873, what we really possessed was not a gold standard at all, and that only since the latter year have we had a true gold standard, with such deplorable results as are manifest to everybody. The reply to this objection is that the advocates of the Joint Standard are not innovators. They desire a return to that ancient "practice of Governments" to which Mr. Bagehot attributed the former steadiness of "the gold price of silver," but with conditions and guarantees for its permanence suited to the altered circumstances of our day.

But a further question arises. Why, it is urged, should England concern herself about the consequences of a change—the cessation of the free coinage of silver in the Latin Union—for which she was not responsible? To this question it is answered, that although we are not responsible for the change, we are suffering more, perhaps, than any other nation from its consequences, and therefore our own interest bids us concern ourselves in removing them. The rise in the value of gold has brought after it innumerable and very grave troubles, which lie at the root of the depression of

trade and of agricultural and manufacturing industry. And certainly no one who has realised the importance of these troubles and their enduring nature, can hold that the restoration of the Joint Standard is either a matter of indifference to the English people, or one which they can neglect without grave further consequences to themselves. If you have built your house in such a way that it depends for support upon a neighbour's wall, it surely becomes to you a very serious business when he proceeds to take down the wall.

Doubts and hesitation as to the wisdom of British co-operation in the revival of the Joint Standard are entertained because of prevailing misapprehensions as to the changes which it would involve in our monetary system. Many people imagine that in their business transactions they would be liable to be deluged with cumbrous masses of silver coin. For this erroneous idea, it must be acknowledged, some bimetallists are in part responsible. They have acquiesced in the notion that the free coinage of both metals at a fixed ratio involves the liberty of the debtor "to pay in either metal." But, in truth, if the proposed change were effected, no one ignorant of the fact would become aware of it in his own business life. At the present moment anybody who has to pay £10,000 may, if he chooses, deliver the whole

sum in gold coin. But no one would ever dream of inflicting upon himself the trouble and risk of getting and conveying to his creditor so heavy a mass, because he can effect his purpose by simply drawing and handing over a cheque. Much less, then, would any person incur the greater trouble and risk of obtaining silver to pay his debts when gold, or notes, or a cheque would accomplish his object. The use of coin, therefore, would, under the new arrangement, be restricted, as it is now, to the payment of small amounts, and for the same reason, viz. that we possess more convenient, safer, and more expeditious methods than that of carrying about and paying coined money.

What would happen is this. Any one possessed of gold bullion may now take to the Bank of England any amount of it, demanding and receiving in exchange bank-notes at the rate of £3 : 17 : 9 per ounce. Under the proposed system he would be equally entitled to take there any amount of silver bullion, receiving in exchange bank-notes at a rate based upon the agreed international ratio. The sole novelty in our monetary system would be that a new item would be added to the already composite security on which the whole of the Bank's note issue is at present based. In order to furnish a picture of the change, I take, haphazard, one of the weekly statements of the

Issue Department of the Bank—that dated 14th March 1894—presenting it first in its actual form, and afterwards as it might appear if the Joint Standard were re-established :—

Actual Form

	£		£
Notes issued .	45,027,800	Government debt	11,015,100
		Other securities	5,784,900
		Gold coin and bullion .	28,227,800
	45,027,800		45,027,800

New Form

	£		£
Notes issued .	50,027,800	Government debt	11,015,100
		Other securities	5,784,900
		Gold coin and bullion .	28,227,800
		Silver coin and bullion .	5,000,000
	50,027,800		50,027,800

There would be nothing novel in such an account as this. Long after our present gold currency was established in 1819, the Bank of England was accustomed to hold silver bullion as a part of the security upon which its notes were issued. Even under the Bank Act of 1844, now in force, the

Bank was and still is empowered to hold in its Issue Department silver bullion to the extent of one-fourth of the amount of gold coin and bullion held there, and to issue notes upon it. The following is a copy of the first statement published on 14th September 1884, after the Act came into operation:—

	£		£
Notes issued .	28,351,295	Government debt	11,015,100
		Other securities	2,984,900
		Gold coin and bullion .	12,657,208
		Silver bullion .	1,694,087
	28,351,295		28,351,295

But the practice of using both silver and gold in this manner is not only the practice of our forefathers. It is now in operation in Germany, in France, and in the United States,—the three principal countries which would necessarily be parties to any international arrangement entered into by Great Britain. Yet no one hears that there private persons are ever burdened with more silver than they care to hold. The only difference, in short, which the adoption of the Joint Standard by this country would bring about would be that the Bank of England note would have behind it gold, silver, and securities, instead of only gold and securities.

