THIRD DAY.

Dearness or Cheapness of Money.
Rate of Discount.
Banking Expedients.
Farrer.
Quantitative theory of price.
Cost of Production.
Evils of present system.
Efficiency of proposed remedy.
Why does not France return to status quo ante.
Is not England prosperous?
Producer v. Consumer.
India.

S. We were talking yesterday about scarcity and dearness of gold. It strikes me that what you said about it is inconsistent with the facts of the case as they come clearly before us? How can money be scarce (for that is in effect your allegation) and at the same time abundant?

G. What is money?

S. Eh? I didn't catch your remark. I was going to say that my impression is that there has never been a period in modern days when concurrently with the alleged scarcity of gold there has been a greater abundance of money made available by banking and financial facilities for stimulating the production of commodities of every kind; and, if statistical information is available, it would, I am sure, be found that in all parts of the world the amount of money, credit or capital—whatever you like to call the conventional currency which has been employed—advanced by bankers and others for these purposes, has been far greater during the last ten years than in any corresponding period of the world's history.

G. You must define your terms. That was the gist of my ejaculation just now. You use the phrases "abundance and scarcity of money," in a wholly different sense from that in which I use them when I speak of scarcity of gold—that is to say, of the lack of correspondence between its supply and its demand which makes it dear. *I* use the word money in its economic or scientific sense: *you* in the popular sense—the sense of the daily "money article."

S. Don't they coincide?

G. Sometimes they do. The low value of "money" in your sense of the word may be, and usually is, coincident with the first outburst of a large increase of the world's measure of value; and when that increase is in silver, the immediate influx into a silver-using country will tend to lower for a time the rate of interest there; when the increase is in gold, the immediate influx into this gold-using country will inevitably reduce for a time the rate of interest (or rather of discount) in this market.

S. That, I suppose then, was the cause of the low discount rates early in the fifties?

G. Yes; in 1852 the production of gold was £36,550,000, of which a very large part must have flowed into London in that year. The effect of this, under the Act of 1844, was that the Reserve of the Bank of England was greatly increased for the moment, and the rate of discount accordingly fell to 1½ per cent, and even to 1 per cent, per annum. But we are speaking not of a sudden inflow into the reservoirs of the Bank, causing them to overflow, nor of the low rate of interest thus produced, but of an increase of the quantum of the measure of value; and I assert, with all political economists, and no one has at all impaired our assertion, that the temporary rate of discount in the English market is a wholly different matter, and affords no *test* whatever of the abundance or scarcity of gold money in the world.

S. I wonder if statistics bear you out?

G. Indeed they do. If the discount rate did afford such a test, judgment, on the evidence so taken, must go against your contention; for in the eight years from 1844 to 1851, when the stock of gold money in the world was very low, and trade was low also, the addition to the stock was £81,686,000, and the average rate of discount was 3·6125 per cent, while in the eight succeeding years from 1852 to 1859, including 1852, in which discount fell to its lowest, the addition to the stock of gold was £226,220,000, and the average rate of discount was 4·3457 per cent. You will find the details of the years in Sir Louis Mallet's addendum to the report of the Gold and Silver Commission.* Both periods included a year of crisis and of very high rates, so the comparison is a fair one.

S. Well, I think the world-wide extension of banking, and the savings of the present generation seeking profitable employment, have much more to do with the fall in prices and profits than any

* P. 120. For the mode in which an increase of the precious metals affects the level of prices by slow degrees, see Questions 4675 and 4693, Gold and Silver Commission.

possible idea (for it is little more than an idea to most men of business) that gold is appreciated, or its assumed purchasing power become greater. The banking facilities, I mean, are all practically convertible; they are thus of the same value as gold, and may be called gold.

G. Please explain the way in which you think that banking facilities "reduce profits and prices"? Some banking facilities tend to increase both. A loan from one's banker, whether on bills of exchange or securities, enables one to hold one's goods for better prices. Is it, then, banking expedients, banking machinery, that you mean—such as the said bills of exchange, cheques, bank-notes (so far as they are fiduciary), post-office orders, postal notes, telegraphic transfers, and all systems of transfer, including that gigantic one, the clearing-house?

S. Yes; I was referring to the Banking expedients.

G. Do you mean that these are so many supplements to gold, as a measure of value, so many additions to it in that capacity? If so, they must inflate the currency; and unless Mill and all our great economists are wrong, their effect would be to *raise* prices, not to lower them, and every successive invention or development of such machinery should produce a further rise. How is it possible to conceive that an increase in the amount of that which serves as money, be it metal, paper, or transfers, could depress prices? If the level of prices had *not* fallen, though the production of gold had diminished in proportion to the demands on it, it might be possible to attribute that strange phenomenon to banking expedients; but it is against every definition to be found in any book on such subjects, to suppose that prices are not directly affected by the relation between the quantity of money and the quantity of commodities.

S. Then these instruments, so far as they are used, are a supplement to gold, and a practical increase of the measure of value? When I buy a commodity, and pay for it, half in bills of exchange and half in cash, *i.e.*, by a cheque, or else all in bills, no gold passes.

G. The bills, the cheque, the gold itself, are all instruments. All serve as a medium of exchange; all represent capital, and not merely gold. Yet they may in some degree increase the measure. There must be some mean between the notion that forty cheques drawn on the same hundred sovereigns are equal to £4,000, and the notion that they make no difference at all to the magnitude of the measure of value. In an indirect way and in some degree they supplement gold even as a measure, and so far as they do so their tendency is to raise prices; but their real function (of some in more and of some in less degree) is to multiply indefinitely the gold as a medium of exchange. Some of these expedients, instead of supplementing gold, increase the need of it.

