I need hardly apologise for introducing this subject to your notice. The trade of Great Britain is the source of her national wealth, and therefore anything that even remotely affects it must be of interest to a society like ours. I know it is the fashion to say that changes in the value of the precious metals have but little effect on the whole community; for that, while they may alter the relative position to each other of classes, like possessors of fixed incomes and traders, such changes leave unaffected the wealth of any country that does not produce silver and gold.

One of my objects to-night is to show that they ought to have a very real effect on the state of trade, and that it may reasonably be inferred that one of the main causes for the remarkable depression that has weighed down the industry of every country of any importance on the face of the globe, is the general adoption of gold as a standard of value, and the consequent appreciation of the metal. I do not indeed intend to argue against a single standard, as I believe it to be the only rational system; but to try to prove that its adoption in Germany, Holland, and to a larger extent in France, while I admit that it will in the future be a benefit, has in the meantime subjected the industry of the world to an unnatural strain.

There are two points of view from which we can approach the question of the part specie bears in commerce. There is the comparative scarcity or abundance of the precious metals in any country, and the effect of what is known as balance of trade. The latter was most ably treated from the free-trader's special stand-point at a late meeting; but I hope to have something to say about it to-night before I conclude; especially as a kind of madness seems to have taken deep hold of the popular mind on this subject—a madness we should wonder at had it been developed two hundred years ago. Indeed it was developed about then, and we do wonder at the extraordinary remedies proposed and adopted; but like the man who saw a mote in his brother's eye, and could not see a beam in his own eye, we are again treating of nostrums such as those which Graham and the mercantile school cherished as the great panaceas for all ills that trade is heir to.

But far more important than the miserable doctrine which Lord Bateman and his disciples are so wedded to, is the general question as to what ought to be the effect on trade of the appreciation or depreciation of the precious metals or metal, as we have a double or a single standard of value, while such appreciation or depreciation is going on.

Three months ago it would have seemed necessary only to discuss the gold question, except when specially considering Indian finance, for gold seemed then to be about to become practically the sole recognised standard of value throughout the civilized world. The passage of the American Silver Bill has altered this, and made it requi-
site to consider silver also; for, not to insist on the fact that so many Englishmen possess property in America, the adoption by so great a country of a double standard must produce in the future, and already even has produced, an immense effect on the money markets of the world, and especially on that of London.

At first, however, to fix our ideas, it will be enough to discuss the question as though gold was the sole standard, for, *mutatis mutandis*, all the reasoning would apply equally to either or both of the metals, and to a single or double standard.

Let us now proceed to examine what ought to be the effect of the appreciation or depreciation of gold, while the change is going on. For reasons that I shall give later, I believe gold to be appreciating—that is, increasing in purchasing power; and therefore I will assume it, partly for clearness and partly because it agrees with the facts of the case. The first observation to be made, is that so long as this process is going on, the gold prices of all articles must tend to fall, and therefore all speculative activity must tend to disappear from trade; and we all know how much the prosperity of a country depends on the temper of the people being hopeful, and consequently credit being good.

Now, what will be the effect of this appreciation of gold on the rate of discount? The frequent fluctuations in the money market are curious, and are caused by so many different circumstances, that any one cause will not of itself even approximately determine the rate, however powerful it may be, though it may exercise a very real influence on it. The one in question is only a single force, acting simultaneously with a number of others, and therefore we cannot solve the question by appealing to the value of money at any time, even when we know the force to be acting most powerfully, but must go to first principles, and then, in a complete investigation, such as there is not time for to-night, we ought to examine the different examples on record, to see if they support our conclusion.

I propose merely to attempt to state my theory, and then leave it almost entirely to take care of itself. First, it may be worth while to notice the enormous sums of money whose productiveness is determined by the rate of interest ruling in the discount market. In this category are all deposits in banks, and all credit balances and the capitals of banks. We know how greatly the deposit system has spread of late years, for good or evil. Last year, a few of the great London joint stock banks alone held over £100,000,000 on deposit, and the Bank of England nearly £30,000,000; and besides these were the amounts held by English provincial, Irish, and Scotch banks, and by private bankers.

