AN INQUIRY INTO THE CURRENCY PRINCIPLE; THE CONNECTION OF THE CURRENCY WITH PRICES, AND THE EXPEDIENCY OF A SEPARATION OF ISSUE FROM BANKING

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An Inquiry into the Currency Principle; The Connection of the Currency with Prices, and the Expediency of a Separation of Issue from Banking by Thomas Tooke

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THOMAS TOOKE

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BY

THOMAS TOOKE, ESQ. F.R.S.

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PREFACE.

SOME part of the following pages was written immediately after the appearance of the reports of the committee of the House of Commons on Banks of Issue, and the greater part has since been put together without any definite view to publication. The reason which has determined me in now publishing them is, that whether the views here presented be assented to or not, they are such, I think, as ought not to be wholly overlooked in the consideration of the measures which the government has announced its intention of proposing to Parliament in the course of the present session, with a view to placing the banking system of the United Kingdom on an improved and permanent footing.

Some of the points which I have endeavoured to establish may probably be thought not to be made out with sufficient fulness of explanation, and doubtless on several of the topics a more exhaustive process of proof and illustration might be required for the purpose of anticipating and answering objections. But such a process could not be comprised within a readable compass. It would require a book instead of a pamphlet.

The necessity for compression, which I feel to be thus imposed upon me, has prevented me from touching at all upon topics which are of importance and connected in some points of view with the subject here discussed, but to which justice could not be done in an incidental notice.

One of the great difficulties of dealing with the subject about to be discussed, as indeed in most cases of controversy, but in this more than in most others, arises from the use of the same words in different senses. Not to mention the mooted points, as to whether deposits, bankers' cheques, and bills of exchange should be considered as money or currency; because these involve rather definition and classification, according to the purposes for which they are supposed to be employed, than that loose and ambiguous use of terms to which I allude.

This consists in a shifting of the meaning of the term, when applied indiscriminately in the same argument to designate things and processes totally distinct.

It will be seen in the course of this discussion how much of the obscurity and perplexity and error, in which the objects of inquiry are involved, may be traced to the vague and ambiguous language commonly employed in treating of them: such for instance as "gold and silver," "the precious metals," and "bullion," used indiscriminately and synonymously with "money" and "currency;" the terms "money and currency" employed when "capital" is meant. "Issues of paper," meaning bank notes, for mere advances of capital where no bank notes pass; — the "value of money or currency," for the rate of interest or discount. "Abundance and cheapness, or scarcity and dearness of money," to signify a lower or a higher rate of interest, or a tendency to either. And "expansion and contraction of the currency, or of the circulation," when undue extension of credit, and its consequent revulsion, would be the correct description of the facts of the case.

The instances in which confusion and inconsistency in reasoning may be traced to this loose and ambiguous use of language are innumerable; and if I could hope that by directing attention to the sources of error so pointed out, and thus induce more care and distinctness of phraseology, so as to render future discussions on the subject more intelligible, and consequently to narrow the grounds for difference of opinion, I should consider that my labour in this publication has not been thrown away, even although I should fail of gaining assent to the conclusions, or any part of them, which I have endeavoured to establish.

London, March, 1844.

AN INQUIRY

INTO

THE CURRENCY PRINCIPLE,

ETC. ETC.

INTRODUCTION.

It was held by most writers of any authority on the subject of the Currency, till within the last few years, that the purposes of a mixed circulation of coin and paper were sufficiently answered, as long as the coin was perfect, and the paper constantly convertible into coin; and that the only evils to be guarded against by regulation, were those attending suspension of payment and insolvency of the banks, a large proportion of which blend an issue of promissory notes with their other business. This, in point of fact, is what is understood in general terms as the banking principle, and is that upon which our system of currency is constructed and conducted.

But a new canon of currency has of late been promulgated by persons of no mean authority. According to these authorities, it is not sufficient that the bank notes should be at all times strictly convertible into coin, and that the banks, whether issuing or not issuing, should be solvent; they consider that a purely metallic circulation (excepting only as regards the convenience and economy of paper), is the type of a perfect currency, and contend that the only sound principle of a mixed currency is that by which the bank notes in circulation should be made to conform to the gold, into which they are convertible, not only in value, but in amount; that is to say, that the bank notes being supposed to be a substitute, and the only substitute, for so much coin, should vary exactly in amount as the coin would have done if the Currency had been purely metallic; and that the test of good or bad management is not, as is considered under the mere banking principle, in the extent or proportion of reserve in treasure and in immediately convertible securities held by the banks; but in the degree of correspondence between variations in the amount of bullion, and variations in the amount of bank notes in circulation. A regulation of the issue of bank notes, in conformity with this doctrine, is now understood to be designated as the Currency principle.

With a view to the application of this principle to practice, it has been suggested that either a national bank should be established under commissioners, whose duty and functions should be confined to the exchange of paper against gold, and of gold against paper, for all beyond a fixed amount of paper issued against securities; or that the Bank of England should be the sole source of issue, under the strictest rule of separation of the functions of issue from the merely banking department.

The arguments urged in favour of such separation have, as it should seem, made considerable impression on the public mind, and schemes founded upon this principle have been strongly pressed on the attention of government, on the ground not only of guarding against the danger of suspension and insolvencies, but of imparting more confidence and stability to credit