S. How do you make out that?

G. Why, look at telegraphic transfers. They are bills of exchange payable on demand, and being without advice need a larger balance at the drawee's banker, a larger balance at the banker's banker (the Bank of England), and a larger reserve in the Bank vaults to meet them. Post-office orders and postal notes directly increase that need, because each one (for more than £1) demands the deposit of gold at its place of issue, and of gold again at its place of payment. In this year (1892) there have been issued no less than £8,680,000 for £1 each, and £3,260,000 for 10s., of which latter, part was no doubt deposited in gold.

S. But money is certainly cheaper. It brings, I mean, less interest than formerly. In my younger days a prudent saving man looked to a 5 per cent interest on an investment as a rate which he was entitled to obtain with good security, and the profits in trade and agriculture were very much in proportion to the returns from investments; but accumulations of savings have gradually brought down the return from safe investments to 3 per cent and 3½ per cent, and so indeed, by reason of its very abundance, money instead of buying more buys less, brings a less return in income to its possessor, and in a corresponding degree men employing money in the production of commodities run greater risks for smaller profits than in times past, and compete with each other with much narrower margins (but going farther afield) with greater areas and increased machinery of all kinds, looking for an aggregate profit on quantity to compensate them for a diminished return on the article. As profits decrease, processes improve so as if possible to make up for it.

G. Yes, money is cheaper; that is to say, not the metal, but capital. Capital brings less interest than formerly, and you believe the profits of industry and agriculture to have shrunk indeed, but only in a like proportion. So that, the profit being less, men have increased their production in order to make up by the multitude of profits for their smallness. But is this the fact? Are people so doing? Is more money going into industry and agriculture? Is that to be learnt from any trustworthy evidence before either of the Royal Commissions? Is it not rather the fact that because of the uncertainty of profit, and in many cases the probability of loss, in the ordinary channels of trade, men have either taken refuge in a quasi-coöperative business, becoming shareholders in industrial undertakings, hoping thus to increase profits by diminishing working expenses and to limit the possibility of loss; or to take yet safer refuge in public loans and other permanent securities, paying increasingly higher prices for these, and thus obtaining only a low rate of interest. Processes do improve, as you say, but that benefits only those who (as you also say) have the wit to employ them—not trade generally.

S. But take natural products, now, such as wheat. I can't help thinking that the fall in prices was largely owing to the opening up by railways and steamers of new sources of supply to the markets of the old world. The Indian ryot can, I believe, live on fourpence a day, and his labour does not enter very largely into the cost of production; but until the Indian railways made it possible for his surplus produce to reach the sea, it did not affect any European market, however cheap it might be. Freights are about one-third of what they were ten years ago, and it now costs less to bring a quarter of wheat from any port in America to Liverpool or London than to cart it from a farm twelve or fifteen miles from a market. Practically the whole producing surface of the earth is brought by railways, telegraph, and steam-vessels within touch of our markets, and these changes have been effected so noiselessly, while we have all been going about our own business, that we have not been conscious of the tremendous economical revolution which has been effected. And the same forces are in operation with regard to sugar, to wool, to timber; cheap money, cheap labour, and cheap transit, all combine to produce a greater supply of such commodities at any prices which will leave a margin of profit.

G. Quite true; but I have shown already that it is impossible that any development of communication, however potent its effect to reduce prices, could *suffice* to account for the fall of gold prices since 1873. The level of those prices must be lower than it would otherwise be, by the mere fact that gold has not been produced since then in quantities commensurate with the demands upon it.

S. You admit improved communication as a potent factor in producing low prices.

G. No doubt; but the best answer is another question: Were steamers and railways and the telegraph invented since 1873? If they were, they may account for the extraordinary fall of prices since then; but if not, not. The truth is that this great progress in all means of communication has been going on both under the continuous rise of prices and during the continuous fall. Much has been done since 1873, but much more before. It moderated the rise and intensified the fall. In 1850 there was a revolution in the means of communication; in 1873 and since that date there has only been development of it.

There is not the smallest ground, I think, for connecting the date of what you justly call this "tremendous economic revolution" with the date of the fall of prices. On the contrary, the largest economic revolution in communication dated from the same period as the gold discoveries, and that was followed by a rise in prices. The making of railways could not have produced a rise in 1850 and a fall in 1873.

If, then, improvements in communication and economies in banking were proceeding steadily both during the rise and the fall, some other cause than these must be discovered for the rise and fall.

H. We will take your quantities, as well of production as of additional sums used as money, for granted; but still I cannot but think that there is another fatal objection to the theory that any part of the fall of prices should have been caused by the insufficiency of the supply of gold to make head against the demand. If variations of price were due to changes in the standard of value, the unit of which is a constant quantity, those variations must affect all commodities alike, subject to particular conditions in each case. But this is obviously not the case.

G. That is your old argument as to the ratio,* now doing duty as to price. I partly explained this just now in answer to a question of White's. The answer is, that it *does* affect all commodities alike. A section of the Royal Commissioners, indeed, say as you do,† but they adduce no proof, contenting themselves, I think, with giving the evidence of those witnesses who thought so too. Of course, all have not *fallen* alike, because of those particular conditions to which you refer. Of course, some have *risen*, because of the particular conditions attaching to *them*. But the fall in the one case has been increased by a definite cause, amounting to x, and the rise in the other case has been diminished by the same x. In other words, all prices are affected by that which measures the commodities sold. If nature has tended to cheapen them in other ways, comparative scarcity of the measure will cheapen them still further. If nature has by other means done what should cause them to be dearer, scarcity of the measure will cheapen them, or render them less dear; and the cheapness produced by this latter factor will do no good to mankind.

S. I am glad that you don't think the comparative scarcity of gold the sole cause of fall in price. That's one point gained.

