THE

CALL FOR CURRENCY REFORM

AND

MR. GOSCHEN'S RESPONSE,

BY

GEORGE HANDASYDE DICK,
MERCHANT,
GLASGOW, MANCHESTER, AND BOMBAY,

AND

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LONDON:
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READ BEFORE THE ECONOMIC SECTION OF THE PHILOSOPHICAL SOCIETY OF GLASGOW.

12TH FEBRUARY, 1892.

THE CALL FOR CURRENCY REFORM,

AND

MR. GOSCHEN'S RESPONSE.

THE intention of this paper is to make a survey of the incidents in the history of currency during the past three years, and to consider the bearing upon the currency question of Mr. Goschen's proposals.

The Royal Commission upon Currency issued its Report in 1888. The membership of the Commission included partisans of both of the leading shades of currency opinion, yet it was found possible to arrive at a unanimous finding upon some important points. Among these unanimous conclusions was the following: "The action of the Latin Union in 1873 broke the link between silver and gold which had kept the price of the former, as measured by the latter, constant at about the legal ratio; and when this link was broken, the silver market was open to the influence of all the factors which go to affect the price of a commodity. These factors happen since 1873 to have operated in the direction of a fall in the gold price of that metal, and the frequent fluctuations in its value are accounted for by the fact that the market has become fully sensitive to the other influences to which we have called attention above."*

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* Final Report, 1888, p. 198.

Since that report was issued the fluctuations in silver have been more frequent and violent, and the minimum price of the metal has been lower than during any other period on record. The commercial relations between countries using silver as a monetary standard and those using gold have, in consequence, during the past three years, been subjected to unusual tension. Arising partly from this strained condition of the monetary situation, partly also, no doubt, from defective governmental administration in the Argentine, and from incautious banking administration in this country, there came the suppressed crisis of the autumn of 1890. The position taken up by the Bank of England was novel and sagacious. It saved the banking interest from the consequences of maladministration; but it also saved the country from an acute commercial crisis. Yet everyone felt that a very narrow escape had been made. In January, 1891, Mr. Goschen sounded a note of alarm upon the condition of our gold reserves, and advanced in a tentative fashion a scheme for the formation of a second gold reserve.* Eventually, on the 2nd December last, at the Merchant Tailors' Hall, he gave an address to the London Chamber of Commerce, in which he disclosed a plan, not absolutely new, but a very important modification of the scheme propounded by him at Leeds. As an effect of what was then said, within the past few days the American Government has taken steps in the direction of convening an International Congress on monetary affairs, similar to the Congresses which were held at Paris in 1878 and 1881.

Within the last three days the subject of the currency has been brought into a first place in this country by the statement in the Queen's Speech that "proposals would be submitted to Parliament

* Cf. The Present Position of the Currency Question in connection with Mr. Goschen's Speech at Leeds, 28th Jan., 1891. By G. H. Dick. Glasgow, 1891.

revising the existing agreement between the Government and the Bank of England." Speaking at the subsequent debate, Sir William Harcourt characterised the statement as one of enormous consequence, and stated that he was disposed to ask "whether the Chancellor of the Exchequer meant business or not," as he "protested against the delays which had taken place in dealing with this subject."

The History of Silver, 1889-92.

In order to understand clearly the bearing of these important occurrences upon the position of the currency question, it is necessary to examine somewhat closely the history of the price of silver and the circumstances connected with the metal during the three past years. In March, 1889, the price of silver in terms of gold was falling rapidly. In May of that year it reached the lowest price recorded up till that date—viz., 41⅞d. per oz. About mid-summer of 1889 the prospect of American legislation upon the silver question opened up, with the result that the price of silver advanced rapidly. The American "Compromise Bill" became law on 14th July, 1890, and within six weeks the price of silver had bounded up to 54½d. per oz.* Fears that the American legislation would fail to secure its object led to a fall as rapid as the previous advance, and by the 26th September, 1890, the price of silver had receded to 50d. per oz. By the 20th November continued downward tendency had brought it to 45d. per oz.—a fall of 8·25 % per cent. in one month, and of 17·43 % per cent. in three months. From 30th November until 30th December, 1890, the fluctuations, though still considerable,

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* The price of silver in London moved after the price in New York with comparative sluggishness. Bullion dealers in New York imported silver from London at a profit between August 1st and September 11th. Report Director U.S. Mint, p. 17.

were less violent, and the tendency was upwards, the closing price of the year being $47\frac{1}{2}$d. per oz. Throughout the year 1891 the price of silver varied almost daily, the general tendency being downwards. At the beginning of the year the price was 48d. per oz., and at its close was $43\frac{3}{4}$d. per oz. Since the beginning of the year 1892 silver has fallen to a point never before reached—viz., $41\frac{1}{8}$d. per oz. (February 9th, 1892.)

The following percentages (taking the extreme and omitting the numerous intermediary points) exhibit the violence of the fluctuations in the price of silver during the past two years and nine months—fluctuations more remarkable than any that have occurred in the history of silver since the sixteenth century, when it became a great factor in international commerce.

Advance from 7th June, 1889, until 29th August, 1890 (14 months), 29°/₀ (calculated on lowest price).

Decline from 29th August, 1890, until 2nd February, 1892 (18 months), 24·5°/₀ (calculated on highest price).

Effect of the Fluctuations in the Price of Silver upon Commerce.

The effect of these fluctuations upon international commerce has been that exporters and importers have found themselves involved in a kind of cyclonic disturbance. The forces which determine currency movements act, no doubt, with a certain uniformity, but as a rule their action is mysterious to the average mind, and thus bankers and merchants alike are at present timid to make any step lest it should prove ruinous. But this inertia means paralysis of trade; and while natural causes and defective legislation on the one hand and speculation on the other are playing havoc in the silver market, the relations between countries with different monetary standards (as

England and India) are in a state of partially suspended animation. Our exports of cotton goods to the East have fallen. Comparing 1891 with 1890, there is a decline of 214,889,238 yards in plain cottons, 23,040,078 in dyed and coloured cottons, and 8,531,700 lbs. in cotton twist, the money value of these items is quite $2\frac{1}{4}$ million pounds sterling.* Java is the only market showing an increase; and Java possesses a modified bi-metallic currency, *i.e.*, its currency is in silver and gold, though its mint is presently closed for silver. Cotton spinners and weavers and the turkey-red dyers and calico printers in the Manchester and Glasgow districts are working short time and limiting production, not because there is no demand in Eastern markets for their goods, but because the fluctuations in exchange are so frequent and violent that it has become impossible for them to cover the risk of loss due to these fluctuations by any practicable addition to the price of the goods.

While silver was steadily falling the native exporters of India certainly reaped some advantage; but the recent oscillations of the rate have brought many wealthy native firms to ruin. Indeed, the native trading classes have been generally impoverished by repeated losses in various branches of business during the past three years. In order to understand the position of an Indian bank operating under the currency conditions existing between this country and India, let us suppose that one of our Scottish banks was compelled by law, or otherwise, to hold the bulk of its assets in Indian Government stocks. The fluctuations of rupee paper during the past few years would have brought the bank to insolvency unless the management had been almost omniscient. Yet the Indian banks are

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* Messrs. W. H. Nott & Co.

compelled, not by law but by the nature of the case, to transact their business wholly in securities, subject to these excessive variations in value. The relatively high rate of interest formerly paid in India has barely enabled the Indian banks to hold their own against the excessive oscillations of the exchanges. The Government of India, too, has suffered seriously. The Viceregal Council has again and again made urgent representations on the impolicy of leaving things as they are.

Effect of the Fluctuations in the Price of Silver upon Industry.

The recent excessive fluctuations in the price of silver have not affected commercial and banking interests alone. Cotton manufacture for exportation to the East forms so large a part of our national industry that any serious variation in the quantities exported means diminished employment, diminished wages, and consequent loss to many hundreds of thousands of workers and those depending for their livelihood upon industrial prosperity. In the cotton districts of Lancashire, and in the Vale of Leven, reduced income is already beginning to tell upon a people not within recent years customarily affected seriously by depression. It is not alone, however, those directly engaged in cotton manufacture who suffer. All related industries are affected, and those engaged in mechanics, chemical manufactures, and other branches of trade, although they perhaps cannot attribute the fluctuation to its true cause, feel that some grit has got into the wheel and thrown the industrial machinery out of gear. Working men are too apt to forget that up to a certain point their interests and those of their employers and organisers are identical. They may, if they must, quarrel over the division of the spoil; but with our small country and our large population it is essential that there should be a great deal of spoil to divide. While we are disputing about the distribution of our riches, the riches are taking to themselves wings and flying away. While trades-unions are devoting themselves to increasing the share of the working people in the product of national labour, it were well at the same time for them to cast a glance upon the forces whose operation may tend not only to defeat their plan, but to upset us all. In Lancashire the cotton workers have taken the trouble to study the currency question, because it has been forced upon them in spite of themselves.*

AMERICA AND THE CURRENCY QUESTION.

