

Colloquy on Currency.

A PENTAMERON.

FIRST DAY.

Ratio.

Price of precious metals.

What is a pound ?

Preference for Gold.

Gold standard more stable than silver ?

"Gresham Law." Locke. Newton.

Currency laws. Law of Dual Legal Tender.

Quantitative theory of Price. A. Smith. Jevons.

Variableness of Monometallic and Bimetalllic money compared.

Production of Precious Metals.

A COLLOQUY ON CURRENCY.

Scene.—KENNAQUHAIR. *Time.*—AFTER DINNER.

Present: MR. WM. SMAIL, M.P.; SIR WM. HARROP, M.P.;
MR. CHARLES WHITE; *and* MR. H. GILBERTSON, *the*
Chronicler of this Symposium.

G. Well, Smail, I am very glad that you were all three able to come, so that we may at last have a chance of threshing out the principal points of the currency question.

S. A very important one, but one very difficult to understand.

G. I will do my best to make you understand it.

S. Thank you; you will have your work cut out for you, and the talk may be a long one. But however long, I don't expect that you'll bring me to your way of thinking.

G. Then you can bring me to yours: I have an open mind; and with such forces against me, Harrop, a past master in all that is historical, and you others, the incarnation of common-sense and knowledge of business, what is a mere student of political economy and finance to do, even though he has some smattering of history, and lays claim to a small portion of common-sense?

H. Well, my friend, history and common-sense are, I venture to say, both against your contention.

G. What *is* my contention? I should like to set you all down to a competitive examination, that I might see which of you would give the best—or the worst—account of my contention; but I shall choose rather to be examined than to examine, and I should like you to take for your starting-point Harrop's dictum that history and common-sense are against my contention. Do your best; *Tirez les premiers!* Come, I will give you a mark to fire at. Here is my thesis:

1. That the ancient law of England which prevailed from 1666 to 1816, provided free and gratuitous coinage of the precious metals into pounds sterling of a fixed weight and fineness, the gold coins bearing a definite proportion to the silver coins, and either being equally available for the discharge of debt at the option of the debtor.

2. That it was always, and is now more than ever, necessary to the well-being of the foreign trade of Great Britain, that that law should be re-enacted, and that the proportion therein prescribed should be consonant to the proportion adopted in foreign countries, thus securing a Par of Exchange between gold and silver.

3. That the legislation of 1816, in excluding silver, exposed our commerce to the evils consequent on the destruction of the Par of Exchange, from which evils we were protected till 1873 by the action of the Bimetallic law in other countries.

4. That the only remedy would be an international agreement to open the mints for the coinage of both metals at a definite proportion.

H. Well, my friend, I object *in limine* that all history and all experience show that it is impossible for the State to fix the value of any two commodities.

S. Add, that if it were possible it would be undesirable.

G. My withers are unwrung! What is that to me?

S. Surely you propose to fix the value, the relative value, of two commodities—silver and gold.

G. Certainly not. There are many loose thinkers and speakers about, in currency questions as well as in other branches of politics, but I hope you will find no such proposition as this in anything that I have spoken or written.

H. But if you fix, as you must admit that you do fix, the ratio of value between two commodities, you necessarily fix the value of each.

G. I have said nothing at all about value. If I had said that any one was bound to give an ounce of gold for $15\frac{1}{2}$ ounces of silver, or *vice versa* (I assume a ratio *ad interim*, but I dare say you will touch on that matter before long), I should indeed have fixed their relative value. Their positive value I could of course not fix without going through the whole range of commodities and affixing a gold or silver valuation to each. But in the bimetallic law there is no authoritative fixing, relative or positive.

When the second Lord Liverpool asked himself in 1816 Peel's question of 1844, "What is a pound?" the answer lay ready to his hand in the existing law: "123·27 grains of standard gold, or (at 15·21:1) 1858·06 grains of standard silver, at the option of the payer." They were guineas, not sovereigns, but the proportion was the same. But the Minister knowing that before the suspension of cash payments gold had become the metal most in use, and

finding reasons for it in his father's letter to the King (reasons rightly declared by Lord Ashburton to have no foundation in fact), persuaded Parliament to decree that the answer should be 123·27 grains of gold, and nothing else. He put no *value* on gold, but left that to the market. What he did do was to order that every payer might and must make his payment, in default of specific agreement to the contrary, in pounds sterling or parts of a pound sterling, and that the pound should consist of so many grains of gold.

That law did no harm at the time, both because gold had been the chief coin in use, and people were accustomed to it, and for another reason, on which I will touch presently.

Neither did our bimetallic law of 1666 (in force till the suspension of cash payments in 1797), nor the French law of 1803, fix any values. If, as I wish, such a law were re-enacted here, the payer might pay, in all new bargains in pounds sterling, either gold or silver, in the coins issued at the legally appointed ratio. But he might make what bargains he pleased. He could ask as much gold as he pleased for his silver, or as much silver as he pleased for his gold; he could pay as little of either metal for the other as he could persuade the seller (if there were such a thing as a seller) to take. I need hardly add, that he could pay as little as he chose of either or both for any commodities.

