

STATE OF THE CURRENCY.

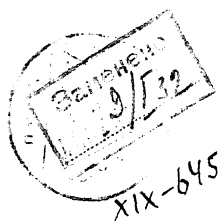
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CONSIDERATIONS

ON THE

STATE OF THE CURRENCY.

By THOMAS TOOKE, F.R.S.

SECOND EDITION.



LONDON:

JOHN MURRAY, ALBEMARLE-STREET.

MDCCCXXVI.

LONDON:
PRINTED BY WILLIAM CLOWES,
Northumberland-court.

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TO
THE FIRST EDITION.

THE original design of this publication was that it should serve as a sequel to one in which I have endeavoured to trace the causes of the fluctuations which had occurred down to 1822. And in pursuance of that design it was my intention to introduce a detailed description of the circumstances which have led to the late crisis, with statements of quantities, as well as of prices, illustrative of the different points which it was my object to explain. But in the progress of my attempt, I found that to pursue this plan systematically would require, in the collection and arrangement of materials, more time than I could allot to it, consistently with the purpose of being ready for publication within the period in which alone the discussion

was likely to be of any interest or use. It occurred to me also, upon consideration, that as the greatest part of the facts which I had originally purposed to insert, are either matter of notoriety or of ready access, a detailed description of them would have made the work more cumbersome, without adding, in a proportionate degree, to the force of the conclusions. I have confined myself, therefore, in the following pages, to a sketch of the most prominent features of the circumstances which have preceded and accompanied the recent transitions, and to such statements only as are essential to a full exposition of my view of the general causes which have produced those transitions.

Richmond Terrace, Whitehall,

Jan. 28, 1826.

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TO
THE SECOND EDITION.

THE call for another edition has afforded the opportunity of inserting a few Explanatory Notes, and of adding, in the shape of a Post-script, some brief remarks on the measures which are in progress, as likewise on those which are supposed to be in contemplation with reference to the Currency.

February 22, 1826.

INTRODUCTION.

THE period of three years, which has elapsed since I attempted to explain the causes which had produced the variations of prices in the thirty years terminating in 1822, has been signalized by fluctuations almost as great as in that remarkable interval, and by revolutions of commercial credit, still more striking and destructive.

The urgent necessity of devising means of preventing, or at least diminishing the range of such fluctuations, has been painfully brought home to the conviction of the public. But this object, if it is attainable at all, can only be realized by an accurate appreciation of the whole of the causes of the evil. No remedy can be applied until all the defects in the system of our currency be exposed. To do this as completely as the importance and extent of the subject would require, is a task requiring much

more leisure than I can devote to it. If there are a few points relating to the discussion of these topics, which the following pages will be found to elucidate, my purpose in publishing them will be fully answered.

Of the different causes which I had occasion to assign, in explanation of the fluctuations that occurred from 1793 to 1822, the alterations in the *system* of our currency, by the bank restriction and resumption of cash payments, and by the effects of war and the transition from war to peace, being wholly inapplicable to the fluctuations of the last three years, there remain only,

1. The seasons.

2. Alterations in the value of the currency*,

* On reference to the arguments contained in my former work on the subject of alterations in the value of the currency, as among the concurrent causes of the great fluctuations of prices which had occurred in the thirty years ending in 1822, I am sensible of an error in the mode of statement of the arguments, and in one or two expressions, which, although of no great importance, I take this opportunity of explaining. The whole scope and object of my argument was to negative the alleged influence of the bank restriction and resumption acts in raising and depressing general prices beyond the degree indicated by the difference between paper and gold. I did not mean to deny that there were great fluctuations in the value of the currency during the period referred to, beyond the indication by that test: on the contrary, I distinctly stated, that from the powerful in-

in a state of the circulation in which the bank paper is perfectly convertible.

But the former not having been, in the last three years, characterized by any very decided deficiency or exuberance of general produce, cannot be adduced as having had any prominent share in the recent, as they undoubtedly had in the former, fluctuations. I shall, therefore, not consider these under a distinct head,

ductions held out to speculation, by the circumstances of the war and the vicissitudes of the seasons, there were great alternations of enlargement and contraction of country bank-notes, and of private paper, and credit, occasioning great temporary variations, which would equally have occurred in the value of the currency, independent of the bank restriction. But I ought, at the outset of the work, to have stated, more distinctly than I did, the division of the argument into two branches, *viz.*, that of alterations in the value of the currency arising from the suspension and resumption of cash payments, and that of alterations in the value of the currency from circumstances which would have affected it independently of those measures. With this explanation, and with the correction of two passages, *viz.*, one in page 135, second edition, line 16, from top, where, instead of the mere word "currency," should have been inserted the words "alterations in the system of the currency;" and the other, in page 143, in last line but one, where I have inadvertently used the word "*value*" instead of "*system* of the currency," I am perfectly ready to abide by the result of any comparison of the consistency of the views which I then entertained with those which I am now bringing forward on the subject of the currency.

but only notice them incidentally. And the whole discussion in the following pages will turn upon the degree in which the *currency* has been connected, in the relation of cause and effect, with the violent transitions between high and low prices, between the extremes of confidence and alarm which have prevailed in the commercial world.