America produces about one half of the annual production of silver of the world, and since 1878 has coined a larger quantity of silver than has any other country.† The operations of the Bland Act of 1878, by which a minimum quantity of silver to the value of 2,000,000 dols. per month was coined by the U.S. Government, had failed to maintain the price of the metal. In 1889 the Secretary of the Treasury reported that additional legislation was needed to solve the silver problem. His detailed recommendations were not adopted; but in July, 1890, an Act was passed by the U.S. directing the purchase of 4,500.000 ozs. of silver per month, at the

* The United Textile Factory Workers' Association has addressed a circular to a large number of members of Parliament and Parliamentary candidates, urging them to press upon Parliament the imperative need of monetary reforms. The signatures to this document are said to represent 70,000 voters.

† American currency, $\frac{1792}{1834}$ nominally bi-metallic, really silver alone.
Do. $\frac{1834}{1861}$ do. do. gold alone.
Do. $\frac{1861}{1879}$ nominally gold, really paper.
Do. 1879 qualified bi-metallic.

See *Recent American Currency Legislation*, by G. H. Dick, p. 12.

market price, provided the market price did not exceed one dollar for 371¼ grs. of pure silver. The Act was fixed to remain in operation until June, 1900. The immediate effect of this legislation was to raise the price of silver. In spite, however, of the U.S. Government taking this large quantity of silver, the price after reaching a certain point (54½d. per oz.), began to decline, and has continued to do so. Contemporaneously with this decline in price, the visible stock of silver in America has also declined. In January, 1891, this stock amounted to 15,000,000 ozs. At present, according to the most reliable information available, the stock is about 4,000,000 ozs. This continuous fall in the price of silver does not appear to be due to any excessive supply, otherwise the stocks would not have contracted. This is a remarkable feature in the situation. The belief is entertained in some quarters that the silver market is being manipulated with a view to a "corner." The total value of 4,000,000 ozs. at the price of the day (9th February, 1892), 41⅛d. per oz., is under £700,000. This amount might certainly be contributed without difficulty by a few capitalists, and the total stock taken off the market. The American Treasury would, according to the terms of the Act of 1890, cease to buy when its limit of price came; but there is a great margin before that check to the advance in silver comes into force. If such an operation took place, there can be no doubt that the situation would be intensified, the upward bound in the price of silver would probably be immediate, and the business between gold-using and silver-using countries be seriously disturbed for a time. In addition to the movements in the United States, it is to be noted that the Central States of America have been selling considerable quantities of silver.*

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* Further notes on America and the Currency Question will be found in Appendix, pages 41-46.

INDIA AND CURRENCY MOVEMENTS.

In 1890-1 the Government of India, finding that it possessed a surplus of two crores of rupees over the amount necessary to secure the convertibility of its notes, took means to liberate these from its Issue Department. During the past few years also, India has largely increased the issue of its notes, by this means reducing the amount of silver required for currency purposes. In addition to these steps, India, in consequence of the fluctuations of silver in Europe, increased its importation of gold. Thus, on every hand, influences have tended to reduce the Indian demand for silver.* This tendency may continue, at least for a time, as this year's crops of cotton, jute, etc., are known to be small, and will thus require less silver currency for the movement of them. On the other hand, exports to India are seriously falling off.

PRODUCTION AND STOCKS OF GOLD AND SILVER.

From the year 1853, when the production of gold in Australasia reached its maximum, until 1878, the production averaged about 200,000 kilogrammes; but since 1878 the production of gold has fallen almost unintermittently. The estimated production for 1890 was £1,300,000 less than the previous year. While the annual gold production has decreased since 1853 about 30 per cent., the annual production of silver has increased by about 300 per cent.† Yet it is a very remarkable circumstance, and one which throws considerable light on the present position of the two metals, that taking the total production of gold from the end of the fifteenth century until now, according to the best available data, 43 per cent. of the total

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* On the imports of silver into India from China see Appendix, p. 48.

† Soetbeer—Production of the Precious Metals. U.S. Consular Reports, No. 87, p. 455.

quantity was produced prior to 1850 and 57 per cent. since. On the other hand, taking, similarly, the total production of silver over the same period, 72 per cent. was produced from the fifteenth century until 1850, and only 28 per cent. since. Notwithstanding, therefore, the great increase in the annual production of silver which has occurred during the past forty years, it has as yet added only a comparatively trifling percentage to the stock of the world, while much more than one half of the gold stock has come from the mines during the same period.* This consideration suggests, what is amply confirmed by other considerations, that the present price of silver is abnormal, and is due not to the mere increase in the production of the metal, which when regarded in relation to a long period is seen to be comparatively small, but is due to legislative blunders, and to panics supervening upon these. The compensatory action of the relative production of gold and silver—gold production having increased when silver production diminished, and *vice versa* for many hundred years—has been illustrated in the statistics of 1890. The diminution in gold production was about 300,000 ozs., while the increase in silver was 5,414,000 ozs.† The values of these two quantities at the historical ratio of 15½ to 1 are almost exactly equal.

The Position of the Precious Metals in Relation to Trade.

In the 17th and 18th centuries there was no doubt an exaggerated idea of the importance of the possession by a nation of a large quantity of gold and silver. This crude conception of the function of money dictated a policy whose immediate object was the attraction of gold and silver into a country, and the keeping of them there.

* For the figures supporting this view see Soetbeer, op. cit., p. 455.

† On the world's production of gold and silver see Appendix, p. 47.

While, perhaps, such notions as these still linger in some minds, there is at present a tendency to a too violent reaction. From the error that money is the be-all and end-all, we have rebounded to the opposite error that money is of no account, that all trade is simply barter, and that currency questions may be left to settle themselves by natural laws, with which it would be pernicious, if it were possible, to interfere. But natural money exists nowhere in civilised, nor even in semi-barbaric states. The cowrie is rapidly disappearing from Africa, as is wampum from the Indian territories of North America. In every state there is legal tender money, and the stamping by the state removes the metal so stamped from the ordinary category of commodities, and gives it a distinct legal and economic position as money which it did not possess as goods.* When a great state, and still more when a number of great states stamp a metal, whatever it may be, with the attribute of money, the position of that metal in the markets—not only of that state but of all others—is subject to an important change. If the state by law enacts an expansion of its coinage the price of the metal necessarily advances, because a new demand for it has arisen. If the state enacts that a metal must no longer be used as money, the market for the metal in the markets of the world will be overloaded, because demand has fallen off, and quantities of the metal are thrown upon it for realisation. This is what happened from 1872 to 1874 while changes in currency laws were in progress. Since gold and silver, one or other, or both, are used as money by every country in the world, both

* The theory of the position of money cannot of course be fully discussed here. The crude position that "Bullion is a commodity, and nothing but a commodity" is fully stated, *e.g.*, by MacCulloch in his *Essay on the National Debt*, 1816; and the view adopted above is fully stated by Dana Horton in *The Position of Law in the Doctrine of Money*. 1882.

gold and silver are in this exceptional position.* Since international trade is not wholly, and cannot in many cases possibly be wholly trade by barter, there is a continual passing to and fro of gold and silver between nations. Moreover, the people of a country reckon the prices of commodities in the legal tender money of the country. Whoever deals with the Romans must pay with the image of Cæsar.

Thus, although the interests of a country like Britain, in which only one of the precious metals is legal tender, may at first sight be regarded as in a sense bound up with that metal, the development of international commerce has brought us into relations with countries whose money metal is not gold, who will not pay for the goods we send them in gold, who will not even reckon them in terms of gold. Thus in spite of ourselves we must take an interest in silver, because it is the money of many of the countries with which we trade; and because we find that the value of this silver money, which to us is not money but only a commodity, is fluctuating so violently that we never know from hour to hour what our money is worth in other money for which we must exchange it; whether the shipment we have made by a swift steamer will leave us a profit or involve us in loss; or whether even the draft on demand drawn upon an Indian correspondent may be paid under deduction of 5 per cent. to 10 per cent. due to a fall in exchange between the time the draft was drawn and the time it was presented.† These circumstances are full of practical issues for every merchant dealing with the East, are full of practical issues also for everyone, because of the close interdependence of the elements of our complex industrial and commercial system.

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* The coinage values of gold and silver coined in each year are approximately equal. See Appendix, p. 35.

† The practice of "fixing forward" simply transfers the risk.