H. and S. [together]. But the mainspring of your argument for bimetallicism is that the ratio remains constant.

G. To be sure it does. But the law does not fix either price or value. It is common-sense and free will, in other words, "the higgling of the market," that fixes them. All experience shows that in a country under the bimetallic law there has never been a different price of commodities according as the money tendered was gold or silver. It is obvious therefore that while the Mint (assuming a ratio of $15\frac{1}{2}$ to 1) would give every man a sovereign for his 123·27 grains of gold, and ten florins for his 1893·54 grains of silver, it is not likely that any man would give 123·27 grains of gold + x for 1893·54 grains of silver, or 1893·54 grains of silver + x for 123·27 grains of gold, for the ordinary purposes of internal trade.

S. He might have the gold, but might want the silver to make a spoon. The holder of silver, if it was scarce, might say "I want twenty-one shillings for my 1893·54 grains. The Mint price would not help the buyer.

G. In theory it would not. In practice the fact that the two parcels of gold and silver were equal at the Mint would generally govern the matter. No one has ever asserted that it always would, or that it ought to do so.

It is not the business of the State to find cheap gold for the

goldsmith, or cheap silver for the silversmith, any more than it is to find cheap lamb for the butcher. Our monetary law, with no such intention, produces the effect of a definite limit as to minimum, and an approximate limit as to maximum, on the price of gold for the arts. But the law was not made for the goldsmith's advantage, but for the welfare of the community. If an alteration of the law should be found advantageous for the community, it will have to be passed, even though in theory it might appear distasteful to individuals.

W. So much for the buyer of the precious metals. How about the seller?

G. The seller is absolutely secure. No man in his senses, if he can get 60s 8d. an ounce for his silver, will sell it to a silversmith, or to anyone else for 60d., or any less sum. Are you inclined to sell me an ounce of gold, Smail, for 77s.? Why won't you? Because you can get 77s. 9d. at the Bank.

H. You have not fully answered my question about the constancy of the ratio.

G. Constancy of the ratio is one thing, and constancy of prices quite another. The former means that you may always pay your debts in money of either metal, coined in the proportion indicated; the latter relates to commodities as measured in that money.

S. But we all know that there has been a premium on one or other metal. Surely the ratio cannot be called constant when the relations between the two metals are thus apt to vary.

G. Why not? Agio, or premium, is merely the result of a bargain between debtor and creditor. It does not deny, but rather affirms the rights of the former, to pay his debts at a ratio definitely fixed and made constant by law.

W. What distinction can you make between Ratio and Price? Surely Price *is* the Ratio between the measure and the commodity measured.

G. Certainly. Price is a Ratio; but it does not follow that a Ratio is always Price. There may be a ratio between other things; and the ratio of which we are speaking is the arithmetical ratio established by law between the two portions of the legal tender money of the realm. When the law declares that 36 inches shall equal a yard measure, it says nothing about the price of the yard, nor about its value in commodities. So neither does it in respect of legal tender money.

S. Do you see what F.R.S. writes in the *Times*?*—“Clearly a ratio cannot be fixed beforehand at which gold and silver must

exchange," and he proves it by the analogy of measures of length, which he says could not be made of metals of different contraction and expansion.

G. Couldn't they? He has much to learn; let him ask his clock-maker by what device a pendulum is kept at the same length, notwithstanding expansion and contraction through heat and cold. Precisely by the device which F.R.S. supposed to be impossible. However, were it not so, and did it seem impossible to establish such measures of length, yet if history showed me that for seventy years it had been done, I should be inclined to think there was something wrong in the theory. But the simple answer to F.R.S. is that no one proposes that gold and silver should exchange.

W. I still don't understand the difference.

G. I may seem to be drawing an unnecessarily fine distinction; but to my mind it is very important to show that the law fixes no relative price between the metals, but that it merely enables the debtor, saving any special agreement, to pay in either metal according as it is most easily obtainable; and that this causes an increased demand for that metal, and so tends to redress the balance of demand and supply. The demand for gold currency in England is artificial and arbitrary, and the same may be said for the demand for silver currency in India. The demand for each is unaffected by the fluctuations in the supply; but by opening the Mints to both metals, and fixing a legal ratio at which debts may be paid, the demand, which, as I have said, is always artificial, is made to fluctuate automatically with the supply; and by the natural process of supply and demand the relative value of the two metals remains practically constant; but this is a totally different thing from the relative value being fixed by law.

S. I doubt the relevancy of your seventy years argument. That equivalence between the two precious metals sprung from other causes.

G. So I have often heard. But I have never met with anyone who could even guess what the other causes were.

S. I dare say I shall be able to give a guess before we have finished our talk.

H. I want to know why, if people believe that they can always get gold for their silver, they should keep any gold at all. Why should there be any gold reserves? I suppose no one does believe it; and gold would therefore be hoarded against the evil day.

G. What! all the £880,000,000 gold money? *Credat Judæus!* and he would be the last person to do it! What! Do you really

believe that civilized peoples will bury their gold, and lose their share of about £28,000,000 a year interest, let alone profits?