G. If I, or anyone, had ever said that the sole cause of the fall of prices was the shortening of the measure, we should make a like mistake to that made by you and Harrop, who seem to hold that it is only due to the other causes you mention.

* See page 13.

† Report, Part II., §32 and §47.

H. Are you sure, after all, that the shortening of the measure has anything to do with it?

W. Do you think, Harrop, that if you make the yard a measure of 30 inches instead of 36, you will get as much stuff in a yard of cloth as you used to get? or, if you make it 40 inches, do you imagine that you will get more cloth for your money than you used to get?

G. If we are wrong, White, we are wrong in company with all the great economists of the past. Our friend Harrop had better occupy the next few years of his life in writing a book—a *magnum opus*—to prove his point!

H. You have said a great deal about the effect upon prices of the quantity of standard money. I don't feel quite satisfied about your quantitative theory.

G. It is not *my* theory. Did you never read Mill's book, Harrop? If you did, you must have forgotten it. He says, "That an increase in the quantity of money raises prices, and a diminution lowers them, is the most elementary proposition in the theory of currency, and without it we should have no key to any of the others."

Mill is not infallible—but his authority is too great to be neglected without conclusive argument.

W. Farrer says, I hear, that the money, the excess or defect of which tends to cause a rise or fall in prices, is not gold, but the money of the banks, of the city, of common life, with which we pay our debts and effect our exchanges, and that it may be and is increased or diminished indefinitely without reference to our stock of gold.

G. I wonder what that invisible indefinable money is?

H. I suppose it is what Smail called just now "the conventional currency" of the world, including, or rather representing, credit and capital; and to this I think you assented.

G. Certainly I assented to the existence of such a conventional currency. What I denied was the assertion that gold could not be scarce and affect prices, because this conventional money was temporarily cheap either by reason of an influx of specie, or by reason of stagnation in business.

W. Farrer's argument seems to be capable of reduction *ad absurdum.* It would follow from it that if there was but one ounce of gold or one sovereign in the gold-using world, the conventional money would go on just as well, and serve all our purposes.

G. Yes. We should come to what Mill calls *macutes* or "money of the mind." He would find it hard to induce his foreign creditor to accept it as a discharge of debt. What an argument in the mouth of a modern Monometallist! We must not, indeed, hold our friend Farrer responsible for the follies of his brethren, for statements that England is the "hub of the world" because "one can always get gold there," nor put into their mouths his argument that it is the conventional money which rules prices, independently of the quantity of gold-money in existence, and that whether this gold-money is much or little, or—logically—altogether non-existent (the metal being used "for other purposes") prices will be unaffected. "Keep your mind fixed," he would say, "on the fact that a pound sterling has been declared to be 123·27 grains of standard gold, and commerce will go on swimmingly without reference to the metal itself."

W. I can't grasp the idea of price being a defined portion of an indefinite, variable, and unsubstantial mass of capital.

G. I should think not! How is that capital—that conventional currency—measured? What is the denominator of which "price" is the numerator? Is price so many fragments of an indefinite mass, or is it so many multiples of a certain number of grains of metal, which must be demanded, and if demanded paid, in order to complete a transaction?

W. The latter, no doubt.

H. I know he says, as you say, diminution of the world's stock of metallic money causes a fall in prices. There are some who say that the contrary is the case, and that it is the fall of prices which diminishes the quantity of money.

G. They say quite rightly; as I have often said in reference to your banking expedients, Smail. The lower prices are, the less is the volume of money *in daily use*, passing from hand to hand, whether it be in cheques, in bank notes, in bills of exchange, or in the specie on which all of them rest. But what then? That doesn't impeach Mill's statement and mine, that increase or decrease of the stock of that specie *in existence*, or, what is in effect the same thing, a narrowing or widening of its use as money by the nations of the world, has an effect on prices for rise or fall.

The unit of price is a metallic one, and if the metal is scarce and dear—let us suppose it to be a metal (say Rhodium) ten times scarcer, and therefore ten times dearer, than gold or silver, it is obvious that you would have to buy 123·27 grains of it with ten times as much wheat as would buy a like quantity of gold. In other words, wheat would be ten times cheaper in the pound sterling of that land of Utopia than it is as reckoned in the pound sterling of England. I don't think the consumer would be the better for that cheapness.

* Book III., ch. 8, §2.

H. I don't know that he would. I don't see, however, how you can maintain the distinction which you draw between money in daily use among individuals, and money taken into national use, as gold was by Germany.

G. When the fall of prices cuts off a portion of the volume of money in daily use, the 30 per cent, or whatever that portion is, is merely laid by in temporary idleness, or used for other purposes. It is still money, and a spurt in trade from any cause will make prices rise, and cause it to resume its activity immediately. But if production ceases, or is insufficient to provide for wear and tear and for increase of population, there is no recourse; the metal in the bowels of the earth is, by the hypothesis, not available, and prices dwindle.

So, if the 300,000,000 inhabitants of China discarded silver and took to using gold money, it would be equivalent for the rest of the world to a diminution of the stock of gold. If the 300,000,000 in Europe demonetized gold, and took to a forced paper currency, that would be equivalent, for England, to additional production of the metal and increased stock of it. There can be no do doubt that in the former case our measure of value would be made dearer, and prices would fall. In the latter, the measure would be cheapened, and prices would rise.

Now such changes as these in the distribution of the metallic money of the world are not adopted in a freak, nor at a day's notice, nor by the action of Nature; nor when done can they be undone without great difficulty; nor can the mischief be remedied by a good season, or by any fortunate conjunction of circumstances as would be the case with an ordinary fall of prices in any market, caused by abundant natural supply, or fortuitous cessation of demand for certain commodities. The reduction of the measure affects the price of *all* commodities, as Harrop rightly said it must.