It might be practicable for this country to conduct its domestic trade by means of inconvertible notes; although its foreign trade could not be so conducted. But that is not the plan upon which our currency is conducted or is likely to be conducted; the notes of our banks are convertible into coin on demand, and more than that, the bulk of the deposits in the banks are also convertible into coin on demand. While credit is good the circulation of money goes on at a normal rate. The movements of money are easily foreseen, and special calls only occur at stated periods of the year. But this smoothness of circulation depends upon the prompt meeting of engagements; and if a foreign country or large creditor fails to pour in the expected supply of cash at the proper moment, the deficit has got to be made good somehow, or the normal circulation is arrested and the fever of panic supervenes.

When one looks at the Clearing-house returns, and when one finds that in the daily transactions conducted all over the country, paper cheques, bills, bank notes, postal and money orders form probably about 98% of the total amount involved in these transactions, and that only from 1% to 2% of the amount is transferred from one person to another by means of coin, it appears at first sight as though the use of coin had been limited to such an extent that it had become an unimportant element, and that it might safely be disregarded. Yet it is just because the amount of coin is so small relatively to the greatness of the transactions; it is just because this complex scheme of relations is based upon credit; it is because the mass of the amount of transactions is analogous to a pyramid inverted, that the coin upon which it rests is of importance really inversely to its amount in relation to the volume of trade.

When one has to deal with quantities of enormous magnitude new conditions come into play, and thus the growth of the Clearing-house system, economical as it has been in the use of coin, has by its mere growth emphasised the need of centralisation of that coin, and shown us that without adequate provision of a metallic basis our superstructure must become unstable.

THE NEED OF AN AMPLE RESERVE.

There is another sense in which the importance of the movements of metallic money has been customarily underrated : this is in relation to the maintenance of a reserve of bullion available for use in the settlement of international balances, and ample enough to avoid risk of panic when any considerable withdrawal is made for the purpose of settling these balances.

The course of circumstances, which has made London the gold market of the world, has made the Bank of England the gold warehouse of it. This quasi-national institution has thus come to be the recognised custodian of the national gold reserve. The Bank of England occupies this position by virtue of no Act of Parliament, although its relations with the Government place it in some ways in a unique position. By a series of insensible changes in public opinion, the Bank has come to be recognised as custodian of the national reserve.

It is instructive to contrast the utterances of the Directors of the Bank, immediately after the Overend Gurney Crisis of 1866, with the recent speeches of Mr. Goschen. In the first, there is an indignant protest against the idea propounded in the *Economist* by Mr. Bagehot, that, "the doctrine that bankers are justified in relying on the Bank of England to assist them in time of need is generally held by bankers in London." * In the second, the fact that bankers do rely upon the Bank to keep a reserve for them is regarded as too patent for the need of proof.

The amplitude of this reserve to meet all probable calls upon it is therefore a point of exceedingly great importance. It seems always to require a crisis to impress this upon the public mind. In the autumn of 1890 the Bank of England determined, with the co-operation of the other banking institutions in the country and by the aid of a certain understanding with the Government, to support the house of Baring, or at least to see its creditors paid 20s. in the £. Notwithstanding all this support, and the practically unlimited endorsement of its credit, the Bank of England could not avert a crisis without adding promptly and largely to its gold reserve. It was, therefore, compelled to obtain from the Bank of France a sum of £3,000,000 in gold.†

Russia also came to the assistance of the Bank of England by lending one and a half million, and half a million was otherwise procured.‡ This country, strong financially as it really is, had thus to receive the aid of two foreign countries in the shape of five millions of gold in order to avert a serious commercial crash. Had this mercantile crisis occurred at a time when the peace of Europe was less well assured than it happened to be in the autumn of 1890, the aid might have been refused, and the crash must have come.

Every circumstance in the history of currency during the past three years—and these years have been exceptionally fruitful in currency

* Mr. Hankey, quoted by Bagehot, *Lombard Street*, p. 170.

† The Bank of England borrowed £2,000,000 from the Bank of France in 1837-39.

‡ Mr. Goschen's Speech at Leeds, 1891, p. 8.

incidents—tends to prove that some steps must be taken to avoid excessive variations in the relative prices of gold and silver, and to secure a reserve of bullion, available at a centre and under legal control, for the purpose of preventing commercial panics, or of allaying them if they cannot be prevented.

Mr. Goschen's Response.

The leading points insisted upon by Mr. Goschen in his speech at Leeds were these: (1) The inadequacy of the gold reserves of this country. (2) The obligation of Great Britain to discharge the claims upon it by other nations in gold, while other nations are not similarly bound. On the first point Mr. Goschen pointed out how France, Germany, and the United States each possessed metal money reserves far in excess of ours, and he stated that unless some means be taken to increase our reserves very largely London runs risk of being deposed from the position of "banking centre of the universe."

Stability has been the watchword of monetary reformers all along, and thus when Mr. Goschen makes a practical proposal with the design of securing this, they must view his scheme with sympathetic interest.

Mr. Goschen's scheme is briefly this: He thinks that if by any means he can conjure out of the pockets and tills of the people some of the gold coins presently circulating there, and if he can deposit them in the vaults of the Bank of England, that the national credit would be powerfully strengthened against panic, and that we need be under less apprehension than we are now when by any chance a million or two of gold is drawn from our presently small store. Standing by itself, and thus baldly stated, Mr. Goschen's plan looks like a mere piece of legerdemain. You hold the coins in several different pockets, and while your attention is diverted by learned jargon about currency—Presto! the coins pass from the separate pockets and appear all together in the reticule of the old lady of Threadneedle Street.

But such a view would be very superficial and unfair. One of the conditions of the system of credit upon which our huge domestic and international trade is conducted is the centralisation of transactions. In dealing with all of these questions we have to remember that we have to do not with a state of matters which might conceivably be reconstructed from the root up, but with a state of matters that has grown gradually and that is still growing; and we have to see that so far as its growth can be controlled it may tend to the greatest national advantage. We are in the habit of regarding the Clearing-house system and the transfer of obligations, domestic and foreign, at the Bank of England, as automatic arrangements by which debits and credits cancel each other out. So they are, but they involve centralisation; and they would be impossible unless the centralisation were extended beyond the mere machinery of transfer to the metallic basis upon which the transfer is founded.

But this is not all. The meaning of the phrase "banking centre of the universe" is this, that a very large proportion of the financial transactions of the world are settled in London. Thus foreign nations borrow from us, or what is equally important, they transfer to one another claims upon us.

Again, it is well known that many foreign governments keep large sums of money on deposit in London. Germany, for example, generally has an account with the London and Joint Stock Bank, as Russia had with the Barings. At times these two governments hold in the aggregate perhaps about eight or ten millions, which they are entitled to get in gold when they want it. Mr. Bagehot many years ago pointed out what Mr. Goschen has recently emphasised, how sudden need, apart altogether from inconsiderate or deliberately mischievous action on the part of such creditors, would, in the absence of an exceedingly large reserve, seriously injure the credit of the Bank.

The adequacy of the Bank reserve can only be considered in relation to the claims upon it, and Mr. Bagehot* insisted upon recognition of the fact that the amount of the claims should not be considered alone, but also the *intensity* of them, or perhaps better, the nature of them. For example, one thousand claims each for one thousand pounds, payable on demand, are equal numerically to one claim of a million, payable on demand; but the chances of the whole thousand claims being presented on one day are infinitely small, while the chance of the million being called for *en blcc* is very large.

It has been customary to regard the attraction of a high rate of discount, involving a high rate of interest when money is lent to bill-brokers and bankers, as sufficient to draw into the Bank of England from abroad a supply of gold enough to meet the needs of its reserve. But as has been pointed out by Mr. Bagehot, the raising of the rate of discount does not immediately operate in this way, whereas the need for fresh money often arises suddenly, and often disappears as suddenly. The raising of the rate cannot, therefore, be relied upon to strengthen the reserve when strength is most wanted. There is another point in relation to the rate of discount which is most important. Nothing is so productive of fluctuations in trade and in industry as frequent changes in the rate of discount. Nothing is so productive of steadiness in the rate of discount as a strong

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* *Lombard Street*, p. 302.

metallic reserve. The reserve of the Bank of France is invariably very much larger than that of the Bank of England, both absolutely and in relation to the claims upon it, and in relation to the nature of those claims. The discount rate of the Bank of France did not change once during the year 1891. It remained throughout the year at 3 per cent.* On the other hand, at the Bank of England, there were twelve changes, the rate varying from 2½ per cent. to 5 per cent., the average rate being 3·35 per cent.