H. Indians do.

G. They are not all the world; and they are of a very different make from the Western peoples. But I don't follow your question, Harrop. Perhaps I did not clearly catch your words. So far as I could understand, it was this: If everybody believed that every one else had gold, and would give it in exchange for silver, nobody would keep any gold at all. But in this case whither would the gold go? So long as a stock of gold remains, that is a gold reserve. But you are quite right. No one would believe that they could always get gold for their silver. But no one has ever asserted it. I cannot find it; 'tis not in the bond! There is nothing in the law, either of 1666 or of 1803, about exchanging one metal for the other. Read the law first, and argue afterwards.

W. Let us come back to the current money in use. Gold had, you say, become the money in use. Did not that show a preference for gold which nothing would overcome, a greater suitability of gold for the commerce of a country such as this? Lord Liverpool followed public feeling; and there might be untold dangers in attempting to legislate in a sense contrary to public feeling, which, by the way, must have in all these years fixed itself more strongly on gold than ever.

G. Public feeling was, and is, quite able to take care of itself; and if it was proposed to force silver upon an unwilling people, they would easily learn how to protect themselves. But the course of legislation has been to deprive them of silver; Lord Liverpool's argument being reducible to this: "People prefer gold money to silver so much that they will have it at any rate, and, therefore, we must make laws to prevent their using silver money if they desire to do so." An epigrammatic summary which I owe to Dana Horton.

W. Well, they showed practically that they *would* have it at any rate.

G. If they did, it was under a Bimetallic law that they had done it, a law which in no way impeded their desires, and under which gold had become the money in use in the eighteenth century; and gold, if it be true that there would still remain that invincible preference for gold which is said now to exist, would remain the money in use under a bimetallic law in the nineteenth.

H. This may be said for Lord Liverpool and Peel. They gave us by their legislation a metallic standard, safer, both as being

single and therefore less variable, and also as being of gold, the least fluctuating of all commodities, rather than of silver.

G. How "least fluctuating?" Where do you learn that, and how do you prove it?

H. Common consent. Everybody knows it.

G. Very likely. But I ask how do *you* know it?

W. Surely no one can doubt that. The price has never varied. I know as much as that. It has been £3. 17s. 10½d. per ounce from 1816 till now. Before 1816 I believe its fluctuations were frequent; but that was, I suppose, in paper money.

G. £3. 17s. 10½d. Quite right. A price, observe, of a commodity fixed by Act of Parliament! How do you like that, Harrop? Ah, I must come to your aid. Don't you see, White, that that sum which you get from the Mint can only figuratively, or by analogy, be called price at all. There is, properly speaking, no purchase and sale, no higgling between buyer and seller. You might almost as well say, "The value of a whole number is clearly immutable, for the four quarters of it always equal it exactly!" or "the purchasing power of a penny is constant. It will always get you two halfpence." The ounce of gold is cut into that sum, or,—more exactly,—40lbs. troy are cut into 1869 equal portions, each a sovereign, and they weigh and are equal to the whole 40lbs. That which you get is called indeed the Mint *price* because it is, in fact, money.

H. I didn't mean that at all. What I intended to assert was, that the value of gold as measured in commodities was more stable than that of silver, and, of course, more stable than a composite measure.

G. A perfectly intelligible statement; and one that has been lately made by other great men besides yourself! But you must pardon my telling you that it is absolutely contrary to fact. Before 1873, the relative value of Silver and Gold were practically constant, and, therefore, of course, their relative value remained constant, as measured in commodities; and since 1873, according to the unanimous opinion of the Royal Commission of 1888, "It may be safely said, that there is no evidence of a rise of prices in India; and there is a general agreement among witnesses whom we have examined on the point, that the purchasing power of the rupee in that country has not fallen."*

H. Silver may have remained unaltered in India, and for aught I know, in other silver-using countries; but you can't deny that it has fluctuated enormously here.

* NOTE.—Final Report of the Gold and Silver Commission, Part I., § 52.

G. Yes, as measured in gold; and note that exactly to the same extent, *gold has fluctuated as measured in silver.** But as measured in commodities silver has scarcely fluctuated at all. You can buy at least as much wheat in the London market with ten ounces of silver this year as you could in 1870. I need not point out how great have been the fluctuations of gold as measured in wheat and other commodities.

H. That is curious. It amounts to this, I suppose, that silver and other commodities have fallen, *pari passu*, as measured in gold?

G. Precisely. I should add that as regards the alleged stability of gold, you have the Index numbers of the *Economist* and others, from which you may see that there has been a fall in gold prices of 30% from 1873 to 1887. The questions, how far the fall in gold prices has been due to the relative scarcity of gold, and how far to an increase of commodities, are interesting ones, but too complicated to be accurately determined. The general result shows that the causes affecting silver and other commodities have had the same effect on each, and consequently their relative value has remained the same, while commodities and gold have varied 30% in relative value. In these complicated matters we must use the inductive method of reasoning; but if you like to examine into the probable causes of fluctuations in the value of the metals, and to look at one of those causes which affects the metals themselves alone, namely, the changes in the amount of yearly production, you will find that whereas the production of both metals has fluctuated enormously, the fluctuations in the production of gold have been much greater than those of silver.

