

# Ricardo's Plans for the Reform of Monetary Regime – Bullion Payment and Establishment of a National Bank

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## I. Preface

David Ricardo (1772-1823), known as the ‘apogee of the classical political economy’ in the history of economic thought and as the author of opus magnum concretizing it *Principles of Political Economy and Taxation* (Ricardo (1951a), first, second and third definitive editions respectively in 1817, 19 and 21. Hereinafter *Principles* for short), began his short career as an economist with intervening in the current great debate on the currency problems in England and continued to think and speak about these problems till the last moments before his sudden death. During the last 4 and half years of his life, he delivered many evidences and speeches in particular on currency problems in the parliament as a member of the House of Commons and exercised large influence on the reform of monetary regime of his country. Most of his monetary writings (publications, newspaper articles, letters, manuscripts, records of evidence and speech) left to the posterity can thus be characterized as records of his intervention (analysis of the actual situation, contestation and proposal of plans for monetary reform) from a certain point of view in the debates on currency problems of his time. But at the same time he equally made profound considerations about money on a more general and abstract level, in order to give theoretical foundations to his claims.

Up to the present time, nearly 200 years after the death of Ricardo, various researches have

been carried out about his theoretical and literary legacy<sup>1</sup>. Most of them are about his ‘theory of value and distribution’ developed in the first chapters of *Principles*. There is no doubt that this makes up the core of his work as an economist, but on the other hand it is also not to be denied that as a result relatively less attention has been paid to his monetary and financial writings, another pillar of his economic thinking. One of the main causes of this is that many of his related writings issued from the debates of his time, containing no one systematic work comparable to *Principles*. In such conditions, the researchers were obliged to rely on a complicated procedures for the study of monetary theory of Ricardo: they had to restructure and evaluate his views on various problems treated in his writings of diverse characters as mentioned above.

Of the various aspects of Ricardo’s monetary theory, the author has once tried to analyse and estimate what seemed to be the most fundamental: the relation between ‘value and quantity of money’<sup>2</sup>. According to the widely diffused interpretation of Ricardo, the basis of his economic theory consists in the labour theory of value developed in the chapter one ‘On value’ of *Principles*, and on the other hand his theory of money is a quantity theory. In Ricardo, money is also a kind of commodity (gold or silver) so that its value is determined quite in the same way as the other commodities, but in the quantity theory of money its value is considered to be determined by its quantity in circulation. Hitherto a number of commentators have regarded these two theories as contradictory to each other. The paper of the author mentioned above brought forward a point of view dissident from such a majority interpretation and tried to show that these two theories do not necessarily contradict, or rather to problematize the characterization of Ricardo’s monetary theory as a quantity theory. The present article presupposes the view advanced in the former one, and takes up and examines some other more concrete aspects in his theory of money, i.e. his plans for the reform of monetary regime intended to overcome the difficulties contained in the English monetary regime of his time (we adopt the term ‘plan’ just as Ricardo continued to use for a long time to express his conception). Though from a different angle of view, since the subject of the present study is the same as in the former paper, some points already treated may be occasionally mentioned again, but we will try to reduce the repetitions to a minimum. Hence we would like to ask those who may be interested

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<sup>1</sup>See Faccarello and Izumo (eds.) (2014) about how the economic theory and thought of Ricardo have been accepted and studied after his death till recent times in several countries of the world outside England and U.S. See also Takenaga (ed.) (2016) about the Ricardo studies in Japan during the interwar period.

<sup>2</sup>Takenaga (2000) and Takenaga (2013). The latter is a renewed version of the former, containing some development of the main points of the former. Except for some minor differences in the way of argumentation, the interpretation in the latter on the basic problems of Ricardo’s theory of money remains the same as in the former.

in the present paper to refer to the former one.

As is well known, Ricardo appeared as an economic polemist in 1809, in the midst of a time called ‘bank restriction period’ in which the Bank of England (hereinafter BoE for short), the sole issuing bank in London at that time, had suspended the convertibility of the currency of its issue (pound paper) since 1797, and he attracted attention in arguing for the position to be called afterwards ‘bullionism’, which sought in the overissue of inconvertible paper the origin of the current phenomena the public was concerned about: the rise in prices represented by that of bullion and the fall in foreign exchange. He severely criticized their evils and claimed the resumption of convertibility. It was thus that the pamphlet entitled *High Price of bullion, a proof of the depreciation of bank notes*, his first independent publication (Ricardo (1951b), herein after *High Price* for short), appeared in the following year, 1810. In this pamphlet, he tried to develop more systematically the above contention beginning with the principles of monetary economy. Though Ricardo had not yet elaborated at that time the fundamental theory of political economy, the theory of value in particular, to be presented afterwards in *Principles*, this pamphlet is a work developing his monetary theory in a well-organized way. It met so many responses as to be reedited thrice till April 1811. And, in the last few pages of ‘Appendix’ added at the end of this last fourth edition, he showed for the first time the outline of his plan for the reform of monetary regime. Though this plan did not attract attention nor was spoken of then, Ricardo attached much importance to it. Every time it was possible to work on political leaders in matters of money or in preparing publications, he made effort to elaborate it in detail. And, in 1819 when he sat as a member of parliament, he succeeded in getting it integrated into a bill and pass. But once his plan was implemented in outline, a difficult situation unforeseen at the time of its conception made its appearance and Ricardo had to continue to struggle with it in and outside the parliament till the end of its session just before his death (July 1823). And in the summer of that year, after the close of the session, he drafted a new manuscript of ‘plan’ with a view to publishing it. But this manuscript had to be left unfinished because of the sudden death of its author and was published in the following year by one of his younger brothers Moses under the title of *Plan for the establishment of a national bank*, with some amendments added by this latter for the purpose of giving it a proper form as a publication. In this way, Ricardo did not cease elaborating the measures for the reform of the monetary regime of his country, making effort to their realization by every mean possible, during almost the whole of his life as an economist.