H. I think I must accept Mill's authority.

G. You had better make up your minds. At present you are in the inconvenient position of (1) doubting whether diminution of the measure of value by the demonetisation of silver could lower prices, and (2) asserting that an increase of the measure by the remonetisation of silver would dangerously raise them!

S. You must bear in mind, that there is another cause for a fall in prices not to be accounted for by a mere comparison of the quantities of supply and demand. A slight excess of supply over demand—a competition of sellers—lower prices and a slight deficiency, as in the case of the coal famine, increases prices out of all proportion to the measure of the real excess or deficiency. You may think me heretical or ignorant for saying so; but I stick to that belief.

G. So do I. But it is a phenomenon which invariably, in the case of consumable articles produced at the will of man, tends to correct itself; and can in no way account for a fifteen years' steady fall in the level of prices.

W. Why have you to go so far afield to account for one or other being "the cheapest metal," or for a rise and fall of prices? What has become of our old friend, "cost of production"? "A hat costs a sovereign because it costs exactly the same amount of labour to produce a sovereign as it does to produce a hat." Every schoolboy knows that!

G. Possibly: but no one else! And I fear even the infallible schoolboy would be, as you were just now, unable to explain how he should get at the cost of production of the £880,000,000 of gold money in the world, the accumulated produce of thousands of years! The prices of comsumable and perishable commodities are indeed governed by the cost of production, plus demand. But if a new £880,000,000 of gold, the imperishable measure of value, were produced—no matter whether at a cost (including all vain searchings) of £6 an ounce, or by the Count of Monte Christo in a cave, at no cost at all—the effect, viz., a large increase in prices, would be exactly the same.

S. That seems probable; but there is another thing to be accounted for. You speak of fall of prices, and I suppose some fall must be admitted. But how is it with articles of commerce, the production of which is limited and cannot be rapidly extended by capital or enterprise—as, *e.g.*, good French wine, or, indeed, any good wine or works of art? It will be found that prices are higher than they were ten years ago, that the purchasing power of money or gold is less than it was, and that for everything of which the production or supply is nearly a constant quantity there is an increased demand, because there is an increase in the number of persons who are able to buy and who have money at command; and if gold is money and money is gold, then gold for these purposes has undergone a process of depreciation instead of appreciation.

G. That accords with my answer to a remark of Harrop's. Certainly when anything grows dearer, gold is, as respects that commodity depreciated; but I am speaking now of produce generally and its prices, not of particular articles. Mouton (Rothschild), first-rate pictures at Christie's, ancient MSS. at Sotheby's, rare coins and books, race-horses, match-horses, opera-boxes, fetch not only as high but higher prices than before. They cannot be increased in quantity at will, and cannot properly be placed in comparison with commodities which indicate reproductive wealth. The same reasoning applies to them as to permanent investments: the unproductiveness of business makes men rest on their oars, content with what they have and willing to take a low rate of interest on Consols, and no interest at all on such purchases as these except the interest of enjoyment. It indicates also that the owners of these realised fortunes are becoming richer and more numerous, and that those whose labour is reproductive are becoming poorer.

S. I hold to this point; gold is simply a standard of value; and so long as our currency is convertible and we keep a certain reserve of the metal to assure the world of its convertibility—so long, that is, as our commercial system rests on a sound basis—though interest may rise and fall as the quantity at command becomes less or more, there is little chance, I venture to think, that gold as gold will be "appreciated."

G. Nothing can be more just than your first words. Gold is merely a standard of value: and if we use the words in the same sense, they are the key of my position, and dominate all your arguments, destroying them as completely as any arguments of mine can do. What do *you* mean by the words? I think you mean what *I* mean when *I* say *measure* of value.

That it *is* a measure—besides any other quality it may have—is the very thing for which I contend. If either the measure shrinks, or the thing measured is enlarged, the effect is the same: the thing measured will contain more multiples of the measure. If both happen at once the effect is again the same, but intensified. But if you repeat that substitutes for gold have been found, supplying the alleged deficiency, I must then ask, Have they been discovered since 1873? and what were they when they were discovered? They were *orders to pay* so many sovereigns, so many units of the measure of value. According as those units are parts of a large or a small aggregate, portions of an abundant or scarce commodity—parts, that is, of a cheap or dear whole—so must the orders to pay them, even if these are really an addition, a supplement, to them, and themselves part of the measure, rise and fall in value with it, and be appreciated or depreciated with its appreciation or depreciation. You spoke of buying a commodity, and paying for it in bills. If gold has become dear, *i.e.*, if the commodity has become cheap, the volume of those bills—of those banking expedients of which you speak—shrinks in exact correspondence with the increase in the value of the gold; *e.g.* copper used to sell at £100 a ton, and it now sells, we will suppose at £50. The volume of your bills given in payment in 1850 would have been £10,000 for 100 tons. They would now be £5,000; and so with all other commodities.

S. You argue, then, that the volume of paper at any given time is dependent on the value of gold?

G. Yes; and dependent on the quantity of gold itself in respect that its aid to the standard, whatever that aid be, must be dependent on its being exchangeable for gold; and the power of getting gold for it, or the belief in its exchangeability, must be affected by the amount in existence and obtainable somewhere in the world.

S. As to convertibility, I admit that I don't feel sure that, in times of stress and doubt and financial distrust, our present stock of gold is sufficient to maintain the convertibility of our paper money. Individually, I think the amount of the ballast somewhat dangerously low for the financial ship in bad weather; but that is another question altogether.