H. But we all know that in the last few years the production has been very large, and much greater than that of gold, and in this last year nearly as much as any one year's production of the other metal.

G. That is true; but one swallow does not make a summer; and one or two exceptional years do not invalidate my contention. It is, however, very curious, that when silver has fallen lower than it has ever done, precisely then the efforts of the producers have been increased, the lowness of price not at all discouraging them. Of course the two things react one on another, but one cause is said to be that the mining companies have got to pay dividends, and must make up by quantity what they lose in price.

W. There is another thing against silver, isn't there? I mean the expense and trouble of shipment when it is necessary to make large remittances to foreign parts, whether in payment of foreign claims or for exchange operations. Why, they tell me that a million

* See Appendix Table

sterling in gold would weigh ten tons ; and if we suppose a ratio of 20 to 1 adopted, there you have 200 tons at once.

G. The arithmetic is not very exact ; but that may pass. A score or two of tons signifies nothing in an argument.

W. I only tell the tale as 'twas told to me. I should like, however, to know where the calculation is wrong.

G. Well, you see, 1869 sovereigns standard weight equal 40lbs. troy, or 30lbs. avoirdupois. Therefore

1,000,000 sovereigns would weigh about	
16,051lbs. avoirdupois, or	7·166 tons.
Packing cases 10,000 ounces troy	·280
	7·446 tons.

Silver is sent in bars, and is not packed. It would therefore weigh, at 20 : 1, T. 148·920. But be the weight 148 or 200 tons, I think any bullion broker will tell you that the freight is the same for either metal, and that there is no difficulty whatever in sending any quantity. If there were, you may be sure those who have to remit to England would feel it as much as we should. If we found it necessary to send gold, so also would they ; and under a bimetallic accord all would have the same means of protecting their gold, if they cared to do it.

Now, to return to the times of Lord Liverpool, father and son. There was then, whatever may be the case now, no sentimental feeling at the bottom of the English preference for gold. It was simply the effect of self-interest which is the mainspring of the Gresham Law.

W. But they tell me that the Gresham Law declares that the cheapest metal will remain, and the dearest be exported.

G. Does it? I need not tell Harrop that the Gresham Law, *i.e.*, Sir Thomas Gresham, says no such words. That is a nineteenth century gloss. What do you mean by "cheapest" and "dearest?"

W. I suppose that which cost least or most to produce. When is wheat cheap? When it costs little to grow at home or import from abroad. You won't dispute that.

G. Those things do cheapen wheat, no doubt ; but another thing may cheapen it, on which I won't touch now. We are concerned with the precious metals. What did the £880,000,000 gold and £870,000,000 silver money cost to produce? If you can't answer that, White, tell me, at least, whether it cost more or less than the present production.

W. Frankly, I haven't the least idea. But the present produc-

tion? We know that at least. That will sell for the price to which competition brings it.

G. Will it? Put yourself in the miner's place. He could get, under a Bimetallic law, say, 5s. an ounce for his silver at the nearest mint. Do you think he or anyone else would sell it for less? Yet there are some people who think—no, who don't think at all—who tell you that the price of the silver and gold used in the Arts would not be affected by the mint law which orders that 60·29d. is to be given for the one and 77s. 10½d. for the other.

W. What does the Gresham law say?

G. You will find all that Gresham said in his letter to the Queen.* He told her that if a shilling weighing 90 grains was circulating side by side with, and having by law the same purchasing power as, a shilling weighing 94·65 grains, the man who had to pay a debt of 94·65 grains to a foreigner, would send the latter. The cheaper—that which was of least account—*i.e.*, which would buy least—in France, would stay at home; and the dearer—that which was of most account—*i.e.*, which would buy most—in France, would go abroad. Thus, in our day also light sovereigns stay at home, and heavy ones, when export is wanted, go abroad. The cheapest drives out the dearest. One Isaac Newton,† of whom you may have heard, explained it all in his Mint report* in September, 1717, and so did Locke in his report, as one of the Commissioners of Trade to their Excellencies the Lords Justices in Council, dated 22nd September, 1698, a most important document, disinterred by Dana Horton from the Journals of the House of Commons of the following February.

H. What you tell us doesn't explain why gold stayed in England in the 16th and 18th century and silver went away.

S. That wanted little explanation. Gold stayed because the English people had chosen to have gold for the money of the country. See what Lord Liverpool said in 1798. The law, you say, allowed the debtor to pay in whichever metal he chose. Gold was preferred, therefore the people in their bargains contracted themselves out of the law, the seller stipulating for payment in gold. That's a very simple explanation.

G. Very, if there were the least evidence of its truth or probability. Gold was *not* preferred. It was the cheapest metal, and would buy least abroad. Can you really believe that people contracted themselves out of the chance of receiving the most valuable of the two metals, that which would buy most abroad. Lord Liverpool said that they chose gold and rejected silver, but he did not say how they set about the rejection, nor did he adduce any evidence of any such deliberate choice. If I mistake not, what

* See Appendix, p. v. † See Appendix, pp. ix. xii.

evidence there is tells in the opposite direction, and shows complaints of the absence of the more convenient silver.* The silver went, as I have just said, because it was a more profitable kind of remittance than gold. It was "the dearest metal." The Englishman could pay a debt in France of an ounce of gold (frs. 107-1342) with about 14.70 ounces of silver, whereas he would need 15½ ounces to pay his butcher in England a debt which one ounce of gold would discharge. The divergence of the legal ratio pointed out the road, and it was, as I said, self-interest, and no *auri sacra fames* which kept back the gold.