The yield of all this money is an important part of the national wealth. How is it affected by the appreciation of gold? It is employed in advances to traders, in advances on the stock of existing railways or other companies, and in completing new works; and the rate of interest is determined, generally speaking, by the profit to be got by persons using money in any of these ways. What then ought, *a priori*, to be the effect of the appreciation of gold on such profits?

To say that gold is appreciating, is the same as to say that prices
are falling, for prices are merely the gold equivalents of commodities, and of course these equivalents will grow less as gold becomes more valuable. Now a merchant buys goods with expectation of getting as much money for them as will pay the cost of carriage, storage, etc., the interest on the money employed, and a profit to himself. All the items, except the interest on money, are fairly fixed, so that we may be said to have only the one variable quantity to change with the greater or less difference between the buying and selling prices. The value of the money employed will in fact be large when the difference in price is large, and small when the difference is small. Supposing 5 per cent. to be a fair normal value for money, we have for the cost of any article to the consumer the first-cost, plus the cost of carriage, storage, etc., plus the profit, plus 5 per cent. on the money employed. But if the currency is appreciating, each piece of gold paid by the consumer will be worth more than it was when the merchant bought, and consequently the prices of goods will be falling, and merchants will not care to import nor manufacturers to produce. This will diminish the demand for money, and by so doing lessen its price.

Now suppose an appreciation in gold of 2 per cent. per annum, i.e., a fall of 2 per cent. in prices, and it will be plain that traders can, paying only 3 per cent. for money, make the same profit they did when gold was not appreciating, and they paid 5 per cent. for money. Nor, it may be remarked, would the capitalist lose; for his money would really be as productive as when, in normal times, he got 5 per cent.—although at the end of the year, instead of £105 he only gets £103 for his £100, yet this is worth as much as £105 would have been in normal circumstances, as it has appreciated 2 per cent. in value; that is, it possesses as much purchasing power as £105 without the appreciation. In a precisely similar way it might be shown that if gold is depreciating, traders could afford to pay more than the normal rates for money, and capitalists would be forced in self-defence to demand more for it. So that, as far as trade demands are concerned, when gold is appreciating we might expect a low rate of interest to rule, and when it is depreciating a high rate.

Now, take the case of capital that is wanted to fix, i.e., to put into railways or similar public works. People go into those to make money, and it is evident they would not do this so freely, if at some future time the works could be done for less than they originally cost—as then new railways would be made which could and would work cheaper than the old. Still, supposing gold to be appreciating, this is exactly what would happen, as a smaller quantity of gold would command the requisite amount of labour.

The rate, therefore, that money would be worth for these purposes, would be less than when gold was stationary in value, for larger immediate profit would be looked for by those who took the risk, to compensate them for their ultimate loss. And similar reasoning would prove that, as in the case of trade, money for railways, etc., would be worth more when gold was depreciating. The results in both cases are then identical, viz.: that when gold is appreciating the rate of interest will tend to be low, and when it is depreciating the rate will
tend to be high. I do not mean, of course, that we can predict that these results will certainly follow when gold is fluctuating; there are, as I said, too many other causes affecting the money market to make this even approximately true; but I do mean, that I believe that this appreciation or depreciation of gold both ought, a priori, to have, and has had, a very sensible influence on the value of loanable capital for the time being.

What has been the experience of the past? It is not easy to get any case in which the circumstances are not so complicated as to prevent its being of use as an illustration; but the following seems at least remarkable. It is generally admitted that from 1847 to 1852 gold was appreciating. Now the repeal of the corn laws, and the potato famine ought to have caused a demand for money at enhanced rates, both for the purposes of trade and to pay for food; yet from 1847 to 1852 money was as much a drug as it has been of late, if not more so.

In 1852 Consols touched 102, the highest point ever reached, although we were on the eve of the war with Russia, merely because there was no other way of employing money; and I think the present case is largely due to a similar cause, i.e., that gold is becoming more valuable.

Let me now examine the state of the gold and silver market.