SECTION I.

Upon the Causes which determine the rate of Interest, and the Application of these to the late Fluctuations.

AMONG the most striking and important of the fluctuations which have occurred within the period under discussion, are those of the prices of the British and Foreign funds : but the prices of the funds, in as far as there is no question of risk, are neither more nor less than the measure of the variations in the rate of interest. In accounting, therefore, for the great alterations in the prices of government annuities and securities, it becomes desirable, as a preliminary step, to investigate the circumstances on which the rate of interest depends. It will appear, moreover, that the rate of interest enters as cause and effect into every consideration of the regulation of the paper currency in this country ; it would be difficult, therefore, if not impossible, to proceed intelligibly in the discussion of the manner in which the paper circulation has been administered, or of the merits of the system itself, without something like a clear understanding of the causes which influence that rate.

The commonly-received opinion, and that

which is generally adopted by political economists is, that the rate of interest is governed by the rate of profit. In an article in the *Edinburgh Review*, No. 79, under the title "Standard of National Prosperity," pp. 8 and 9, which is nearly a transcript of some of the opinions contained in the lectures delivered by Mr. Mac Culloch, is the following passage: "Interest rises as the rate of profit rises, and falls as it falls: the one is directly as the other." It is admitted, in the same passage, that "it is often difficult to determine what is the precise average rate of profit at any particular period; but," the reviewer adds, "it is never difficult to determine whether it is higher or lower at one period than another, or whether it is rising or falling." "For," he goes on to say, "this may always be learned with the greatest facility from the rate of interest paid for capital lent on good security."

My only purpose, at present, is to inquire in what respect the rate of interest is an index of the rate of profit, and how far the former depends upon the latter. Without entering therefore into the question, whether the rate of profit ever has been, or is, or ever can be determined, as applied to the return to capital, in a national point of view, I would ask, whether the rate of interest, at any particular period, is in-

dicative of past, present, or future profit? *Past* profits, the present rate of interest cannot indicate, because the capital borrowed for the purpose of obtaining that profit, has, by the supposition, been realized, and the borrower has, for that purpose, no further object in paying for the use of the capital. *Present* profits, as contra-distinguished from past or future, cannot be said to exist. When they have been realized, they are past; as long as they depend on a contingency, they are future or *expected* profits.

The proposition, then, resolves itself into this. That the rate of interest, at any time, indicates the degree of expectation of profit; and then, as it is assumed that the expectations of those who borrow money, with a view to profitable employment, are likely, on an average, or in the long run, to be realized, the average rate of interest may be supposed to bear some proportion to the rate of profit. Thus, on an average of some indefinite number of years, sufficient to equalize the effects of seasons, political and commercial changes, alterations in the value of money, and every source of miscalculation, the customary rate of interest might be assumed to bear some proportion to the rate of profit. But, even on this supposition, the rule would be of little practical utility in the application to passing occurrences, or to determine whether, in any period so short as three or four, or even

ten years, the rate of profit was higher or lower, rising or falling, compared with any other equal period. The author, however, of the article which I have quoted, infers, that because the rate of interest, at the precise time when he was writing, had fallen, and was apparently falling, the rate of profit, and the power of accumulation in this country, were diminished in a corresponding degree. By the same rule it might be inferred, that, as within the last few months the rate of interest has risen considerably, the rate of profit and the power of accumulation are, in the present distressed state of the commercial community, greater than they were two years ago: nay, even extending the remark to longer periods, viz. of ten or twenty years' duration, what, according to that rule, would be the inference as to the rate of profit? Certainly this: that as, during the whole of the last century, and the twenty-five years of the present, the average, or customary rate of interest on good security, was higher during the periods of war, than in the intervening periods of peace, the rate of profit, and consequently the power of national accumulation, must have been greater in the periods of war than in the periods of peace. But as I believe that no person conversant with the nature of the money-market would for a moment doubt that in every future war, if of any extent and duration, the

rate of interest, not merely on government securities, but on all safe investments, would be higher than in an equal period of the preceding or succeeding peace, the proposition would, upon the grounds supposed, admit of being generalized thus: That the rate of profit, and the power of accumulation, must be greater in war than in peace; and the final conclusion would be, that perpetual war would be attended with perpetual prosperity: a conclusion so monstrous, that it must naturally lead to a suspicion, or rather to a conviction, that the premises are unsound.

I am inclined to think that one of the fundamental errors of the doctrine in question is, that the following consideration is overlooked; viz., that while the returns to the whole of the national capital laid out with a view to reproduction, are, and must be, estimated in kind*, (supposing that there were means of making such estimate,) the rate of interest is always computed in money; consequently, profits estimated in money are not, necessarily, in the ratio of national profits estimated in commodities: the variation of the one is not, therefore,

* And that the author of the article which I have quoted supposes the estimate of profit to be made in kind, or in the quantity of commodities, may be collected from what he states at p. 14 to 16 of that article, and, indeed, from the whole course of his reasoning.