G. That the amount in the Bank of England will pay all comers, and that that in the other banks will pay all the demands on them, is merely an affair of bankers' calculations, on which the public can form no sound judgment; and has nothing whatever to do with the relation of the unit of the measure of value to purchasable commodities.

S. I have, I think, only one more shot in my locker. Why complain of low prices? They bring their own cure. And the cure is the disappearance of profits and of the capital which has been employed in production; but if there is still an accumulation of capital—unspent profits—going on, it will seek employment at any rates of interest in stimulating the production of the necessaries of life all over the world. The farmer and the landed proprietors have lost capital and income which they may not regain, but the community are still on the whole richer, and increasing the stock of money which is as good as gold; while you cannot deny that sufficient gold is found to maintain the standard of value.

G. That is quite true, and as regards the (assumed) decennial periods of inflation and depression of prices caused by over-sanguine or over-despondent trading, there is nothing to be said against your assertion. But we are discussing a totally different phenomenon—one spread over longer periods, and caused, not by over-sanguine or over-timid speculators, but by uninquiring legislators.

If the farmer and landed proprietor, the cotton-spinner and mine-owner, had, as has often been the case, been launching into unjustifiable speculations, I admit that the country should not be called upon to interfere between them and the natural consequences of their acts. But it must be remembered that the foundation of the bimetallic contention is, not that the country is not growing richer, but that the goods of fortune are being unequally distributed; and *that*, not by Nature, nor only by individual enterprise and saving, but by the action of the (on this point) short-sighted legislation of 1816—19, and by the neglect on the part of this generation to weigh and consider the vital consequences to ourselves of the effect of the action of the German and French Governments in 1873, taken in conjunction with that legislation. And we contend that the consequence has been that the classes who live upon realized capital have grown richer, while those who have lost or lessened their capital and income are the industrious producers.

S. You have given us a catalogue of ills that have followed from the events of 1873. You have yet to answer my doubts about the efficacy of your nostrum.

G. Why, if the action of Germany and France in 1872-3 has, as is admitted, swept away the Par of Exchange, if it has tended, through depriving silver of a great part of its ancient monetary powers, to appreciate gold, and to produce a consequent fall of prices, and if the result of these circumstances is the handicapping of British Manufactures, whether of corn, horn, or yarn, *i.e.*, of food and clothing, it needs no Œdipus to tell us that the reopening of the Mints to the white metal, and restoring it to the full exercise of its monetary functions will undo, or go far to undo, the mischief that has been done.

S. That may be; but you have still to convince me that it will not bring other mischiefs in its train; that the remedy will not be worse than the disease. If the former state of things was good for commerce and for the welfare of the people, and if its destruction was so harmful, why did France make the change? and why, having made it, did she not take the earliest opportunity of retracing her steps when its evil results became manifest? Tell me that.

G. The solution of your riddle is difficult, but not doubtful. Its difficulty arises from its having to travel over twenty years, analysing the actions and conjecturing the motives of men during all that time. Why did France and the Latin Union make the change? In two words—Over-pressure on the Mints. Hostility to Germany, to whom the open Mints of France and Belgium were a great source of profit.* It is quite certain that they had no intention of finally closing their Mints when they placed the first restrictions on the coinage of silver in September, 1873; and that when they did finally close them they had no conception of the grave results that would follow on their action, whether in the fall of prices or in the destruction of the par of exchange.

H. Might not the French answer that they knew their own business and what was best for their country?

*NOTE.—See an interesting article on the Latin Union, by M. Cucheval-Clarigny, in the *Revue des Deux Mondes* of last November (1892).

G. They might. They have said so as to Protection of Native Industry; but I don't think you will maintain that they did know it. As to the danger of closing their Mints, where do you find evidence in any French writings of the time when the step was in contemplation that the idea had entered the head of any Frenchman? Had it entered yours, or the mind of any of us? Even now, how many have given it any consideration? Why, it is not five minutes since you yourself were very hazy on the subject; and you and Smail were both of you in doubt whether gold had become dear! There was but one man in England at that early date who traced the mischief to its true cause, and foresaw and foretold the precise course that it would take; and that man was Ernest Seyd.

H. I fancy too that you were no keener-sighted than the rest of us; and have been wise after the event.

G. Quite true. I had heard what Seyd had to say in 1876; and was not more inclined to believe his prophecies than the majority of Englishmen of that time, till circumstances led me to examine the matter more closely.

H. It is very strange that a nation should go wholly wrong.

G. Not very. I daresay England, as well as France, has done so before now. *Populus vult decipi.* You must remember that France as well as England is and always has been governed by statesmen who have little personal knowledge of foreign trade; and that it could hardly be expected that they would or could exercise a correct judgment on matters which of all others needed personal experience.

W. I suppose the French would naturally accredit that sort of foresight to "a nation of shopkeepers."

G. There is some reason to think they do; but I am not sure that they have any reason to do it. We, indeed, in England have had excellent men of business as our rulers, especially of late years; but for the most part they have had no special experience of exchanges, nor of that which is the cause of exchanges, import and export of commodities.

S. Oh! Oh! Has Goschen no knowledge of these things? of Foreign Exchanges, for example?

G. No man more. There have always been exceptions, and he is a brilliant one. And for that reason he would never have needed to ask any of the ingenious and clever questions with which you have been pelting me. You ask why France and the Latin Union did not take the earliest opportunity of retracing their steps. They did take it. They warmly welcomed the invitation of the United States to the Monetary Conference of 1878, with a view to retracing them; and three years later they joined the United States in an invitation to a new Conference with the same object.

H. But nothing came of it; and I cannot but think that if France had satisfied herself that it was desirable she would have done it with or without the other nations. I doubt she won't do any more at this coming Conference of 1892—if it is coming.