Amongst the proposals which have been put forward as an alternative to the one I am now discussing, for increasing the use of silver as money, there is one which has always appeared to me to be altogether illusory and puerile. It has been suggested that gold should be retained as the sole standard, but that the present limit of the amount of legal tender in silver coin should be raised from 40s. to £5. I cannot conceive that such a change would in any degree alter the amount of silver in use. Certainly the banks would not burden themselves with the extra trouble of using the power conferred upon them, and still less would ordinary persons do so. It appears to me, therefore, inconceivable that a reversion to the old standard would make the slightest difference in the amount either of gold or of silver coin in circulation. The public would use just as much of both as might be required, and no more. Even in 1832, when the proportion of silver in circulation was much greater than it now is, the Governor of the Bank of England said in his evidence before the Bank Charter Committee of that year:—"The silver now in circulation is the exact quantity that is required, there is neither scarcity nor superfluity."

Doubts have been expressed, also, as to the possibility of maintaining the Joint Standard by an international agreement. Upon this point the

separate report of the six monometallist members of the Gold and Silver Commission of 1887-8 speaks guardedly, yet clearly. It states that in any conditions fairly to be contemplated in the future, a stable ratio might, in the opinion of these gentlemen, be maintained, if the United Kingdom, Germany, the United States, and the Latin Union "were to accept and strictly adhere to bimetallism" at a ratio approximating to the then market ratio. This conclusion they found upon "*a priori* reasoning," and upon "the experience of the last half-century."

Two questions are thus raised. Is it conceivable that any of these nations having once become parties to an international agreement, could ever gain any advantage by retiring from it? and, what ratio would be most suitable?

No one, so far as I am aware, has been able to suggest the kind of circumstance in which benefit would accrue to any of the parties by abandoning the Joint Standard. The self-interest which would prompt its adoption would necessarily ensure its continuance, because, apart from its present utility, it could not be given up in favour of a single standard without involving enormous loss and disturbance in the country where the change might be attempted. Let it be supposed that the Joint Standard has been established, and that one of the great

nations determines to resort to the gold standard. This course could not be done by stealth. One of the conditions of the arrangement would be that each government should receive, either at its treasury, or at its mint, or at the state bank, both gold and silver without limit of quantity, returning, at the option of the tenderer, either coin of the same metal or notes. But the very first refusal to accept silver would be a public notice furnishing an incentive to hoard or export the very metal it was intended to keep, and would inflict immense injury upon the commerce and industries of the nation whose government should seek to change the established system. Those who imagine that it would be easy for one of the parties committed to the international Joint Standard to depart from it, may reflect, with advantage, upon the fact that neither Germany, nor Italy, nor France, nor Austria has yet been able to adopt a gold standard with gold currency. Nor can any possible conditions be pointed out under which it would be advantageous for a nation within the compass of the arrangement to attempt to return to the single standard.

The question of the ratio presents, no doubt, some important difficulties both of principle and of detail. It would be idle to attempt to adjust it in accordance with any preconceived notion of the future relative production of the two metals. For

ages this has varied greatly at intervals more or less long, the yield, now of one and then of the other, having predominated. Since 1848 we have seen two oscillations, and it is possible that the pendulum may now have begun to swing back again. Geology can tell us nothing useful upon this point as to the future. But history can, and its lesson is that, though variable, the production of these metals has, over long periods, some approach to uniformity of proportion. The settlement of the ratio is, however, a matter of convenience and adjustment of conflicting interests, and this involves conference and mutual concession.

But the important consideration appears to me to be that whether the ratio be 1 to 15½, 1 to 20, or 1 to 22, there will be fixity and assurance. The apprehensions and perturbations which have distressed the commerce and industries of the world for twenty years will be removed, and whichever of these ratios may be adopted, the appreciation of gold in relation to commodities will cease. If the diagnosis of the disorder set out in this book is at all accurate, there will ensue a restoration of confidence, and, consequently, a rise of prices resulting from it. Fears of the scarcity of gold will disappear, and all motive for such great accumulations, in anticipation of unknown contingencies, as those held by the state banks and treasury of France

and Russia which have between them about £150,000,000 of it locked up, will be removed.

The choice seems to lie between a continuance for a long time to come of the present state of monetary chaos and hopeless confusion, which is forcing nation after nation to look to gold as the basis of its currency and its standard of value, and the restitution of the Joint Standard by international accord. I have presented in these pages facts and arguments which appear to me to show that all the great trading and industrial races are suffering seriously from this condition, and that the best interests of all are involved in such restitution.

The attainment of an absolutely unvarying standard of value is impossible. But justice and reason imperatively require us to choose that which, being attainable, is least liable to variation. History teaches that the co-ordinate employment of the two precious metals affords the nearest approach to stability which it is possible to reach. Departure from it—only twenty years ago—has involved the industries, the commerce, and the finances of the civilised world in a maze of confusion and disorder. It has thrust back Free Trade, has increased the burden of taxation, has brought British agriculture into dire straits, has reduced the rewards of industry, and has artificially changed the

terms of private contracts. Wisdom and justice, alike, then, counsel a return to the old path. And it is because the Joint Standard is least liable to variation, and is therefore the only just one, and because this truth is rapidly gaining acceptance, that its restoration may, with confidence, be regarded as certain.

THE END

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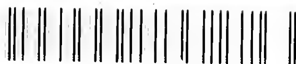

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