

**THE PRINCIPLES AND PRACTICAL
OPERATION OF SIR ROBERT PEEL'S ACT
OF 1844, EXPLAINED AND
DEFENDED; WITH ADDITIONAL CHAPTERS
ON MONEY, THE GOLD DISCOVERIES,
AND INTERNATIONAL EXCHANGE**

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SIR ROBERT PEEL'S ACT OF 1844
EXPLAINED AND DEFENDED :

Second Edition.

WITH ADDITIONAL CHAPTERS ON MONEY,
THE GOLD DISCOVERIES, AND INTERNATIONAL EXCHANGE;

AND

A CRITICAL EXAMINATION OF THE CHAPTER
"ON THE REGULATION OF A CONVERTIBLE PAPER CURRENCY"
IN MR. J. S. MILL'S

Principles of Political Economy.

BY

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PREFACE TO THE SECOND EDITION.

To the First Edition of my Tract on the Principles and Practical Operation of Sir Robert Peel's Act of 1844, the following additions have been made:—

I. A preliminary chapter on the question, whether Bank-notes, immediately convertible into coin, should be placed, in common with coin, in the category of money; or, in common with cheques and bills of Exchange, in the category of credit?

II. A critical examination of the chapter on "The Regulation of a Convertible Paper Currency," in Mr. J. S. Mill's "Principles of Political Economy."

III. On the effect of the new supplies of gold upon the Australian currencies.

The length to which the reply to Mr. Mill has been carried demands some explanation.

As the mechanical divisions of employment com-

pel us to receive the greater part of our physical enjoyments from the hands of others, so the intellectual divisions of employment constrain us to receive the greater portion of our opinions from the minds of others. The chemist adopts the Newtonian theory on the authority of the mathematician; the mathematician receives the discoveries of Davy and Faraday without repeating the experiments by which they were realized. On intricate questions, requiring long and patient investigation, the opinions even of the most enlightened class will have their origin, in a majority of cases, not in knowledge but in faith. Hence, principles are received upon trust, doctrines become creeds, authority is implicitly followed, and blind leaders are enabled to assume the guidance of the blind. Now the high and deserved reputation, as a profound and original thinker, which Mr. Mill has hitherto maintained, and the influence which his authority might be calculated to exert on public opinion, render it essential, at the present juncture, to inquire how far he may be qualified to decide upon the merits of the Act of 1844.

Mr. Mill has chosen to place himself on the same platform with Mr. Tooke; and he cannot fairly expect from the audience whose suffrages he seeks, a reception more favourable than that which is given to his co-candidate for a seat in the Parliament of Fame. Having identified himself with Mr. Tooke, his authority upon questions of monetary science

cannot be greater than the authority of Mr. Tooke. In estimating either, we estimate both.

What, then, is the authority of Mr. Tooke in monetary science? One of his admirers—Mr. Lawson, the author of “Money and Morals”—has raised him to the level of Adam Smith, has hailed him as the “Second Father of English Political Economy,” and has holdly affirmed that his discoveries are “the immoveable pillars upon which a true science of money must be built.” But what is the authority of Mr. Lawson? Mr. Lawson himself informs us that his first lessons in monetary science were derived from those “brilliant pamphlets in which the experience of the banker put on the scientific precision and polish of the schools.” Nevertheless, through some unaccountable perversion of taste, after having drank at the pure well of science undefiled, he sought the muddy waters of a surface drainage, and turned from Overstone to Tooke. It is difficult to conceive how the pupil of Lord Overstone could have become the disciple of Mr. Tooke. But his conduct in embracing the “immoveable pillars,” and in regarding Mr. Tooke as “the Second Father of Political Economy,” although unaccountable, was not without an example. Mr. Mill had previously pronounced Mr. Tooke to be the highest authority in monetary science; and had erected his theory of currency on the basis of the “immoveable pillars.” The stability

of the structure must depend upon the strength of the foundation. The weight of Mr. Mill's authority must be measured by the solidity of the basis on which it is supported.

Now, the discoveries which in the estimation of Mr. Mill have placed Mr. Tooke at the head of monetary science, are as follows:—

I. That a rise of prices is not preceded, but followed, by an increase in the amount of the circulation.

II. That an increase in the amount of the circulation is the effect, and not the cause, of a rise of prices.

It will be seen upon a close examination, that these vaunted discoveries, instead of being "immovable pillars" on which a true science of money must be built, are but mirage-formations which a ray of analysis dissolves. In a country not possessing mines of the precious metals, and having its currency regulated on the principle of metallic variation, as, under the provisions of the Act of 1844, the currency of this country is actually regulated, the only way in which the circulation can be increased is, by the action of a favourable foreign exchange. But a favourable exchange cannot be preceded by a rise of prices, for the obvious reason that a rise of prices above the ordinary level causes an adverse exchange, an exportation of bullion, and a contraction of the circulation. Neither is it possible that an increase in the amount of the circulation should be the effect

and not the cause of an increase of prices, for the obvious reason, that an increase in the amount of the circulation is the effect of a fall of prices below the par of exchange level. An abundant harvest renders the proportion of commodities greater in this than in other countries, lowers prices, and causes a favourable exchange, an influx of bullion, and an expansion of the circulation. On the other hand, a deficient harvest renders the proportion of commodities to money less in this than in other countries, raises prices, and causes adverse exchange, export of bullion, and contraction of circulation. So long as the currency shall be regulated, as it now is, on the principle of metallic variation, so long will its amount be governed by the state of the foreign exchanges; and so long as the amount of the currency shall be regulated by the exchanges, so long will a fall of prices be the antecedent of an expansion of the circulation, and a rise of prices the antecedent, not of an increase, but of a diminution of the circulation. Mr. Tooke's vaunted discoveries are nothing more than gratuitous assumptions contrary to fact.

There is, however, a conceivable, I will not say a possible, process under the operation of which an increase in the amount of the circulation may become the effect of a rise of prices, and the theory of Mr. Tooke and Mr. Mill be verified by fact. This process I will endeavour to explain.