1891.	London per cent.	Paris per cent.
January, ...	5, 4, 3½, ...	3
February. .	3 ...	3
March, ...	3 ..	3
April, ...	3, 3½ ...	3
May, ...	3½, 4, 5 ...	3
June, ...	5, 4, 3 ...	3
July, ...	3, 2½ ...	3
August, ...	2½ ...	3
September. ...	2½, 3 ...	3
October, ...	3, 4, ...	3
November, ...	4 ...	3
December, ...	4, 3½ ...	3
Average rate,	3·35	3

—*Manchester Guardian.*

The necessity for following up the increased centralisation of finance by increased centralisation of metal money is surely amply proved. If we must have our transactions settled at the centre, we must have the means to settle them at the centre also. And if our banks will keep their accounts at the Bank of England in pursuance of this method of centralisation, it is the reserve of the Bank of England that must be seen to, in case the inverted pyramid becomes

* The circumstance that the Bank of France has practically a monopoly of discounting business in France is of course also influential in steadying the discount rate.

too heavy for its point. If we are to avoid the dangers of inconvertibility we must make convertibility as secure and certain as is possible. Mr. Goschen's plan is, then, to bring gold to the centre in order to strengthen the reserve of the Bank of England, with the view of anticipating, and even to some extent of avoiding, panic. The collateral effect of the operation would probably be, as in France, the steadying of the rate of discount, with consequent diminution in the fluctuations of credit, prices, trade, and industry.

Mr. Goschen's Plan to Secure an Ample Reserve.

The means which Mr. Goschen proposes to acquire this additional quantity of gold are these. He proposes to engraft upon the present issue of notes by the Bank of England an issue of £1 notes. "At present the Bank of England issues £16,450,000 in securities. Beyond that all notes must be represented by gold. The average amount of gold in the Issue Department for the years 1881-90 may be taken as between £21,000,000 and £22,000,000, which, if added to the £16,450,000, the authorised amount of the fiduciary issue, would give a total of £38,000,000, representing the average total issues under the Act of 1844. I would disturb nothing up to this point beyond authorising the issue of £1 notes under precisely the same conditions as those under which notes of higher denominations are issued at present. But beyond this limit of £38,000,000 I would authorise the issue of notes under the conditions which I have sketched, namely, £4 on gold to £1 on securities."*

If the scheme were carried out to the extent that £25,000,000 in £1 notes were issued by the Bank, the result would be that the fiduciary issue would be increased from about £16,000,000 to

* Mr. Goschen's Letter to the Governor of the Bank of England, 3rd Dec., 1891.

£21,000,000, and that the issue against gold would be increased from £21,000,000 to £41,000,000. The total issue of notes would be £63,000 000 against £38,000,000 as at present. The gold which the £1 notes would replace would be added to the reserve of the Bank of England. It would be held by the Issue Department in the same way as now the Issue Department holds its smaller stock of £22,000,000 of gold.

In addition to Mr. Goschen's primary proposal, he made a second one, viz., that if the addition to the stock of gold brought the total stock up to £30,000,000, that is, from eight to ten millions above the existing amount, additional powers of issue to be operative in times of emergency would be granted. These powers would permit the issue of notes against securities (not necessarily against gold) on payment of a fine in the shape of a high rate of interest to the Government. The rate of interest would not be so high as to make the scheme inoperative, nor so low as to make the expedient a casual resort. These additional powers would enable the Bank to do legally and in accordance with its constitution what the Chancellor of the Exchequer enables it now and again to do by violation of its constitution.

Mr. Goschen expressed himself as not enthusiastic about the £1 note for itself. He regarded it rather as a means of centralising gold than of providing a convenient medium of exchange. It is difficult for Scotsmen to realise fully the English prejudice against the £1 note, especially since the prejudice is not of very long standing. By an Act passed in 1797, the Bank of England and the country banks were empowered to issue notes of a lower denomination than £5. In 1798 the banks availed themselves of this privilege, and these notes remained in circulation for about thirty years.*

* Macleod. *Theory of Credit*, vol. ii., pt. ii., page 553.

In the year 1810, when the celebrated Bullion Committee was appointed, the number of banks (so-called) in the country amounted to 721, and the quantity of paper they put into circulation was estimated to amount to £30,000,000, a large proportion of which consisted of notes of £1 and under. At the same time the Bank of England had increased its issues to £21,000,000—a total note issue of £51,000,000.* Mr. Goschen's fear of the English people declining to use £1 bank notes for internal currency thus does not seem well founded. It is interesting to note that in 1823, one-pound notes were in circulation, issued by the Bank of England, amounting to seven or eight million pounds out of a total of £20,000,000,† or two-fifths of the note circulation of the Bank of England. There is, therefore, no reason to believe that the English people would permanently hold out against a convertible and thoroughly safe bank note.

In his Leeds statement Mr. Goschen proposed that the gold secured by the issue of one-pound notes should be formed into a second reserve, but this and other doubtful suggestions have been abandoned.‡ An alternative plan involving the importation of £18,000,000 in gold over a series of years has been proposed by Dr. Charles Gairdner; but with every country clamouring for gold, it is difficult to see how gold is to be attracted to this country without burdening commerce with excessive discount rates, disproportionate outlay, and great disturbance to international finance.§

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* Macleod. *Theory of Credit*, vol. ii., pt. ii., page 773.

† Tooke. *Considerations on the State of the Currency*, 1826, p. 73. ib. p. 35.

‡ On the question of 'ear marking' of notes see Dr. Charles Gairdner's paper, *Mr. Goschen's Scheme for the Reform of the Bank Acts*, 2nd ed., p 24, *et seq.*

§ ib. p 13.

Mr. Goschen's Proposals for International Monetary Reform.

Immunity of the Gold Reserve from sudden demands by foreign countries can only be secured in so far as international monetary tendencies make for stability and for gradual and normal movements of the precious metals in accordance with the requirements of commerce. The desire which is almost unanimously expressed for the adoption of measures to secure the immunity of the reserve can thus only be realised by securing also the stability of international monetary relations. So long as these relations exist as they are now, in a state of instability and uncertainty, there would not appear to be any effectual method of protecting a reserve, however large it may be. It is for this reason that Mr. Goschen recognises clearly that his scheme is not self-sufficing, but is necessarily bound up with international monetary reform.

Mr. Goschen's present plan stands out as on the whole the safest, and the plan most likely to be prompt in its action. The result of it would, no doubt, be the withdrawal of gold, and the replacement of it by notes. The question is, What would become of the gold? Would it remain in the Bank of England, or would it be drawn abroad to meet the demand for gold in America or elsewhere? Standing by itself, and in view of the scarcity of gold all the world over, there is reason to fear that the money would be drawn to the centre—that is, to London—only to be scattered to the circumference—that is, the "universe."* Mr. Goschen clearly recognises this danger, for he adds as a rider to his other proposals the most important part of his whole scheme, without which his treatment of the

* This objection to the issue of £1 notes is stated in the Final Report, Royal Commission on the Precious Metals, 1888, par. 174.

subject would have been inadequate, both as regards the reserve and as regards international trade.

He points out that "the pressure upon our stock of gold naturally has been increased and intensified when other countries passed to a mono-metallic instead of a bi-metallic system."* He might have further added that by themselves his proposals to increase the bullion stock of the Bank of England would have the effect of further increasing and intensifying this pressure upon the gold stock of the world. It must be pointed out with the greatest clearness that the scheme for strengthening the reserve propounded by Mr. Goschen, unless it is accompanied by an international monetary agreement, must tend to make the situation worse instead of better. If, discouraged by want of support in the country, Mr. Goschen abandoned all but the part of his scheme dealing with the gold reserves, and this part were passed alone, it is quite clear that serious mischief would result. The effect would necessarily be an intensification of the pressure upon gold and an increase in the difficulties of monetary reform. Moreover, the country at large would certainly view with disapproval any scheme which would have the effect of simply increasing the privileges of the Bank of England, and of doing for the bankers by statute what they ought to do for themselves. It is the question of the stability of exchanges and prices rather than the stability of the banks that is at issue.

After explaining that he felt constrained to abandon one of his Leeds suggestions, namely, the issue of 10s. notes possibly against silver, he said that this must not be held to mean that he "receded in any way from the position he had always maintained, of being anxious to see the use of silver extended, so far as it was possible to extend it

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* Speech at Merchant Tailors' Hall.

under our existing system." And Mr. Goschen went on to say that the question might be put to him by those interested in currency reform: "If you will not do what we want, namely, make any real forward movement in removing the disparity of gold and silver, as a Government, will you do what you can in conference with other Governments to promote the use of silver in this country without the abandonment of your own principles?" * Mr. Goschen's answer to this question was that he still held by the attitude of the Government of 1881, when there was a monetary conference in Paris, and when Sir Charles Freemantle was authorised by the Treasury and by the Bank to declare that if the mints of France, the United States, and other countries were open to free coinage of silver, that then the Bank of England should be asked to "act upon that portion of the Bank Charter Act which enables it to hold a portion of its bullion in silver."* The Bank and the Treasury were at one upon this point in 1881, and "the Government of India further suggested that if other countries would agree to open their mints to silver, India would agree, that so long as that system was maintained, she too would keep her mint open to silver." . . . "So far as the Government of 1881 went, we might safely go again if necessity arose."*

Within the past few days the Government of the United States has opened negotiations with the view of having an International Conference held at an early date. It is not improbable that Mr. Goschen's suggestions carried over from the Conference of 1881 may form the key-note of the new Conference.†

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* Speech at Merchant Tailors' Hall.