W. This is all quite new to me, and I am not sure that I understand it. But it seems to be a complete answer.

G. You can see it all in the evidence before the Royal Commission, and can study it there at your leisure.‡

H. I was going to observe that you assume the constancy of the ratio, and you have given reasons for supposing that it might be constant for a time; but however fixed—by law, custom, or choice—there seems no evidence that it could be maintained with any certainty for an indefinite time. Indeed the historical evidence is the other way.

G. I should very much like to hear it.

H. I refer, of course, to the shifty character of the ratio between the sixteenth and eighteenth centuries, when silver fell from 10 to 1 to 15 to 1 in spite of all the efforts of the Mint authorities to maintain the old ratio.

G. Do you think nothing, then, of its maintenance unimpaired from 1803 to 1873, and its disappearance from the moment that the law was suspended?

H. Oh, yes; I admit all the advantage to your cause of the remarkable fixity of ratio between the years 1843 and 1873. But a sound induction requires that in the observation of phenomena there should be many observations and that they should all lead to the same conclusion.

G. Forgive me for interrupting you. Why do you say 1843, not 1803?

H. I limited my admission to the years 1843—73 because before 1843 there was nothing to disturb the existing ratio between the two metals, and therefore no credit could accrue to bimetallism for fixing the ratio before 1843.

G. You must be very hard put to it to use such an argument.

* See Locke's Mint Report above referred to (Appendix, p. viii.), and Newton's Report and Memorandum, July 7th, 1702 (see p. 112).

‡ Questions, 4588—4602.

There was much to disturb the ratio, if anything could do it. Soetbeer, a great (monometallist) authority, says that from 1800 to 1840, 29 per cent of the precious metal produced was gold, and 71 per cent silver, more than double. Now, either $15\frac{1}{2}$ to 1 exhibited the true proportion in 1803, or it did not. If it did not, how came the ratio to stand? If it did, and twice as much silver was poured in as gold, how came the ratio to remain still fixed in France and the price of silver to remain steady in England?

W. How do you account for it?

G. We assert that once fixed, and existing under the conditions before mentioned, it is wholly undisturbed by any fluctuations in production or increase of the proportionate stock of either.

W. That is a hard saying.

G. Why, just think of it! Between 1850 and 1873 the stock of gold money was nearly doubled, the annual production being nearly £23,000,000, while that of silver was about £10,000,000, yet if any payee in France must needs have gold rather than silver for export, he had to pay (on an average) no more than $1\frac{3}{4}$ centimes in the Napoleon, if so much, for the accommodation; and he would not have had to pay that, but that silver was undervalued in the United States in comparison with its rate in France; and I think an induction of seventy years makes it quite certain that the absolute proportion of the two metals would be quite powerless to weaken the force of a bimetallic law such as exists in that country. Now, Harrop, go on.

H. I repeat that the proof of the law depends on the fact that it is consistent with *all* the phenomena, and is the only theory which explains them all. One ascertained fact inconsistent with the law of gravitation would overthrow the theory. Now, your theory does not explain the fact, but is inconsistent with the fact of the fall from 1-10 to 1-15, notwithstanding the existence of bimetallicism.

G. I like your gravitation parallel! But if Newton had tied his apple in a bag and fastened it to the tree, it would not have fallen: yet would not his theory have failed. Now we had tied our apple in a bag.

H. How so?

G. No exceptions such as you assume ever existed. Your syllogism is perfect in form, but your minor premiss is naught. True and unfettered bimetallicism did not exist in the days of which you speak. It was hampered by ignorance. I assert that there is not a shadow of proof that at any time or anywhere before the latter half of the seventeenth century was there an open Mint for unlimited coinage of gold and silver at a fixed ratio with *vis*

liberatrix for either coin ; nor that, if there had been, the ratio could have fallen, as you say, from 1-10 to 1-15.

No such conditions existed in the days of King Henry III., when the comparative value is said to have been as about $9\frac{1}{2}$ to 1 ; nor in the time of King Edward III., when it appeared at first to be $12\frac{1}{2}$ to 1, and afterwards $11\frac{1}{2}$ to 1 ; valuations which people would not readily accept—not that they had any means of judging of the real value, but because they resented any substitute for their accustomed silver.

Nor did such conditions exist in their full extent in 1666. The law of the Dual Legal Tender passed in that year was the most liberal and statesmanlike monetary law that was ever passed before or since. It fell short of the French law of 1803 in one particular, but it was superior to it in that it asserted the principle of free and unlimited coinage for the public at a definite ratio, the money so coined being legal tender in payment of debt.

I think you must admit that your 16th—18th century assertion is unsustainable and unsustainable.