G. She refused to act alone, or even in conjunction with the United States, either in 1878 or in 1881, because she had learned by experience that the wider the union the safer; but she might have been satisfied, for all that, that what she was able to do alone for sixty-two years, and with the support of the other States of the Latin Union for eleven years more, she and they with the United States could have most certainly and safely done in either of those years, or at the present moment. It would have been easy in 1878; less easy in 1881; and less easy still as time went on, because, with closed Mints and increasing production, silver was becoming discredited. Still, the Mints once re-opened, the discredit would have ceased; but there was, no doubt, another impediment.

W. What was that? It must have been a strong one, or they would not have allowed it to stand in the way of what they recognized as their national interest.

G. England stops the way. It is evident to all the world that to no nation are the interests of Commerce so important as to Great Britain. Neither France nor any other country has an India on her hands, whose destinies she must direct and for whose welfare she has to provide. What does the Commerce of all Europe with silver-using countries weigh in the balance against the Eastern trade of England? "If," say the Continental nations, "England, whose interests are so great, refuses to make any change, why should we do it? England ought to know best. Let us follow her. She has prospered greatly under the law of a single gold standard. Had it been otherwise she would have been the first to change. When she does so, we will do so too."

H. Very sound argument, as it seems to me.

G. I return to what I said just now. If they had the smallest reason to believe that our Statesmen, who have, in fact, the directing voice in these matters, had given any intelligent study to the question, had any personal knowledge of those branches of our commerce which by their supineness they are helping to destroy, the argument might be good; but not only is it evident that they have no such knowledge, but that they seek inspiration and guidance from men who have no more direct knowledge, no more direct interest, than they have themselves; forgetful of the fact that you do not go to the tailor or even to the shoemaker to learn whether the shoe pinches, but to him who wears it.

W. Do you think, then, that other nations are moved in this matter solely by their admiration of England's commercial wisdom?

G. No; for let us take France as an example. She was very uneasy on the monetary question 10 or 15 years ago; but she now finds that though her commercial prosperity is not advancing as rapidly as she could desire, she can jog on very comfortably as she is, waiting patiently till we shall be cured of our monometallic madness, and be forced by the stress of adversity into saner courses. Then, she thinks, the reform will be conducted, as in truth it ought to be, on broader lines than if she, with her allies of the Latin Union, should at once open her Mints.

W. I should imagine that the one thing which affects the imagination of foreigners is the commercial eminence of England under the law of the single gold standard.

G. The fallacy of *Non causa pro causa.* They have no evidence that that eminence is a consequence of the single gold standard. It would be very easy to show that it is not. Even if one could show that it conduced to our prosperity under the monetary circumstances of the world as they existed before 1873, certainly our prosperity has not been conspicuous since that date; as you may learn not only from the evidence of the sufferers, but from the Reports of two Royal Commissions who bestowed infinite pains on sifting that and the other evidence before them.

H. But I am told that since 1873 the Income Tax returns have shown a satisfactory and normal rate of increase, and that the Death Duties also, which are pretty good evidence of Commercial prosperity, have been very large.

G. As to Income Tax, I should like to know how much of the increase is due to more careful and more exacting collection, concerning which I remember some very authoritative evidence, and how much from increase of trade profits assignable to financial speculations, or causes other than to any prosperity of legitimate commerce.

As to Death Duties (if you like to call them by that ghastly name), you can hardly be serious in quoting them as evidence of prosperity since 1873! Have all the people who have died within the last fifteen years, and left large fortunes, made them during that period? Surely it would be impossible to adduce more inconclusive evidence! So far as their fortunes sprung from trade profits, they are more likely to have been the earnings of all their lives, say, down to 1876, minus the losses since that date.

To return to your question, Smail, as to the reluctance of

France to re-open her Mint. The true answer is really comprised in the four words, "England stops the way." Everybody knows that England has but to hold up her finger, and the nineteen other nations (or whatever be the number) to be represented at the Conference will at once fall into line. This they certainly would not do—not one of them—if they did not think it to their interest to do so; and no one has shown in plain and conclusive words, or otherwise than in vague declamation, what harm could result to them or to us from doing so.

Now, Harrop, Smail is answered, and, I hope, convinced; and I will have a turn at your tirade. What was it, in brief?

H. It was the political aspect of the question, which I think must be decided, not by the scientific argument, but by considerations "better understanded of the people."

G. I remember. "Our object," you say, "is to make things dearer, but the multitude want them cheaper, and the multitude have votes. Indian cultivators will suffer, and our manufactures with them. Wages have scarcely fallen, and their purchasing power has risen."

Well, now, if your minor premiss were only a little true your argument would be a good one; for certainly the question will be decided by the voting multitude according to what they think to be their advantage. But the "object of bimetallism" is not, as you think, attained if prices rise. The main object, as you will see in my evidence, and in that of other witnesses, is the sound one, against which no political economist can, and no monometallist ought to, say a word.

It is the restoration of the par of exchange between gold and silver-using countries, the establishment of one money in the world of commerce in place of the two disjointed moneys which now exist, producing between them a kind of bastard Bimetallism, begotten without the solemnisation of true and lawful wedlock between them. And in this Bimetallism, strange to say, monometallists rejoice.

H. The par of exchange may be *your* object, but I am satisfied that rise of price is in all your hearts.

G. As to the general objects of the party—for it is a party, and a large and increasing one—do you not see that while all of us have in view the general good of commerce, each man necessarily has most in sight the sufferings of his own neighbours, and lifts up his voice accordingly. My manufacturing friends cry out at the protection which our evil legislation has afforded to their Indian rivals. The Indian Government cry out at the annual loss which it has entailed on them, obliging them to maintain oppressive taxes, and abstain from remunerative public works. H. Chaplin sees around him the distressed condition of that greatest manufacture—the production of food—and he seeks to remedy that depression. The merchant sees that the disruption of the par of exchange would bring his trade with silver-using countries to mere gambling, and he is forced to give up that branch of business, and cries out for himself and for British commerce. The wage-earner is not the fool you take him to be, and he also is crying out pretty loudly. You, rather illogically, as I think, fix your eyes on H. Chaplin, and transfer what you wrongly deem his sole object to all these other interests concerned. If you ever come to be Chancellor of the Exchequer you will have to take a less narrow view.