† The New York *Commercial Bulletin*, quoted by the *Economist*, as a paper of authority on commercial and financial topics, makes the following comments upon Mr. Goschen's declaration: "The prospect of an international agreement in favour of the enlarged use of silver is being more seriously considered at the

These suggestions may be restated as follows:

1. France, United States, and other countries to keep open mints for silver.

2. India to keep an open mint for silver.

3. The Bank of England to hold one-fifth of its bullion reserve in silver.

The Bank of England already possesses the power (under 7 and 8 Vict., cap. 32) to hold one-fifth of its bullion reserve in silver; a power also possessed by the Scotch and Irish banks under their Acts of 1845. The effect of the reopening of the European mints to silver would necessarily be the rapid rehabilitation of silver and the restoration of a fixed ratio between the precious metals. At present the Bank of England bullion reserve is £22,000,000. Under Mr. Goschen's scheme it might be raised to £42,000,000. In the one case the total silver purchase would be about £4,500,000, and in the other about £8,500,000. This silver would, under the contemplated international agreement, form as satisfactory a reserve as a similar amount in gold. In so far as the settlement of international balances is concerned, the adoption of some such system as that proposed by

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Treasury Department and in the Cabinet than for many years. . . . . The assurances of Mr. Goschen, the Chancellor of the English Exchequer, will probably be the pivotal point of the new negotiations. The President will probably designate one or two gentlemen of thorough knowledge of the silver question to discuss the advisability of another International Monetary Conference. Knowing just what England is ready to do, these gentlemen will probably put the question whether the European countries are ready to agree to the more extended use of silver in concert with the United States. If the reply is in the negative, the representatives of this country will urge upon England further concessions. If the reply is in the affirmative, an International Conference will probably be called in the near future; but our representatives will endeavour to have the invitation come from some other country than the United States."

Professor Marshall, of "wedded bars" of gold and silver, might be natural and easy.

If, however, Mr. Goschen's scheme did thus not provide an alternative currency for this country in the same way as America, France, and Germany have done, his one-pound note scheme might conceivably involve a grave danger. To withdraw gold from the provinces —from the pockets of the people—where it is practically safe from exportation, and place it in a central store from which it might be transported at any moment, would be to incur a danger which Mr. Goschen has himself recognised and pointed out. Indeed, the proposals in regard to silver form a necessary complement to the proposals dealing with the Bank Reserve and with the one-pound note. Standing by themselves, these would certainly intensify rather than ameliorate the situation; but with the further practical steps towards relieving the present abnormal tension upon gold, they form unquestionably the most generally acceptable currency scheme propounded for this country since the change in the monetary system of the world in 1874. The proposals, moreover, are in accord with the recommendations of the Royal Commission on Currency in 1888 In no sense is this a matter in which political parties need regard themselves as bound to take sides for or against, for the main points of Mr. Goschen's scheme were suggested by Mr. Gladstone's Government to the Paris Conference in 1881. Nor need the proposals cause any alarm to anyone. They do not involve any alteration in the standard of value of this country. It remains as before. The holding of silver by England to the insignificant amount of £8,500,000 as a maximum need not cause any anxiety.

PROBABLE EFFECTS OF THE COMPLETE ADOPTION OF MR. GOSCHEN'S PROPOSALS.

Though no currency scheme is likely to result in the general enrichment of mankind, much less in millennial happiness, the advantages of the complete carrying out of so important a legislative reform are very many. They may be summarised thus :

1. The banking reserve would be strengthened.
2. The rate of discount would be less liable to fluctuation.
3. Much of the existing uncertainty in mercantile transactions would be removed.
4. Industry would receive an important impetus.
5. Prices would be steadier.
6. Employment would be less irregular.
7. Wages would be steadier.

As regards India :

1. The financial difficulties of the Government would be more easily coped with.
2. The export and import trade of India would be conducted with greater steadiness and security.

As regards other countries :

1. The relations between countries having now different currency bases would be placed upon a stable monetary footing.
2. Those that are weak financially, among whom are many of our debtors (Spain, Portugal, Italy, the Argentine, etc.), would be strengthened.
3. Those that are strong financially, *e.g.*, America and France, would be able more safely to render financial aid to other countries for industrial development.

It is very remarkable that the two countries whose financial position has stood unshaken during the past eighteen years have been the United States and France. Germany has had several commercial crises, so has Great Britain. Other countries have been in chronic financial difficulties all along. France, although it paid an enormous indemnity to Germany, although it suffered the loss of the whole of the cost of the Panama Canal, £60,000,000, and although there have been minor catastrophes, stands to-day in a stronger financial position than any other country in Europe. The United States has had no serious losses to meet, but has during this period resumed specie payments, and has repaid the bulk of its debt. These two countries have enormously greater reserves both of gold and silver than England, and on the whole, especially France, have had much greater steadiness of trade; although the aggregate wealth, and the wealth per head of population, are estimated at very much less than in this country. These two countries have done more than any others to turn the tide in favour of silver, and are the most anxious to return to the old lines.

At this juncture in commercial history, it seems necessary to emphasise the following points:

1. That violent fluctuations of exchanges between gold and silver using countries during recent years have been due almost entirely to currency influences.
2. These currency influences have arisen especially from the legislative demonetisation of silver.
3. That the only effective plan for avoiding fluctuations so caused or intensified is to restore the *status quo ante* 1874, when silver was demonetised by the action of the Latin Union.

4. Mr. Goschen's plan involves the placing before a Monetary Conference the expediency of reopening the mints to silver.

5. The addition of the other items of Mr. Goschen's plan, provided the whole plan were carried out, would tend to infuse an element of steadiness into commercial and public finance, national and international, which has been unknown since 1874.

APPENDIX.

CURRENCY STATISTICS, 1888-92.

PRODUCTION.

THE WORLD'S PRODUCTION OF GOLD AND SILVER.
(Calculated from Report of Director of U.S. Mint, 1891, p. 195.)

	GOLD.			SILVER.		
	1888. Kilos.	1889. Kilos.	1890. Kilos.	1888. Kilos.	1889. Kilos.	1890. Kilos.
United States	49,917	49,353	49,421	1,424,326	1,555,486	1,695,500
Mexico	1,465	1,053	1,154	995,500	1,335,828	1,203,080
Central America (a)..	226	226	226	48,123	48,123	48,123
South America	11,499	12,480	12,958	523,861	452,136	452,312
Australasia	42,974	49,784	45,767	120,308	144,369	312,033
Canada	1,673	2,250	2,250	9,264	11,925	11,925
Japan	606	606	382	42,424	42,424	36,855
Africa	771	12,920	14,877	....	....	....
China	13,542	13,542	8,020	....	....	....
India (British)	1,018	2,261	3,000	....	....	....
Europe	36,118	39,752	36,492	219,800	251,818	250,688
TOTAL......	159,809	184,227	174,556	3,385,606	3,842,109	4,010,516
	$	$	$	$	$	$
Value (b)...	110,196,915	122,438,469	116,008,900	140,706,413	159,678,168	166,677,233

(a) Rough Estimates. (b) Kilog. Gold = $664·60 Kilog. Silver = $41.56.

COINAGE.

The World's Coinage.

(From the Report of Director U.S. Mint, 1891, pp. 192, 3.) *(000's omitted.)*

	1888.		1889.		1890.	
	Gold.	Silver.	Gold.	Silver.	Gold.	Silver.
	$	$	$	$	$	$
United States	31,380	33,025	21,413	35,496	20,467	39,202
Mexico	300	26,658	319	25,294	284	24,081
Great Britain	9,893	3,681	36,502	10,827	37,375	8,332
Australasia.........	24,415	....	29,325	....	25,702	....
India	108	36,297	110	37,937	....	57,931
France............	106	1,112	3,373	71	3,976	....
Germany	34,340	989	48,166	177	23,835	....
Austria-Hungary ..	2,747	5,516	3,294	4,528	2,818	3,857
Russia	20,460	1,163	18,855	1,153	21,726	1,614
Japan	974	10,222	1,775	9,516	1,194	7,296
Other Countries	10,105	16,259	5,769	13,445	11,632	7,092
Total......	134,828	134,922	168,901	138,444	149,009	149,405

Currency in Europe.

The following extract from the "Bulletin de Statistique," May, 1891, quoted in the Report of the Director of the Mint, gives the metallic reserves and circulation of the principal banks of issue in Europe, April 1, 1891. Unfortunately the ratio of reserve to circulation alone is given; the ratio of reserve to total liabilities would also be instructive. For the week ending February 19th, 1892, the banking reserve of the Bank of England was £16,182,000, or 33 per cent of its liabilities to the public, which were £53,902,000. For the same week the total coin and bullion in the Bank of France was 2,636 million francs, or about 70 % of its liabilities to the public, which were 3,796 million francs.