H. In any case you would find it hard, if you took these centuries into account, to maintain the sufficiency of your 70 years induction.

G. Not at all. It is a perfect induction ; relating to the only period in which a Government understood and practised the true principle. The 16th and half the 17th centuries have been shown to be necessarily excluded from the comparison ; and the period from 1666 to 1800 is also inadmissible, as differing from the 70 years in one important condition.

W. Namely ?

G. In the arbitrary changes in the English ratio during that time.

W. What induced them to make those changes ?

G. Harrop has told you that they changed the ratio in order to maintain it unchanged ! What did happen was that they saw silver leaving the country ; they knew—for Locke and Newton had told them—that it had something to do with the ratio ; and they did endeavour—

H. And, as I said, endeavoured in vain—to maintain it.

G. You did say so, and spoke of the “efforts of the Mint authorities to maintain the old ratio.” Where do you read of such efforts ? I have read a good deal on the subject, and I know of none. I know that they did not make the only effort which would have been effective to maintain it ; and that they did make many efforts by varying the legal ratio to suit it to the market ratio, in ignorance of the now known fact that the market ratio will suit itself to the

legal one. Thus they tried *not* to maintain the old ratio, but to find a new one which should be capable of keeping now the gold, now the silver in the country, according as one or the other metal, being undervalued, was apt to leave it—such undervaluation arising either from debasement of the coins of the other metal, or from change of ratio in a neighbouring State. To the difficulty caused by these opposing ratios the several States added also coercive and prohibitory laws which effectually rendered impossible the open market for the precious metals which has existed in modern times, and without which, as Mill says, no comparison between the value of commodities can be made.

W. In what particular did our law of 1666 fall behind the French law?

G. The Government still had, and freely used, the right of varying the ratio when either the debasement and clipping of one or the other coin, or the acts of foreign governments, seemed to render it necessary. The same was the case in France; but it was not till 1785, that the true principles of monetary law began to be recognized there, nor till 1803 that they were formulated into law. Even then the Mintage was not free, and though it was until 1873 practically open to all comers, it was not, as it had been here, by statute.

W. Do you consider Napoleon's law of 1803 the perfection of monetary law?

G. In itself, yes. It made the ratio constant. But it lacked one thing. Locke, in his time, and Newton, in his, had endeavoured to secure an approximation of ratio between the English and Continental ratios. It would have been easy for France to have fixed her ratio at the same point as that chosen by England, if jealousy of her neighbour would have permitted it; and certainly to have arranged an accord on the subject with the friendly nation on the other side of the Atlantic. This she neglected to do; and she, therefore, did not succeed in preventing the outflow of whichever of the two metals was at one time or another undervalued by the French law in comparison with its value, according to the legal ratios established by law in other Bimetallic countries.

W. What do you mean by your reference to Locke?

G. Locke understood the principle, and so did Newton; and they endeavoured, not with complete success, to make their countrymen understand it. They saw that the only way to assure the presence of both metals in the country was to make the ratio identical with that in use in the neighbouring States; and Locke's proposal to make the guinea 21s. 6d. was an attempt to assimilate our ratio as nearly as possible to that of France.

W. Was it enough for his purpose to assimilate it to the French ratio?

G. Nor absolutely enough; as the example of France and the United States shows. But it minimized the probability of the outflow of silver, which was what then troubled them. Nothing short of identity of ratio between all Bimetallic States would make a repetition of what happened between France and the United States between 1834 and 1847 impossible.

W. I am glad to know that the proposed law is not only a French importation. I don't desire to take our laws from France.

G. Why not? Why should we scorn to adopt from France an improvement in our law in the direction of accuracy? The French have been generally more accurate scientifically than we; their codes are in many points better. Their system of weights and measures is far superior to ours; and men of science in England would do well to examine their monetary legislation, and adopt the improvements contained in it if they find them good.

H. Ah, well; Lord Liverpool is good enough for me! You had better read again, if you have forgotten it, what he says about the comparative values of silver and gold.

G. No, I have not forgotten. Lord Liverpool wrote in 1798, and died in 1808. The events of 1873 could not open *his* eyes; and *he* may be pardoned for not having learned the lesson they taught.

W. Let us turn again to the Gresham Law. I now quite understand that cheapness and dearness, as referring to cost of production, can have nothing to do with the international movements of the precious metals. When gold left this country and silver remained behind, it was because silver was valued by our laws higher in respect of gold than it was by foreign laws. That's it, isn't it?

G. Yes, the theory is right, but no such case has actually occurred in modern times in England, though the converse did. Gold would naturally leave France between 1834 and 1847, if for no other cause, because the 16:1 ratio in the United States was more favourable to gold. Gold was the dearer metal there; and silver at the same time left the United States because the 15½:1 ratio in France was more favourable to silver. Silver was the dearer metal there.

W. Then I have that clearly in my mind; but still, under the Bimetallic law are we not likely to be left with the least valuable metal as our money?

G. I have heard that when some one remarked on the difficulty

of the study of bimetallism, a great statesman answered:—"It is the simplest thing in the world. It is only a law to enable a man to borrow a dear metal and pay a cheap one."