H. Wait till I am, and you will see.

G. I can only say that I hope it may be when you are much older, and as much wiser as we all hope to be.

H. I am wise enough already, and so I think are we all, to know that the agriculturists are hoping for a rise of prices—that the general lamentation has all along been for the depressed state of trade and lowness of prices. You won't deny that.

G. Do you happen to know any trade, the persons engaged in which do not desire a sufficient rise in the prices of their wares to enable them to live by it? We have, as you say, all of us, the rise of prices in our hearts; but only so far as it springs from the general improvement of trade, and the increase of natural prosperity. No doubt depression of trade, by whatever caused, brings about lowness of prices, and this again reacts on trade and intensifies the depression. Am I to count either of you as desiring a fall of prices produced by a decrease of national prosperity and a decline of national wealth?

H. S. and *W.* Certainly not.

G. I think you represent in that, the opinion of all thinking men. I will admit that one of the effects of such increase of the measure of value as the rehabilitation of silver might produce would probably be some rise of general prices of commodities, but it is impossible to say how much or how little it might be, or how much of it would be the result of the consequent revival of trade. You will see in evidence before the Royal Commission* that there is likely to be but little inflation of the general currency of the world from the increase of the measure of value.

H. I hear it commonly said that gold has appreciated, *i.e.*, commodities depreciated, 30 or more per cent. You have told us that you don't attribute all this fall to the greater demands upon gold. If that were the sole cause the restoration of silver at the

* Questions 3734–40.

old ratio would reverse it, and the rise would be equal to the fall. Can't you tell us what sort of a rise we might expect?

G. That I can not. The causes of the fall are threefold:— 1. Abundance; produced generally by improved communications. That is wholly good; and would not be touched by the restoration of silver. 2. The direct action on gold of the events of 1873, and by other events consequent thereon. I have already said how impossible it is to assess the proportion of the 30 per cent which is due to this. 3. The indirect action of the same causes, shown in the paralysis of trade. To this a large proportion is due; and any rise which would follow the cure of this malady would be an unmixed good to the whole nation.

One of the indirect effects of the measure would be that the protection which the present system grants to the Indian cultivator would be removed, and the English producer would cease to be handicapped.

H. Ah, the producer! I knew he must come in. Have you no care for the consumer?

G. I beg his pardon, and yours. I confess myself not quite able to swallow the new creed, of which our friend Bertram Currie seems to be the apostle.

S. What creed?

G. Oh, it is a confession of faith which is daily recited in honour of the great goddess Vilitas (which is, in the vulgar, Cheapness), and runs to this effect:

"Producers are infernal scoundrels and public enemies, and when we have destroyed the last producer the ravens in the wilderness will feed the consumers."

W. In any case you seem to admit that you will hurt the Indian cultivator and the Indian spinner.

G. I admit nothing: I wait till you people have made up your minds with which horse you will win. One speaker in the debate of 1889 was sure that the spinner gets no advantage from the fall of the gold-price of silver; and the same is said of the ryot, or rather of the landowner. Very well, then; it is clear that in that case he would suffer no loss by the rise of that metal. But you think he *would* lose, and I incline to that opinion. But as to the Indian producer, according even to monometallist arguments, the adjustment of silver prices in that country is only a question of time, and any rise therefore caused by an equalizing of gold and silver prices could only be an anticipation of what time would sooner or later do. The longer the adjustment is postponed, the worse will be the condition of the Indian.

But if *one* must suffer, and no one can doubt that the Englishman does, cultivator for cultivator I prefer to stand up for the English one. We unwittingly benefited the former by the tares which we sowed with the wheat in our legislation of 1816–19 (which seed bore fruit in 1873), and we should do him no injustice, and should help ourselves, so far as our own producers are concerned, by reversing that legislation.

H. You treat it too lightly. My opinion is that the market would be destroyed for the Indian's wheat in Europe, and for his cottons in China. I believe such a proceeding in these days of Indian Congresses would produce a mutiny far more serious than the greased cartridges did.

G. You think the Indian troops would mutiny, and the population rebel, because one Englishman was permitted to pay his debts to another Englishman in silver or gold at his option. I don't believe it; nor is it true that the Indian wheat trade will be destroyed.

H. They would see that you were sacrificing the interests of 250 millions of people in order to increase the salaries of a few officials by saving them loss in exchange.

G. I deny the sacrifice! A few landowners and merchants would perhaps have their profits curtailed, but the 250 millions would be spared taxation to the tune of six or seven millions sterling a year. We propose to restore not increase the salaries of Indian officials. You can't really suppose that their grievance is at the bottom of all the agitation, that Lancashire is in a ferment, and all traders with silver using countries deeply alarmed, because a few public servants in India are unjustly treated. The fact is that you know, and the Government knows, that the complaint of the Indian Government and India generally have a deeper root than that, and are well founded; but the Government and their advisers in the Press all prefer to sit with folded hands, trusting that something will turn up.

W. Didn't I hear something about a committee being appointed to look into it?

G. Oh, yes; one is sitting, and the Indian Government are pouring out their complaints before it, and saying "If you won't give us what we ask, and what all of us who have studied the question believe will be good for you as well as for us, give us the next best thing which will be good for us, at least in the present distress, viz.: a limitation of the coinage of the rupee, and consequent maintenance of its gold value."