The Metallic Reserves and Circulation of the Principal Banks of Issue of Europe, April 1, 1891.

Name of Bank.	Metallic Reserve.	Composition of the Reserve.		Notes in circulation.	Ratio of Reserve to circulation
		Gold.	Silver		
					Per. cent.
Imperial Bank of Germany	$201,782,000	....	....	$251,151,000	80
Austro-Hungarian Bank ..	106,208,000	$26,209,000	$79,999,000	194,197,000	55
National Bank of Belgium	21,384,000	....	....	74,247,000	29
National Bank of Bulgaria	676,000	....	....	251,000	270
Bank of Denmark........	13,722,000	....	....	20,014,000	69
Bank of Spain..........	49,717,000	29,239,000	20,477,000	143,148,000	35
Bank of France..........	475,629,000	235,055 000	240,382,000	601,986,000	79
Great Britain:					
Bank of England......	111,940,000	....	....	119,178,000	94
Banks of Scotland.....	21 076,000	17 428,000	3,648,000	28,429 000	74
National Bank of Greece..	695,000	....	....	21,018,000	3
Italy:					
National Bank........	38,658,000	33,370,000	5,346,000	111,786,000	34
Institutions of issue....	41,939,000	36,284,000	5,655,000	93,065,000	45
Bank of Norway.........	5,211,000	....	....	13,163,000	40
Bank of Netherlands......	47,864,000	20,458,000	27,406,000	78,184,000	61
Bank of Portugal.........	3,995,000	1,949,000	2,046,000	8,318,000	48
National Bank of Roumania	9,785,000	....	....	21,114,000	46
Imperial Bank of Russia...	212,532 000	207,128,000	5,404,000	693,874,000	30
Royal Bank of Sweden....	5,327,000	4,651,000	676,000	10,808,000	50
Swiss banks.............	15,730,000	11,927,000	3,802,000	30,108,000	52

Estimated Stock of Gold and Silver and Actual Amount of "Uncovered" Paper Money in the United Kingdom, France, Germany, and the United States.

Countries.	Population.	Gold Stock.	Silver Stock.	Uncovered Notes.	Total Metallic Stock and Uncovered Notes.
United Kingdom......	38,000,000	$550,000,000	$107,000,000	$40,000,000	$697,000,000
France..............	39,000,000	900,000,000	700,000,000	88,000,000	1,688,000,000
Germany............	49,500 000	540,000,000	220,000,000	150,000,000	910,000,000
United States.......	64,000,000	671,000,000	539,000,000	409,764,000	1,619,764,000

	Per capita.			
	Gold.	Silver.	Paper.	Total.
United Kingdom..............................	$14.47	2.81	$1.05	$18 33
France..............................	23.08	17.95	2.26	43.29
Germany..............................	10.91	4.44	3.03	18.38
United States..............................	10.48	8.42	6.40	25.30

In this table the gold certificates outstanding are embraced in the gold stock, and the silver certificates and Treasury notes in the silver stock, and the same amounts have been deducted from the amount of paper money outstanding. From the legal tender notes outstanding have been deducted $100,000,000 gold held in the Treasury.

(Report U.S. Mint, p. 49.)

Great Britain.

Imports and Exports of Gold and Silver—Bullion and Specie.

(From Statistical Abstract, C. 6457, p. 112, et seq.)

IMPORTS.

000's omitted.	Gold.			Silver.		
	1888.	1889.	1890.	1888.	1889.	1890.
	£	£	£	£	£	£
Holland, - -	1,047	2,250	3,104	3	3	15
France, - - -	3,107	1,672	4,848	840	2,280	2,022
Australasia, - -	3,945	4,168	2,096	32	28	196
South America, -	764	2,801	4,411	2,264	2,146	2,527
United States, -	2,251	2,796	2,594	2,383	3,975	4,057
India, - - -	260	320	458	15	—	16
British South Africa,	847	1,441	1,876	3	2	7
China, - - -	1,052	598	260	—	—	55
Other Countries, -	2,514	1,868	3,921	673	751	1,490
Total, -	15.787	17,914	23,568	6,213	9,185	10.385

EXPORTS.

000's omitted.	Gold. 1888.	Gold. 1889.	Gold. 1890.	Silver. 1888.	Silver. 1889.	Silver. 1890.
Germany, - -	1,182	334	1,634	241	39	104
France, - - -	2	1,692	812	545	126	457
Portugal, - -	1,722	2,070	3,246	257	43	227
British South Africa,	1,420	2,390	750	70	242	61
,, India, - -	631	1,669	2,796	5,361	8,170	8,009
China, - - -	—	—	5	149	404	447
United States, -	3	10	1,011	32	31	629
Brazil, - - -	355	3,348	1,199	172	62	5
Other Countries, -	9,629	2,942	2,853	788	1,549	924
Total, -	14 944	14,455	14,306	7,615	10,666	10,863

COINAGE, 1888-1890. (ib., p. 184. 000's omitted.)

	Gold Money Issued.	Light Gold sent in for Recoinage.	Silver Money Issued.	Worn Silver sent in for Recoinage.
1888............	£2,033	£1,668	£799	£235
1889............	7.500	603	2,178	232
1890............	7 680	3.107*	1,694	296

* Pre-Victorian, ...£2,134,000
Victorian,.. 973,000

There has been a considerable increase of silver currency during the past eleven years. The amount of silver money in circulation in Great Britain and the British Colonies in 1890 was greater than the amount in circulation in 1880 by £7,385,932. (Report, Deputy Master, Royal Mint, 1890; and cf. Report, Director, U.S. Mint, 1891, p. 123.)

The balance of imports over exports of gold in Great Britain over the three years was £13,564,000; and the balance of exports over imports of silver was £3,361,000.

The value of gold produced from mines in the United Kingdom in 1890 was £575, and of silver was £58,024. The amount of gold coin in the United Kingdom on 31st December, 1890, was estimated at £105,000,000; £82,000,000 being in sovereigns and £23,000,000 in half-sovereigns. The amount of silver was similarly estimated at £22,000,000. (Report, Director of U.S. Mint, p. 220.)

Germany.—The Director of the Royal Prussian Mint Institutions reports,* that there remained in circulation, in 1891, from 400,000,000 to 450,000,000 one-thaler silver pieces.

Belgium.—A permanent commission for the study of monetary questions was appointed by Royal decree in April, 1891.

* Report U.S. Mint, p. 243.

Austria-Hungary.—The following letter gives an interesting account of the monetary situation:

UNITED STATES LEGATION,
VIENNA, *June 23, 1891.*

SIR,—I have the honour to submit the following statements concerning the currency of this monarchy for your information.

The circulating medium of Austria-Hungary is paper, issued partly by the governments and partly by banks, and, until recently, this paper has been based upon silver. Formerly the credit of the monarchy caused this paper to pass at a depreciated value, but some three years ago it became redeemable at par, in silver guldens or florins, ninety of which weighed 1 kilogramme or 2·2 pounds.

The great industry of the kingdom of Hungary is agriculture, and during the time that there was much difference in the relative value of gold and silver it was to the advantage of the landowners there to retain a silver currency, inasmuch as the wages they paid to the labourer who produced their crops was silver, while their surplus was marketed in central Europe, where the nations maintain a currency based upon gold, the gain in exchanging the two metals being an important part of the Hungarian landowners' profits. Upon the other hand, imperial Austria is a manufacturing country, and much of the raw materials consumed in the industrial arts was purchased abroad with gold, while the products of the factories were naturally marketed within the monarchy, where silver was received for them.

One can readily see why Hungary was satisfied with a currency based upon silver, while the Austrian part of the monarchy agitated a change to a gold basis.

Last summer, probably on account of prospective legislation in the United States which would affect silver, the relative value of the two precious metals came so near together that the two governments forming this monarchy agreed to nominate legislative committees to meet and discuss the subject o a currency basis, and, if possible, to arrange a coinage which would be satisfactory to those engaged in these two before-mentioned classes of industry. As an outcome of these discussions the two governments agreed, last week, to make gold their standard in the future.

Having agreed upon gold as the future standard for the coinage of Austria-Hungary, a new difficulty appears. The governments of this monarchy have been coining for many years past a principal gold piece—"the Franz-Josefs d'or"—of the value of 8 florins and 10 kreutzers. This coin was made of the same weight as the 20-franc piece, and it circulates as 20 francs in Belgium, France, Switzerland, Italy, and Greece. Now the question arises, Shall the value of the future florin have the value of the present gold or the present silver florin?

I have the honour to be, Sir, your obedient servant, F. D. GRANT.

The SECRETARY OF STATE,
Washington, D. C.