Taking gold first: I find that the total production for the five years 1872-'76 inclusive was £102,000,000; so, adding one-fifth of this sum for the year 1877, we get for the production in 1872-'77 inclusive, £123,000,000. Of this, £12,000,000 is estimated as having been absorbed in manufactures and the fine arts, having £111,000,000 to go to replenish the world's stock of corn and bullion. During the same period Germany coined about £52,000,000, and as she demonetised nearly as much silver, the greater part of the coined gold must have remained to take the place of the silver that was exported; even though some may have been set free by the greater poverty of the country at the end of the period as compared with the beginning, and the consequent need of less coin to carry on ordinary business. It may be remarked, however, that in proportion to the business done, when trade is declining and credit consequently impaired, a larger proportionate cash basis is required that when business and credit are both good. Besides this German demand, France during the years 1872-'76 inclusive imported on balances, according to the Board of Trade Abstracts, £53,000,000. I have not got the figures for 1877; but it will not be far astray if we take them at about one-fifth of this amount, so that we shall have for the French import of gold, on balance in the years 1872-'77, about £63,000,000.

It is plain, therefore, that France and Germany alone absorbed the whole amount of gold produce in the year 1872-'77; while in the same time the United States government hoarded about £20,000,000, and Holland also took an appreciable amount for her new gold coinage. The result is that the stock of gold in those countries which had a gold standard previous to 1872 has diminished by a not inconsiderable quantity; and since then there has been a large increase in population, and in the total volume of trade—an increase that would
naturally have absorbed a large additional amount of gold, had it been forthcoming. Allowing, therefore, for any economy of gold due to improved banking facilities, the metal must have become scarcer, and gold prices have declined.

Now with regard to silver. There is no subject connected with finance that has of late aroused such angry feeling as this silver question. A short time ago, the discussions were mainly excited by the state of the finances of India, and many were the specifics enunciated to prevent the losses in the budget of that empire, which since 1870 were constantly growing greater from the fall in the price of the silver. Within the last few months, however, the remonetization of silver in the United States has provoked a storm in financial circles which has led many people, who ought to have known better, to make statements that the facts do not warrant. Repudiation is gravely imputed to the American Republic, when the truth is that we have only our own short-sightedness to thank if we did not foresee that the Americans might some day pay their coin obligations in silver and not in gold. They are undoubtedly within their own legal rights in so doing, though opinions may differ as to the expediency of their course of action, so far as their own interests are concerned. To this country, the remonetization of silver, even on the limited scale on which it has been attempted, seems to me to have been a great benefit.

If I have succeeded in making myself intelligible in giving the gold statistics, you will see that, had we had a larger American demand for gold just now, the effect on our money market would be far from pleasant. The four years to which the following figures refer are 1872 to 1875 inclusive.

The total production of silver during this period was estimated by the Silver Committee of the House of Commons, in 1871, at £54,700,000; but, besides this, Germany in that time exported £8,000,000 of her old silver, and Italy and Austria together lost £12,000,000 of their coinage: so that the total amount disposable was £74,700,000. Of this amount, it is surprising to find that France absorbed £33,500,000, while India only took £9,100,000, and the rest of the East, £10,500,000; and I saw somewhere lately, though I cannot remember where, that the re-importation of silver from France to the East was only about £1,500,000. I may also mention here that I believe the total amount of silver in the world in the form of bars, coin, and plate, and other articles, is estimated at nearly £900,000,000, while the yearly consumption of the metal in manufacture is about £2,000,000.

The first thing that strikes any one in reflecting on these figures is the small addition to the old stock which has caused such an outcry. We must not forget that when we say that silver has fallen, the gold price of silver is referred to. Twenty shilling in silver are of course still the equivalent of twenty silver shillings. The fact is that there has been a great change in the uses of the two metals. Broadly speaking (to quote the facts stated by Dr. Linderman in a little book on this subject very recently published) the production of silver to gold in the early part of this century was at the rate of 3
to 1; and the proportionate market value of the two metals was, in 1810, 1 to 16.15, and in 1834, 1 to 15.73, showing a small rise. In 1848 the proportionate production of silver had fallen to 0.68 to 1, while its market value as compared with gold was 1 to 15.85. In 1875 the productions were in the ratio of 0.68 to 1, while the relative value of silver to gold had fallen to 1 to 16.58—and in 1877, with a very small if any increase in production, to 1 to 17.87.