To which I answer, How is the value, the relative cheapness or dearness, ascertained? and how do you come by the cheap metal when you have ascertained its cheapness? If it were to be had, and gain could be made by getting it, would not the demand speedily raise its price?

W. Will not the market price demonstrate the cheapness? and could one not buy?

G. Certainly not. Except the cheapness of a debased or clipped coinage (which is what gave the most obvious example of the action of the "Gresham Law") cheapness of one or other metal under a bimetallic law is a delusion. In a bimetallic country there cannot be a market-price of either metal; and a monometallic country reaps the benefit provided by its bimetallic neighbour in steadiness of the price of that precious metal which is not its legal tender money.

Thus England, though legally monometallic from 1816 onwards, was practically bimetallic till 1873. She had been living under the bimetallic law without knowing it, just as the world had been living under the law of gravitation without knowing it, before the fall of Newton's apple, and, indeed, before that other Fall caused by Eve's apple. Lord Liverpool's (or Peel's) Act of 1816 hurt nobody in that generation, because the seed then sowed was kept from sprouting and bearing its evil fruit, by the effects of the law of 1803, which established a change-house between the metals. The mischief that the Act of 1816 did was that it put it in the power of foreign States to alter the conditions of the English standard; and this power they used in 1873.

H. You say England was practically bimetallic even after 1816. Was not France practically monometallic (silver) from 1803 to 1851?

G. Certainly not. Giffen says so; but he ought to know, and you too, that currency, the money chiefly in use, is one thing, and the legal standard another. Whatever might have been the money in current use in France in those years matters not at all, provided that the Mint was open for the coinage of both metals equally at a fixed ratio with *vis liberatrix*.

H. How could that help you if there was no gold to be got?

W. Let me interpose a question. I fear I ask too many, but I know little—not like our distinguished friends here, who know much. I represent the "man in the street." What did you mean when you said just now, in answer to me, something about the

relative quantities of gold and silver? I don't see how that affects the question.

G. Why should it not? (I will answer your question presently,* Harrop. It may take longer to answer than White's.) Now, White; abundance cheapens commodities, does it not? Gold is a commodity, was abundant, and therefore ought to have been cheapened.

W. Yes, but our popular guides—the only guides I know—those who write in magazines and newspapers, say you are wrong there. I am sure I have read an article or a letter (it was by Giffen, I think) saying that Adam Smith had long ago exposed the blunder that there is any connection between the relative quantities of the two precious metals and their price.

G. Did he? Whose blunder was that?

H. Why, yours. The one you made just now, when you said that the great production of silver at one time, and of gold at another, should have disturbed the ratio, but did not, because of the French law.

G. Should they not have disturbed the ratio? (It is better, by-the-by, to speak plain English, and say "relative price," as Giffen does.) If there is an abundant crop of wheat, and a short crop of barley, does not that alter their relative price?

W. Yes, but it is of the precious metals of which Adam Smith speaks; at least, so Giffen says. I never read a word of him.

G. It is a pity that he does not give us the reference. I have read Adam Smith, and I don't find that he exposes, or claims to expose, anybody's blunder on this score. But so far as his authority goes, he fights, I think, wholly on my side. Why, don't you see that it is precisely my contention, that though gold and silver are commodities, and though they should, like other commodities, cheapen when they are abundant, as well in each other as in all other commodities, and grow dear when they are scarce, yet under a Bimetallic law, where the State gives a fixed Mint price for each, in coins that are legal tender, there is set up an infinite and perpetual demand, which keeps their relative price immovable. Now, remember that when Adam Smith wrote, that was the law of this land; and of course, therefore, for him, and in his view, quantity made no difference in the relative price of gold and silver.

S. With all respect to Adam Smith, that must be a strange law that can override the natural law which you have enunciated, that abundance cheapens.

* See p. 43.

G. Neither Smith nor anyone else has ever supposed that it could do so. Abundance of the precious metals used, as they were in his time, equally as money, cannot affect the prices of either in the other; but in the only way in which money can be measured, viz., in the mass of commodities which they measure, Abundance will cheapen them, and Scarcity make them dear.

W. I see here a pretty dilemma. It is admitted on both sides that that variation in the quantities of gold and silver makes no difference in their relative values measured in each other. Gilbertson says the cause of that is Bimetallism, that is to say, the establishment of a Mint price, &c. Giffen says, if I rightly understand him, that Bimetallism can have nothing to do with it.

If it has anything to do with it, the "blunder" vanishes, and Gilbertson's contention is right that arbitrary monetary law can and will modify ordinary law, so far as the money metals are concerned.

If it has not and cannot have anything to do with it, then the supposed dictum of Adam Smith must apply to silver as well as to gold, to the silver of 1891, as well as to the gold of 1851, and the dreaded influence of the "floods of silver" disappears.

G. Excellently reasoned, White.

S. You said "perpetual demand." Where is the evidence of such demand? The people have, or can have, all the silver coin they want, and I don't see that under Bimetallism or any other law there would be any increase in the demand.

