ON THE PROBABLE FALL IN THE VALUE OF GOLD: THE COMMERCIAL AND SOCIAL CONSEQUENCES WHICH MAY ENSUE, AND THE MEASURES WHICH IT INVITES

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COMMERCIAL AND SOCIAL CONSEQUENCES WHICH MAY ENSUE, AND THE MEASURES WHICH IT INVITES.

BY

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TRANSLATED FROM THE FRENCH, WITH PREFACE,

BY

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1859.

TRANSLATOR'S PREFACE.

THE substance of the work, of which the following pages are a translation, appeared originally in the *Revue des deux Mondes*, in the autumn of 1857, and was afterwards reprinted in a pamphlet form. The author has since rewritten and enlarged it to double the original size. The present translation will appear simultaneously with the French edition.

The question of the probable fall in the value of gold, and the consequent rise in that of all other commodities, wherever gold is the standard of value, has not hitherto attracted so much attention in this country as it has in France, or as its great importance would seem to demand. In introducing the Bank Act of 1844, Sir Robert Peel said :—" There is no contract, public or private, no engagement, national or individual, which is unaffected by it. The enterprises of commerce, the profits of trade, the arrangements made in all the domestic relations of society, the wages of labour, pecuniary transactions of the highest amount and the lowest, the payment of the national debt, the provision for the national expenditure, the command which the coin of the smallest denomination has over the necessaries of life, are all affected by the decision to which we may come on that great question which I am about to submit to the consideration of the committee." The main object which the author of the present Bank Act had in view, was to prevent those fluctuations in the amount of the currency which were alleged to have arisen from the arbitrary action of the Bank of England, and which rarely exceeded two or three millions in the course of a long series of years. With much greater force, then, must his expressions apply to the present state of things, when an *annual* increase in the production of gold of nearly thirty millions has suddenly taken place, more than the half of which finds its way to our shores.

It is estimated by M. Chevalier that the present yield of gold amounts, in ten years, to about as much as the entire production during the 356 years which intervened between the date of the discovery of America by Columbus, and the year 1848, when the mines of California were discovered. It is probable that the present production of gold amounts to five times that of the year 1847. Had such an increase occurred in the supply of any article, such as corn, sugar, or cotton, of which the whole annual produce is consumed within a couple of years, it would have probably caused a depreciation to the extent of nine-tenths of its value. But owing to the large stock of gold in existence, amounting to probably more than twenty or thirty times even its present yearly production, it takes some time to affect its volume to any appreciable extent. Unless, however, the cardinal rule of commerce, that quantity governs price, which applies infallibly to all other commodities, loses its force when gold is concerned, this sudden and great increase must be followed by a reduction of value.

That so little effect should have hitherto been produced upon the value of this precious metal, especially as measured by its relation to silver, is accounted for by a reference to what is now passing in France, where the gradual substitution of a gold for a silver currency has, during the last eight years, absorbed the greater portion of the gold imported into Europe from the new mines. On this subject, M. Chevalier has given us some very striking statistical facts.* France has in this way, to use his expression, been the "*parachute*" which has retarded the fall in gold. It will be seen that his main object has been to induce the French government to put an end to this, by adopting in practice, what he maintains has always been the theory of the French law, a silver standard. Should his arguments be successful (and it is difficult to see how the French government can resist his facts and reasonings—certainly it can never answer them), or should the process of absorption cease, from the exhaustion of the stock of silver held in France, then we may anticipate a more rapid fall in the value of gold.

It will be seen that M. Chevalier does not recommend the adoption of any legislative measures to meet the change in this country. He considers that gold having been avowedly the legal tender and the sole standard of

* At page 59 will be found a statement of the gold coined at the Paris mints. It is brought down to the end of 1857. I have since ascertained that the amount coined in the year 1858 exceeded 480,000,000 *francs* (£19,600,000).

value in England, and all existing contracts having been entered into with that knowledge, the parties to them must, so far as the legislature is concerned, abide the consequences of any *natural* disturbance of the value of this metal.

But although government may have no right to interfere with the past, it ought not to be so summarily excluded from all interference with the future, at least to an extent necessary to facilitate voluntary contracts involving payments otherwise than in gold. An able writer on the currency* has recommended the establishment of life assurance companies on the basis of a silver standard. Should a great and rapid depreciation of gold take place, some such precaution as this, in all contracts extending over a long period of time, may be necessary. It would then be a convenience to have the relative values of gold and silver periodically published under the authority of a law, by the Bank of England for instance, computed from the exchanges of the day with those countries, such as Holland and Belgium, where a silver standard exists.

Another mode of evading the consequences of a depreciation of the currency might be found in a resort to something like the primitive practice of paying in kind. Where long engagements, such as farm leases, are entered into, the parties might stipulate for a rent to be regulated by the prices of produce, upon the principle of the tithe commutation rent charge. In this, as in all other bargains and investments, it will only remain for individuals

* Mr. James Maclaren.

to take such precautions as are in their power to guard themselves from the consequences of the impending change. Should the views of M. Chevalier be realised, there will be much anxious deliberation as to the best mode of escaping from the effects of a universal derangement in the value of labour and property. Wages and salaries of all kinds would eventually rise in proportion to the enhanced price of commodities, but the transition would, I fear, be accompanied with much inconvenience and suffering. The rise would not be steady and continuous, but would be effected by leaps, and after struggles which would tend to derange and convulse the relations of capital and labour. With respect to those who have property to invest, they would, as a rule, avoid those investments which yield incomes of a fixed amount of money, such as dividends from the funds, interest from bonds and mortgages, as well as annuities, rent charges, ground rents, guaranteed stock, &c. ; whilst property of an expansive nature, which rises in proportion to the depreciation of the currency, such as land, houses, shares, &c., would be preferred.

The merchant and trader who balance their transactions in two, or three, or at the utmost six months, would be but slightly affected, in so far as the value of their capital is concerned, by the depreciation of the standard ; but they would experience the evil in another form. The tendency to a general rise of prices would lead to an expansion of credit, and an increase of speculation, which would be followed by panics and convulsions of greater violence and more frequent recurrence than have been hitherto experienced. Instead of a crisis visiting the commercial world once in each decade, its return might be expected every five years. The manufacturer would probably find it more difficult to procure the raw material of his industry at remunerating prices, for speculation will always be directed towards raw products in preference to manufactured articles. This was the case previous to the late panic; and even at the present moment, whilst we are still in the eddy of a crisis, the prices of the raw materials of our staple manufactures maintain a high value, *as compared with any corresponding previous period.* The very nature of the trade created by the new gold mines is calculated to increase this evil: for it cannot be denied that it is a sterile commerce which yields neither raw material nor capital. I speak of that portion of the new gold, probably more than seven-eighths of the whole, which passes through the Mint and enters into the currency; the effect of which is, instead of increasing the supply of food, raw material, or capital, simply to render more bulky and abundant an instrument of exchange, the chief merit of which before consisted in its scarcity and portability.

It may be well to caution the reader against falling into any misapprehension as to the author's views respecting the amount of depreciation to be expected. Although throughout his argument he assumes that gold will fall to the half of its present value, yet he more than once explains that he does so only for clearness of illustration, and not because he predicts any certain amount of depreciation. At the same time he draws the conclusion, from the facts of the case, that there must be a fall in the value of gold in consequence of its greatly