It is evident that excess of production has nothing to do with this fall; but the causes are easily found. You may remember that we saw that in the period 1872-75 the German government sold £8,000,000 of silver, the yearly production of the metal being about £14,000,000; and this, coupled with an unfounded fear of a large increase from the United States, caused the price to fall in the end of 1875 to 47d. per oz. Since then, the German government has sold about £38,000,000, and of course, though the apprehensions of an unlimited American supply have proved baseless, the sale of this enormous quantity of silver, coupled, as it has been, with a purchase of a greater amount of gold, has prevented the recovery of silver to its old price. I have only to add that now the United States have decided to remonetize silver, an opposite result may be looked for, if France and the Latin Union do not take advantage of the opportunity and try to revert to a gold standard. They may be the more tempted to do this, as their position will be a peculiarly difficult one. Their coinage is based on the assumption that the values of silver and gold are in the ratio of 15.2 to 1, while that of the United States assumes that the ratio is 16 to 1. If therefore France resume specie payment, with a double standard, silver will be comparatively more valuable there than in the States, and she would at once lose all her gold. This she could not allow; and we may therefore expect that either specie payments will be nominally not resumed, or the convention between the members of the Latin Union will be renewed in even stricter terms than before.

One word on the extreme wantonness and folly of the American return to silver as a standard. The United States Treasury had by great exertions accumulated $125,000,000 (£27,000,000) in gold to prepare for resumption; and there was altogether in sight in America, on the 1st January, 1878, only about £12,000,000 in silver. At the same time the very Bonanza silver mines themselves produce over 40 per cent. of gold in value as compared with silver.

The only result of their action then can be that the American people voluntarily throw away their hard-earned store of gold, and will enable Germany to sell the rest of her old silver at a good price. At the same time, the change undoubtedly has helped to prevent a serious disturbance in the London money market from a scarcity of gold. Had we had an American as well as a German demand for that metal, the Bank of England would before now have had to adopt very stringent measures to protect its reserve. As it is, the peculiar action of the German demand on the market is a source of great danger. That government takes gold from London, no matter what the state of the exchange on Berlin may be; and so, while they lose considerably by it, we will have to attract gold by such methods as will
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bring the German and American exchanges above the points at which gold is exported from Berlin and New York to London.

If I have succeeded in making myself understood, I think it will be admitted that gold is appreciating, or rather has within the last six years appreciated, in value; and as our standard in the United Kingdom is gold, we need not trouble ourselves too much about silver. This means that prices ought to have fallen, and at once brings up the question, whether the great dulness of trade that everyone complains of, and ascribes to strikes and politics, what is called an unfavourable balance of trade (whatever that may mean), and a hundred other causes, is not really due largely to an unavoidable fall in everything, caused by an abnormal demand for gold. At all events, I maintain that this cause was present, and may account for some of the evils complained of: and before we try any remedies for other causes, which may be but secondary, it would be only prudent to ask whether this may not be the chief one.

In a short paper like this it would be impossible to go at any length into the matter; but I do not think it will be out of place to say a few words on what occurred after the Australian gold discoveries in 1851-53; as if I am right just the opposite state of things exists now, and contrary effects may be expected. Before those discoveries, the value of gold had, as was before remarked, long been steadily rising. The production had not kept pace with the demand for it, which had arisen naturally as population and trade increased; and so value quoted in gold went lower and lower. In 1846 the Corn Laws were repealed in England, and the impetus thus given to commerce, though checked at first by bad harvests, would probably have greatly helped this tendency of prices to fall; and no doubt panics caused by a want of gold and the resulting shrinking would have resulted. The gold discoveries prevented these consequences, and to that extent were a benefit to Europe. In many other respects they were dead loss. When we sent Australia corn and butter, and manufactures of all kinds, in exchange for her gold, what did she do for us? She paid us in gold. So far as it went, it merely lowered the value of the gold in the world before. Being there, it had to be accepted as a fact, and used; but it was a benefit to Australia earned at the expense of the older countries.