G. Certainly not. You mistake my meaning. It is not a demand on the part of the public for coins, but on the part of the State for silver and gold to be coined. The State says "Here is the Mint. Its doors are open. Bring all the silver or gold you will, it can never have enough."

W. But there must be *some* demand for coinage, or the Mint would never coin.

G. No doubt there is: but no man having a bar of either metal to sell, sells it because he has a desire to touch more gold or silver coins, but because he wishes to convert his dead and stagnant capital into a living and active form. He wants a balance at his bankers whereby he can possess himself of such coins as he does want.

S. I incline to think our discussion is somewhat academical. I may admit with the Royal Commission that a ratio could be maintained; but I feel very sceptical both as to the supposed grievance, as to the efficacy of the remedy, and as to the wisdom of using it if it is efficacious.

G. Ah! I suspect that you have in your mind W. H. Smith's

speech in the debate in 1889. It was a very fair speech, though he was wrong, I think, in his apprehensions (in both senses of the word). I am not without hopes that the further consideration which he, in that speech, and Lord Salisbury, in his answer to the Deputation at the Foreign Office, most wisely urged may convince those who agree with him that they have in part misapprehended us, and that, like the wicked, they are afraid where no fear is. We'll consider his points if we have time. But, meanwhile, what are *your* difficulties?

W. Let me interpose with mine, which go to the root of the matter. On one point you haven't answered Harrop. At first sight I should say, as he does, that one metal is a safer basis than two. How can a double standard be less variable than a single one? How can a ratio between two uncertain movements be more stable than either movement by itself? A man who is standing up in a boat will hardly feel steadier if he tries to stand in two boats at once.

G. I prefer the Duke of Wellington's dictum on this subject to yours. "A man is more steady when standing on two legs than on one," whether in or out of a boat. You should read Jevons on Money. He, a monometallist, shows clearly that the variations in quantity are much less important when the standard is bimetallic. He shows it in the abstract, and one of the answers to the Royal Commission on Gold and Silver showed it in the concrete. There is the Blue-book on that table, White. If you will give it me I will read you the passage. It is at Question No. 3,662.

Assume that at some ratio the gold and silver money of the world is equal, and that prices are affected by increase or decrease of money measure,

Then, the world being Monometallic,

Let £10,000,000 gold and £10,000,000 silver stand for the whole stock of A the gold-, and B the silver-using nations respectively.

1. If £1,000,000 gold is produced in any year, usable as money, the measure increases and prices tend to rise, in A 10%
2. If £1,000,000 silver is produced in any year, usable as money, the measure increases, and prices tend to rise, in B 10%
3. If £1,000,000 of each metal is produced in any year, usable as money, the measure increases, and prices tend to rise in A and B... .. 10%

4. If the production of money-metal falls off in any year to the extent of £1,000,000 of gold, and a like sum in silver, prices fall in each case 10%
5. If in any year £1,000,000 more gold and £1,000,000 less silver is produced, prices would tend to rise in the one and to fall in the other 10%

Again, the world being Bimetallic,

Let £20,000,000, half gold and half silver, stand for the joint stock of A and B :—

1. The production being assumed, of £1,000,000 of gold (as above), silver remaining constant, the measure, and therefore, prices will tend to increase 5%
2. And the like production of silver, gold being constant, would have exactly the same effect, viz., a rise in the measure of 5%
3. The simultaneous production of £1,000,000 of each metal would produce a rise of measure and prices of... 10%
4. The opposite effect of a tendency to a fall of prices to the extent of 5% in two cases and 10% in one, would be caused by the production being in defect instead of in excess.
5. But in the case of increase of one money metal and deficiency of the other to a like amount, no disturbance whatever is caused to the Bimetallic communities.

Thus, in two cases out of three, where any disturbance of prices takes place from this cause in a Bimetallic country, it is half the amount of the disturbance which the same cause would produce in a Monometallic country; and in the third case the disturbance is the same in both the Bimetallic and Monometallic communities. But a fourth case occurs (5) in which the disturbance in the Monometallic communities is in two cases 10%; and in the Bimetallic communities in those two cases nothing at all.

H. I observe that you conveniently assume that the production of gold is as likely to be abundant as that of silver. The experience of the last few years seems to lead us to a different conclusion.

G. You would be very rash if you should draw any conclusion one way or another from the production of a few years. The whole thing is quite beyond conjecture; otherwise one might venture a prophecy about Africa. You will remember, White, that I told you how great had been the excess of gold production

in the last 40 years, and I may as well now give the figures. From 1850 to 1878

Gold	...	...	...	...	...	£630,205,000
Silver	...	...	...	...	...	<u>307,190,000</u>

Excess of gold over silver ... £323,015,000

From 1879 to 1891 inclusive

Silver	...	...	£330,731,830
Gold	...	...	<u>264,756,885</u>

Excess of silver over gold ... £65,974,945

Excess of gold £257,040,055

The apparent surplus of silver in the years after 1873 would of course be extinguished if the calculation were made at the price of the day, instead of, as here, at 15½ to 1.

S. It's getting late, isn't it? Could we have another turn at the subject?

G. Let us say Friday, if that will suit you all.

S., H., & W. Agreed.