W. What do you think of that scheme?

G. It would limit the present losses of the Indian Government, and it is but natural that those who are responsible for Indian Finance should catch at any straw. It is doubtless better to lose £5,000,000 a year than £7,000,000! I suppose, also, that it would steady England's trade with India.

H. My doubt is whether it is defensible on principle.

W. And mine, whether it would answer in practice.

G. As to principle—The resources of vituperation fail me! The good folk who are horrified at the enormity of giving an artificial value—so they characterize it—to one portion of a country's money propose now to give an artificial value to the whole of the money of India, appreciating it by diminishing its volume!

W. But I am told by some that India is to have a gold standard; in which case the position will be, I take it, the same as that of France, as having an imperfect bimetallic standard. By others I am told that it is to be a gold standard without a gold currency. Why not? They say it has been successfully tried elsewhere.

G. I don't know where. Peru declared some years ago that her standard was to be gold, but nothing whatever came of it. You may get some traders to think and sell in shillings or pence, but that is merely a matter of convenience, and will have no economic effect at all. It is all very well so long as the balance of trade is in favour of India; but let it once turn, and you have all the economic evils of a currency whose nominal value is greater than its export value. You cannot have a "limping" standard unless you have one metal that is the true standard of the country, the other being a mere token. A gold standard without a gold currency seems to me not to limp but to be lame of both legs.

H. You don't like it, I see. Neither do I. But need we apprehend a turn of the balance?

G. I don't know—nor does anyone as yet. You say, Harrop, that Bimetallism would destroy the Indian trade with China. That trade will no longer have the vicious protection which it now enjoys at the expense of British manufactures; but Bimetallism would certainly not destroy it. An artificial value given to the rupee will do by that trade what our present law does by the English trade with the East. It will destroy the par of exchange; and so will it of course if a real gold standard should be attained.

W. What is the objection to a real gold standard?

G. Where would India get her gold? Must she have a gold loan of thirty or forty millions? or do you expect that her gold hoards will all be poured into the Treasury? Or perhaps you look to a rush of British merchants, unable to buy silver, refused Bills by the Indian Council, having to make remittances to India, and enforced, *coute que coute*, to send gold?

W. Oh, I know nothing and expect nothing; but I heard that the plan was for the Council to sell Bills to all who wanted them, and thus to make the Indian currency automatic.

G. Very well. Then *that* source of gold is cut off. In the other cases, the very people who are so fearful of putting a temporary loss on those who would have to make their remittances in dearer silver under a Bimetallic regime, are willing to subject them to the continuous loss of having to send dearer gold. Why should we think the hoards will be poured forth? They don't now bring out their silver, though they must fear further depreciation. They have not brought forth their gold all this time, though they can buy cheap silver with it, which is still convertible into rupees, and will, under the new law, be convertible into nothing at all.

W. If they do bring it out, it will, I suppose, meet one of your difficulties. It will diminish the additional strain on the world's stock of gold.

G. Yes, so far as it goes; but whether by loan, or by any other expedient, the demand caused by the introduction of a real gold standard into India will add enormous weight to the burden of the appreciation of gold which now presses on commerce.

H. I doubt the Indian people won't find any advantage in it.

G. I should say not. Those hoards of silver are now all of them potential rupees. Think what they will be if you absolutely destroy the market for them, and the people find it out!

W. They will be very slow to find it out, I think.

G. The enemies of the British Raj will not be slow to open their eyes! Then if the United States cease their silver purchases, to what point will silver fall! The Monometallist conscience shrank from assenting to a ratio of $15\frac{1}{2}$ to 1, when the market price was 18 to 1; and they now propose a ratio of about 22 when the market price of silver may be driven down to a ratio of 40 to 1! Truly the Monometallist gullet is an organ of very singular construction. It will swallow the largest camel, but a very small gnat will choke it! And when the eyes of the Indian are opened, and he knows that one half of his hoard is annihilated, how do you think he will like it? You were afraid, Harrop, of a mutiny in India if I should be allowed to pay you 25 double florins for the £5 I owe you. There would be indeed cause to fear it if we should be found robbing our Indian fellow-subjects!

Some Monometallists are horrified at the idea that we, "whose earnings are stored in gold," should lay sacrilegeous hands on our present monetary law, and yet they look with complacency on a change in the monetary law of India which might almost annihilate the hoarded earnings of that country, now stored chiefly in silver.

S. If the United States should buy no more, and India should close her Mint, what would be the result? Silver would get to the bottom; and things would readily, but with some delay, readjust themselves.

G. Readjust themselves! Of course they would readjust themselves! They are always readjusting themselves, and have been doing it since 1873. It is this constant readjustment that is our grievance; for it means a constant interference with the free course of trade. The element of finality is altogether wanting.

But if, when you speak of reaching the bottom, you mean reaching a point when the relative value of silver and gold would become stationary, I would ask you why it should be stationary when silver is low as measured in gold any more than when gold is low as measured in silver? Why in the world should silver then become steadier than copper or castor oil? Of course, if the production of silver should cease, one cause which might disturb the relative value would be eliminated; but you would still have fluctuations in the supply and demand for gold, and also in the demand for silver; and as the supply of silver, if it continued, would be as likely as not to counteract one of the other three disturbing causes, its cessation might have done at least as much harm as good; and in no case would you have got a step nearer to the Par of Exchange.

H. Well, I should like to look into this Indian matter. That must be enough for to-day, as far as I am concerned. I want to come to the direct interests of England. I have a formidable indictment against you on that head. Can we have it out on Monday next?

G. Yes, that will suit us all.