Probably England alone of the rest of the world benefited from it, and this only from a peculiar cause. The gold came to her first in exchange for commodities she sent direct to Australia. For them she was paid in Australia at the enhanced rates current there, where the legitimate effect of the new gold in raising prices had been greatly over discounted. In other countries prices were for a while little if at all altered; and so England was paid at rates higher even than the new state of things would ever warrant, and at the same time was able to buy at the old quotations. In this way she escaped the otherwise inevitable loss, by leaving those countries, not in the direct current of the new gold, to bear it all. What the entire loss was cannot be easily ascertained.

That prices are much higher than they were thirty years ago every one admits. The prices of labour, which in the end must govern that
of every other commodity, has, speaking roughly, doubled in that time, showing that the value of our currency has fallen to half what it then was. From this it would seem that the old world, not being a producer of gold, had lost half the value of its existing gold currencies, which amount of property had been transferred to Australia and California. But this would be a very erroneous view of the matter. It would only take account of the losses and not at all of the gains. A very few words will be enough to indicate that there were enormous gains.

But for the gold discoveries, there would, as we have said, have been a fall in prices. The possessors of fixed incomes and capitalists who do not employ money in industrial undertakings themselves, would have gained; but all borrowers who invested the money in goods or in any kind of trade would have lost. Thus the enterprising classes would have been the losers, the unenterprising the gainers; and enterprise would, by the inevitable laws of cause and effect, have been greatly diminished. It was a real gain that this was prevented. In another way, a great destruction of capital was escaped by the gold discoveries stopping the fall in prices. Such a fall would have prevented many people from being able to meet their engagements, would have caused many failures, and by so doing would have destroyed a larger portion of that important part of the national capital which exists in credit, and which it is now the fashion to call "banking money" as distinguished from gold.

Does it not at once occur to an observer of the present condition of things, that the symptoms of the recent depression point to a cause similar to that which was removed twenty-five years ago by the finding of gold in Australia; and does not this, coupled with the statistical proofs adduced of the comparative scarcity of gold now, go far to prove that the appreciation of the metal is a principal cause of much of our trouble? If such is the case, one practical consequence of our deposit system may be looked for—a great difficulty among some of the receivers of deposits in meeting their engagements, not from any imprudence on their part, but from the disappearance of the money value of the property which is behind, and was the justification for the large creations of banking capital and liabilities.

Nothing has been more often remarked on than the small proportion of the Bank of England reserve to the liabilities of the London banks alone to depositors, and to the total trade of the country. Within a few years, the former has fallen from 27.7 to 11.7 per cent., while the proportion of the same reserve to the total trade of the country, as measured by the sum of the imports and exports, has declined from 4.4 to 1.5 per cent.

Writers in the press seem to fancy that this is somehow the fault of the banks, and that they could have prevented it by not offering interest on deposits. A careful consideration of the facts has made me think that such is not the case. What was the source from which the money came? Was it not the realization of profits by traders of all kinds in the country. Buyers to a large extent completed their purchases by the aid of borrowed money on the security of their premises, stocks, etc., so that the banks received from, and became accountable to one set of persons, for money that they lent to another.
class on the security of property of one kind or other. If the money value of this property depreciates by the appreciation of the currency, the loss must fall on the intermediaries. This depreciation would first appear in a scarcity of gold. As long as the metal was not wanted for export, and credit kept good, the country might continue paying internal liabilities by mere book-entries; but so soon as gold is wanted for export, then the weak part of the chain makes itself felt.

I do not of course mean to assert that there will necessarily be any very serious consequences resulting from the existing state of things. No one can say how far the economies in gold, resulting from international banking, may go. The German demand will soon be satisfied. That demand was independent of banking facilities, the state of the exchanges, or anything else except the supply of hard gold itself; but I do think that had any further demand of a similar sort sprung up in any other quarter—as, for example, if the Americans had attempted to make gold their sole standard next year, as the original resumption act proposed—the effects on trade would have been disastrous.