Russia.—The value of Russian goods exported *via* the European frontier last year reached to 669,146,000 roubles, against 642,335,000 roubles in the same period of 1890, thus giving a surplus of 27,811,000 roubles, or 4·3 per cent over 1890, and that notwithstanding the prohibition of grain exports. As regards the imports they only amounted to 321,013,000 roubles, showing a decrease of 8·6 per cent. as compared with the same period in 1890. Gold and silver in coin or bars were imported to the value of 78,023,000 roubles, against 21,492,000 roubles in 1890. The export of gold, silver, and precious metals amounted only to 171,000 roubles, against 17,821,000 roubles in 1890.*

Roumania.—Roumania adopted the gold standard in March, 1890, the law requiring the replacement of 40,000,000 francs of the 5-lei silver currency with gold coin.

About 25,000,000 francs in silver have been withdrawn from circulation and sold.

The holders of silver 5-lei pieces have the right to demand gold in exchange for a period of a year from the date of the law, after which period silver coins are a limited tender.

New South Wales.—As a good deal of misconception exists as to the production of silver at Broken Hill Mines, New South Wales, the following figures are given from the *Melbourne Argus* of date 9th January, 1892:

During 1891 the exports were—

Silver Lead Bullion, - - - - -	£2,485,163
Do. Ore, - - - - - -	907,013
	£3,392,176

The "Broken Hill Proprietary" Company's report (page 70) states its production of silver for the year ending 31st May, 1891, to be 8,790,670 ounces. This is the largest year's production it has ever had. The next largest was 1890, when the total was 7,180,944 ounces.

Present Premiums on Gold.

The premium on gold at present in Italy is 4 %; in Spain it is 14 %; in Portugal about 24 %; in Greece 40 %; and in the Argentine about 250 %.

* *Glasgow Herald*, 26th Feb., 1892.

UNITED STATES.

(000's omitted).

VALUE IN DOLLARS.	1888.	1889.	1890.
Production of Gold in U.S.A., ...	$33 175	$32 800	$32,845
Do. Silver in U.S.A., ...	59,195	64,645	70,464
Coinage of Gold in U.S.A., ...	31,380	21,413	20,467
Do. Silver in U.S.A., ...	33,025	25,496	39,202

(Report U.S. Mint, 1891; pp. 191-219.)

LOCATION OF MONEY IN THE UNITED STATES, 1ST JULY, 1891.

(000's omitted. ib., p. 46.)

METALLIC.	In Treasury.	In National Banks.	In other Banks and in Gen. Circulation.	TOTAL.
	$	$	$	$
Gold Bullion, ...	61,443	...	...	61,443
Silver do., ...	33,094	...	5,675	38,769
Gold Coin, ...	177,821	94,402	312,918	585,141
Silver do., ...	366,463	12,654	104,390	483,507
TOTAL, ...	638,821	107,056	422,983	1,168,860
PAPER.				
Legal Tender Notes (old),	25,348	100,400	220,932	346,680
Do., July 14, '90,	9,879	...	40,349	50,228
Gold Certificates, ...	32,423	63,910	56,153	152,486
Silver do., ...	7,480	19,803	287,433	314,716
National Bank Notes, ...	5,707	24,710	137,510	167,927
Currency Certificates, ...	1,905	21,875	...	23,780
TOTAL, ...	82,742	230,698	742,377	1,055,817

The excess of imports over exports of silver in the United States in 1891 was 2,745,365 dols. This excess was due to shipments of coin from Central America and Mexico. The fact that the United States imported silver on balance is an incidental proof that their monetary legislation has not been altogether futile.

COINAGE, OWNERSHIP, AND CIRCULATION OF SILVER DOLLARS.
(ib., p. 21.)

Date.	Total Coinage.	In the Treasury.		In circulation.
		Held for payment of Certificates outstanding.	Held in excess of Certificates outstanding.	
Nov. 1, 1886	244.433 386	100,306,800	82,624.431	61,502,155
Nov. 1, 1887	277,110,157	160,713,957	53,461,575	62,934,625
Nov. 1, 1888	309,750,890	229,783,152	20,196,288	59 771,450
Nov. 1, 1889	343 638,001	277,319,944	6,219.577	60,098 480
Nov. 1, 1890	380,988,466	308,206,177	7,072,725	65,709,564
Nov. 1, 1891	409.475,368	321,142,642	26,197,265	62 135,461

The above figures show that the large stock of silver held in the U.S. Treasury is required for active circulation.

"The total stock of metallic money was increased during the year by 10,085,644 dols. There was, however, a loss of gold of 48,980,177 dols., and a gain of silver of 59,065,821 dols., as compared with the stocks of these metals respectively at the commencement of the year."* Including paper money, the total increase to the money of the U.S. in 1891 was 65,488,040 dols.

The fiscal year of the American Treasury begins on 1st July. During the first six weeks of the year 1890-91, the Bland Act of 1878, authorising the purchase of a minimum amount of 2,000,000

* Report U.S. Mint, p. 45. † ib., p. 48.

dols. worth of silver per month, was in force. On the 13th August the Act of 1890 replaced it. The quantity purchased under the Bland Act, July-August, 1890, was 3,108,199 standard ounces at a cost of 3,049,426 dols. The average cost of the silver was 1·09 dols. per five ounces. The total amount of silver purchased by the U.S. Treasury under the operation of the Bland Act from the time of its becoming operative, viz., 1st March, 1878, until 12th August, 1890, was 323,635,576 standard ounces, costing 308,199,261 dols., an average of 0·9523 dols. per standard ounce, or 1·058 dols. per fine ounce.

The Act of 14th July, 1890, took effect upon 13th August, 1890. From that date until now the U.S. Treasury has been purchasing an average of 4,500,000 dols. per month. The total amount purchased under this Act, from 13th August, '90, until 29th February, '91, has been about 85,000,000 ounces. The quantity of silver bought monthly by the U.S. mints, through which the silver purchases are made, has during the past year and a half been generally rather more than half the quantity offered month by month. The quantity offered fell from 9½ million ounces in August, 1890, to 7¾ million ounces in November, 1890; and increased from that point to over 11 million ounces in April, 1891. Since that date it has fallen sharply, reaching in June, 1891, rather less than 7½ millions. (Report U.S. Mint, 1891, pp. 10-14.)

One of the most important features in recent American currency history was the remarkable exportation of gold from America to Europe in 1888, 1889, 1890, and 1891. These shipments took place for the most part in the summer of each year. Six causes are alleged to account for this drain of gold from America.* *(a)* The relative

* Report, U.S. Mint, p. 38.

amounts of exports and imports were such as to make the indebtedness of the U.S. larger than usual. Grain shipments had gone down, and imports had gone up. *(b)* The expenses of American tourists in Europe in the Paris Exhibition and following years involved carrying and remitting gold to a considerable extent, (estimated by the director of the mint at the apparently exaggerated figure of 92,000,000 dols., or about £20,000,000 a year for 1889 and 1890). *(c)* Silver exports were reduced by the monthly purchases of the Government, and gold was exported instead.* *(d)* The rate of interest was relatively higher in Europe than in America. This led to the sale of large amounts of American securities and the shipment of gold against them. *(e)* The credit of European capitalists was injured by the losses they were known to have experienced in South America, and thus the ordinary practice of drawing in anticipation of shipments was partially suspended.† These losses produced also a strained condition of the money market in Europe and a series of efforts by European bankers to strengthen their reserves. The Bank of England was in the same position as the other leading banks in France and Germany; thus the strain naturally fell upon New York. These causes combined to produce a series of drains of gold from America. The *first* of these extended with a brief interval from May, 1888, until July, 1889. The amount of gold exported from the U.S., chiefly to France, was 61,435,989 dols. The *second* drain took place in the summer of 1890, while financial houses in London were feeling the strain which, in the autumn of that year, brought about the collapse of the Barings. In two months, 15,672,982 dols. in gold was exported to Europe. After the immediate strain of the Baring crisis was over the shipments

* An instance of the operation of Gresham's Law.

† This practice is described in Goschen's *Theory of the Foreign Exchanges*, p. 40.

became normal, but in February, 1891, there occurred the *third* gold drain, which in five months drew 70,223,494 dols. in gold from New York. Of this large quantity (about £14,500,000) of gold 17½ million dollars went to Germany, 16½ million dollars to France, and the remainder, about £7,500,000, came to England.* It is fairly clear that this large export of gold from the United States was due almost entirely to the exigencies of bankers; for the rate of exchange, during almost the whole of the period of five months while the drain endured, was under the point at which gold may be shipped without loss.†

"It is a well-known fact that the Bank of England paid a premium for American gold coin, and increased that premium from time to time as the financial crisis grew more threatening." ‡

It is important to note that prior to the Act of March 3, 1891, the U.S. mint exchanged gold bars for shipment, or otherwise, in exchange for an equal weight of gold coin. The Act of that date empowered the mint to make a charge for bar gold equal to the cost of manufacture in this form. From 4th March, 1891, a charge of 4 cents per 100 dols. was imposed. It seems to have been thought that this might have the effect of checking the withdrawal of gold; but it was insufficient to do so. On 23rd March, 1891, the mint declined to supply bar gold for shipment, but even this failed to effect the object apparently aimed at, viz.: prohibition of export of gold. For the demand for gold in Europe was so great that an adverse exchange, the cost of carriage, and seigniorage on coins altogether, did not suffice to check the drain, and 67,000,000 dols. were shipped in coin. More than half of the gold shipments from England, France, and Germany, in the autumn of 1891 consisted of U.S. dollars returned untouched.

* Report, U.S. Mint, pp. 35-37. † ib. ‡ ib., p. 38.

It is to be noted also that there is an encouragement to importation of gold into Europe from New York, in the circumstance that the banks at Paris and Berlin give credit for the gold on receipt of telegraphic advice that it has been shipped at New York.

The return flow of gold from Europe to America began in July, 1891, and by the end of October had resulted in nearly one-third of the gold shipments of the year finding their way back to New York. The amount of gold shipped to New York from England, France, and Germany in July-October was 20,863 230 dols.* The Director of the U.S. Mint believes that with the return of confidence in Europe and with the alteration in international balances brought about by large grain shipments from America that this return will go on.† Should this result in the withdrawal of the moderate amount of gold which was brought from America to relieve the tension of the situation we may look for a renewal of the gold scare, for fresh fluctuations in the discount rate, and for frantic premiumed imports of gold from America. Repetitions of this experience from time to time can only strengthen the feeling that an international monetary agreement should be devised to render panics of this kind less frequent and violent.

British India.—The Bengal Chamber of Commerce has made a representation to the Government that "there is no complete remedy for the great and rapid fluctuations except either the establishment of an international agreement of a system of free coinage of both metals at fixed rates, or the adoption of a gold standard by India." They think the former remedy would be attended with the least risk.

The excess of imports over exports of silver in India during the fiscal year 1888 89 was R94,275,289; 1889-90, R110,020,777; 1890-91, R142,114,094. The following table gives the value of imports and exports of gold and silver Coin and Bullion into British India registered between April 1, 1890, and March 31, 1891, compared with the corresponding periods in 1888-89 and 1889-90:

* Report U.S. Mint, p. 38. † ib. p. 39.

GOLD.

Countries.	Imports. Twelve months, April 1 to March 31— 1888-'89.	1889-'90.	1890-'91.	Exports. Twelve months, April 1 to March 31— 1888-'89.	1889-'90.	1890-'91.
Europe:	*Rupees.*	*Rupees.*	*Rupees.*	*Rupees.*	*Rupees.*	*Rupees.*
United Kingdom	10,656,590	24,438,740	38,141,112	2,861,867	4,447,219	8,218,734
Austria	45,905	7,834	62 637	31,205	13,507	45,146
France	708,006	1,243 922	1,282,868	23,000	31,700	....
Italy	102 380	72,780	....	....	....	....
Other countries in Europe	....	139 501	46,363	....	70	....
Africa:						
Eastern coast of Africa	474,826	697,127	397,894	....	7,728	42,070
Egypt	1,107,613	1,865,152	1,765,416	....	150	400
Mauritius	....	....	1,689	....	....	....
Other countries in Africa	4,950	13,140	122,234	....	....	....
America:						
United States	....	....	55 000	....	....	....
Asia:						
Aden	1 103,497	357,056	641,217	1,875	1,599	1,335
Arabia	2,125,334	1,575,408	1,056,662	....	....	7 920
Ceylon	....	95,050	17,372	20,000	14,700	....
China	9,352,872	13,346,788	9,634,299	....	....	....
Java	....	....	....	29 750	....	....
Persia	42,408	51,235	83,483	5,344	21,662	10,190
Straits Settlements	144,727	92,859	272,486	14,000	....	13,938
Turkey in Asia	202,496	353,793	387,018	64,500	18,900	306,867
Australia:	5,119,278	6,359,888	11,040,567	....	....	....
Total value in rupees	31 190 882	50,710,273	65,008,317	3,051,541	4,557,235	8,646,600
Total weight in tolas	1,366,098	2,267,286	3,135,668	135,227	204,928	431,056

SILVER.

Countries.	Imports 1888-'89.	1889-'90.	1890-'91.	Exports 1888-'89.	1889-'90.	1890-'91.
Europe:						
United Kingdom	68,826,394	97,691,280	75 408,343	*227,246	67,045	302,091 †16,500
Austria	1,324,271	1,081,035	9,728,416	1,720	1,793	119
France	1,093,820	2,048,851	1,011 240	525 281	914,050	316,500
Italy	1 772,100	200,000	1,007,525	15,000	2,000	76,300
Other countries in Europe	....	....	....	40	500	....
Africa:						
Eastern coast of Africa	381,540	484,550	136,663	1,001,339	1,010,477	1,885,505
Egypt	94,349	66,241	281 897	....	157	900
Mauritius	103,800	4,200	483,200	1 394,498	1,153,000	....
Other countries in Africa	27,975	216,848	541,496	35,450	17,800	2,900
America:						
United States	9,257,244	1 887,300	423,100	800	....	....
Asia:						
Aden	177,499	783 231	930,977	*731,600 †773,000	*701,728 †600,000	*314,799 †470,000
Arabia	2,351,816	4,086,093	4,195,464	*1,157,590	*1,324,423 †10,000	*894,856 ....
Ceylon	534,892	1,550,270	937,201	5,308,000	6,022 210	6,507,500
China	19,385,528	9,314,645	36,297,690	387,675	286,557	842,510
Java	....	....	....	152,400	18 000	....
Japan	....	375,000	1,090,600	....	....	....
Persia	*757,479	*1,258,348 †2,000	*1,790,126 †150 000	*1,845,620 †3,800	*1,027,225 †2,020	*524,125 †1,400
Siam	2,868	....	....	....	....	....
Straits Settlements	265,326	474,780	12,947,047	767,074	1,125,573	386,685
Turkey in Asia	669,092	1,220,552	1,943,923	*216,100	*184 325	*14 750
Other countries in Asia	6,700	1,400	28,521	*215,995 †31,700	*5,100 †32,000	*2,925 †24,820
Australia	226,024	1,136,116	5,003,130	....	....	....
Total private—						
Value in rupees	107,258,717	123,882,740	154,136,559	13,983,428	13,861,963	12,072,465
Weight in tolas	100,919,106	117,173,091	149,692,321	13,614,532	13,481,008	11,916 448
Total Government—						
Value in rupees	....	2,000	150,000	808,500	644,020	512 720
Weight in tolas	....	2,000	150,000	808,500	644,020	514,980

* Private. † Government.

(Report U.S. Mint, p. 223).

The following exhibits the amount of imports into India and of exports from India during a portion of the past three years :

IMPORTS AND EXPORTS DURING THE EIGHT MONTHS ENDING 30TH NOVEMBER OF EACH YEAR.

PUBLISHED BY THE GOVERNMENT OF INDIA.

Imports into India.	1889.	1890.	189·.
Merchandise, -	R46,09.97.103	R47 65 31,901	R45 68,60.768
Treasure, - -	9,98,73,646	15,10 33.531	8,93,35.876
Total, -	56,08,70,749	62,75,65,432	54,61,96,644

Exports from India.	1889.	1890.	1891.
Merchandise, -	R63,12,62.733	R62,77 05,293	R69,29.18,337
Treasure, - -	1,39,51.954	1.48,39,196	1.86,92,565
Total, -	64,52,14,687	64,25,44.489	71,16,10,902

The above figures show, so far as Exchange operations between this country and India are concerned, that there is room for considerable exports of silver to India in liquidation of her balance of trade. They therefore do not justify the continuance of the fall in the value of that metal.

China.—An unknown quantity of silver was coined at the mint at Canton in 1890. Although China has been able to float successive loans at a steadily diminishing rate of interest, and although the credit of China in the financial centres of the world is undoubtedly good, still there is great internal distress for money.* The reasons for this are alleged to be the recent disastrous floods, the disinclination of the Imperial Government to borrow in Europe, and the uncertainty as to the future price of silver, which acts as a deterrent to borrowing. The statistics quoted above, showing the imports of the precious metals into India, disclose a remarkable flow of gold and silver from China to India. The increasing importation into China of cotton goods manufactured in India is perhaps the chief reason for this; the absence of consumption in India of Chinese goods, and the falling off in the shipments of tea from China to this country account also for a portion of the adverse balance.

* Mr. Charles Denby, letter from U.S. Legation, Peking, October 21, 1890, to Sec. State, Washington. Printed in Report U.S. Mint, p. 255.