Before concluding, I wish now to say a few words on the balance of trade, as it affects the gold question. This word "balance of trade" is no new one, and was, I think, first brought into use about the beginning of the eighteenth century by what was called the "mercantile school;" and the idea which underlies it is at the root of all the arguments in support of protection. The notion seems to be that imports are bad because they have to be paid for in gold, and that an accumulation of gold is the great thing for commercial prosperity. It was the same idea that animated the Spaniards after the discovery of America. When they found a new country, they never seem to have dreamed of enquiring into what we should call its natural advantages—whether it possessed a rich soil, good harbours, or anything else of the same sort. All they wanted was to find out how much gold, in the shape of mines or better still of ornaments or idols, the inhabitants possessed, to despoil these unfortunate people of the gold they had, and set them to work as slaves in the mines to dig for more. As soon as the supply was exhausted, they cared no longer for the place, but turned their thoughts not alone to find out localities, with new gold mines, but also to decoying or forcing the unfortunate natives of the abandoned places to come and dig again for the new gold.

Even the most infatuated of protectionists laugh at such folly; but are they much more sensible themselves? Is there any difference between the "Spanish theory," as I may call it, and the doctrine that domestic manufactures or produce, although they are dearer, are preferable to foreign, because the latter must be paid for in gold, and thereby the national wealth be diminished. The whole matter lies in the last assumption. Is the national wealth diminished by importing rather than producing anything which cannot be as cheaply produced at home as abroad? Put fairly, the question seems to answer itself.

It is true that we must pay for what we use; and if we are spending too much as a nation or individually, it matters nothing at all how we do it, for we will soon come to an end of our resources.

But is the United Kingdom spending too much? I confess I can
1878,

By Robert Goodbody, Esq.

see no signs of it. The great excess of imports, as compared with exports, is confidently appealed to as an undoubted proof that it is; and it would not come within the scope of the paper to examine how the national account is balanced. The state of the exchanges, however, do; and they show no signs of an unfavourable state of things. Two or three bad harvests, the shutting up of the Black Sea, combined with a good harvest in the States, have naturally stimulated the demand for American corn, yet the exchange shows no signs of going to a point which would cause gold to flow to New York. But, it is said, we have been paying in bonds, and so lessening our capital. I do not believe it. The whole import from Europe has not been so very large, and I believe we have imported almost as much of American bonds from the continent as we have sent to New York; and even if some have gone on balances, the indications now are that America will have to begin to export gold; and every day, as the receipts of corn and cotton fall off, these indications may be expected to increase. And in the meantime there is no demand for gold for the continent, except for Germany, against silver. This silver has been going to India, where we have been lending money. But, say the alarmists, the reason that gold does not go to Paris is that there is an increasing quantity of French money attracted here by the higher rates existing as compared with Paris. Up to last June or July money was dearer in Paris than in London, and no doubt English money went to Paris, yet we never heard that that was a proof we were getting richer. On the contrary, we were then told that the case was hopeless, for the French could afford to pay more for money for trade purposes than we could. Now it is hopeless, because we pay more than the French do.

I will not weary you further with such absurdities. The wealth of any country depends on its people, where nature has done so much as she has for England. Has any proof been given that English enterprise, English honesty, English capacity has declined? Until there has, we may leave the national wealth to take care of itself, convinced that if we each do whatever we find to do with all our might, our country will not be behind in the race for success, but will maintain the proud position she has reached by centuries of toil.

IV.—On Banks and Banking in Ireland. By James Connolly, Esq.

[Read 25th June, 1878.]

I am not aware that any paper has ever been read before the Statistical Society on this very important subject. This is, perhaps, not very surprising. In fact public banks have gradually come into existence one by one—commencing in a very quiet way, with a comparatively small capital, and confining their operations in the first instance to one locality, such as Dublin or Belfast.

In this way the Bank of Ireland was established, now nearly a