The present article aims to examine the content and character of Ricardo’s plan for monetary reform. On each of the key steps from 1811 to 23, we will see how Ricardo conceived, elaborated and modified his plan, in taking into consideration the surrounding situations at each time

(international relations including in particular war and commerce, deliberations in parliament on bills and decisions).

Since J. Bonar published his monumental article in 1923 in commemoration of the centenary from the death of its author (Bonar (1923)), Ricardo's plan for monetary reform has been usually called 'Ingot Plan' after the title of the article. Till a certain time in his 'later years', Ricardo required the resumption of convertibility to be implemented not with specie or cash (meaning a quantum of precious metal molded into coin) as prior to its suspension, but with bullion or ingot stamped with weight and fineness on it cast into a form of certain size easy to handle with human hands ---which may be described as an intermediary form between bullion and coin but the same as bullion in so far as ingot does not circulate as currency. In this sense, calling his plan for monetary reform under the name of Ingot Plan may not be beside the point. But, as far as referring to the materials included in *Works and Correspondence* by Sraffa, Ricardo himself used this term only once in his letter to Trower of the 5<sup>th</sup> March 1822 (Ricardo(1952e), p.176, hereinafter indicated as IX/176. The same applies to all the quotations from Ricardo.). This letter was published for the first time in Bonar, Hollander (1899). If Bonar used the term in the title and text of the above article, it may possibly be because he knew well the content of this letter as its editor. But, except for this sole case, speaking of his project of monetary reform, Ricardo always called it simply 'plan'. Of course, a plan including the claim of payment of bank note with bullion is virtually Ingot Plan. But in attributing to it a definite name, an idea Ricardo himself did not clearly and coherently conceive would be fixed as his 'plan' with a particular attributive.

On the other hand, he came to conceive imprecisely a plan of the establishment of a national bank, not included in the plan of bullion payment of 1811, about a time when he was preparing and writing in 1815 *Proposals for an economical and secure currency* (Ricardo (1951c), hereinafter *Proposals* for short) aiming at giving theoretical foundation and further development to his former plan. Before and after this period, he expressed the content of his reform of monetary regime invariably with the term 'plan'. At least after that period, this term seems to indicate either 'ingot plan' or 'plan for the establishment of a national bank' or possibly both of them at the same time. Therefore, a coherence between them or a passage from one to the other may not have been a problem for him. The manuscript of 1823 came to be known as 'plan for the establishment of a national bank' only after its publication, but the original title given to it by Ricardo at the time of its drafting was simply 'Plan, &c.' It seems clear that in writing it he did not intend to treat a subject different from what he used to call for a long time 'plan'.

As was seen above, the theory of money of Ricardo was a minor theme in the history of research on his economic theory carried out up to the present, not to mention his plan for the reform of monetary regime. In the index of references at the end of this part are listed a number of researches relating to the subject of the present article. Particularly remarkable among them are the works carried out energetically by Ghislain Deleplace and his circle in the last decade. Inspired by these works, the present article is conceived to supplement our former article on the theory of money of Ricardo (see note 2 above), in this year, bicentenary from the publication of *Proposals*, the only one well-organized and published writing of Ricardo on the theme of plan for monetary reform.

Incidentally, Ricardo's plan for restructuring BoE has been considered to have exercised a predominant influence on the Currency School in the Currency Controversy fought after his death over the English banking regime and ended up with the Peel's Bank Charter Act of 1844, and it is sometimes discussed apart from the context of the Bullion Controversy. But in the following these problems shall be left outside the scope of our examination, reserved for other occasions.

II. First version of the plan for the reform of monetary reform added at the end of 'Appendix' to the 4<sup>th</sup> edition of *High Price of Bullion*

1. Circulation of currency at the beginning of the 1810's (coin and paper), Ricardo's commentaries on *A Chart* of Galton

Toward the turn of the century, few years after the suspension of convertibility of the banknote of BoE in 1797, the rise in prices of commodities represented by that of bullion and corn and the fall in foreign exchange became manifest, which gave rise to a debate over the depreciation of the banknote. The debate subsided for a time with the subsidence of these phenomena. But in less than 10 years after that, a similar situation reappeared with greater intensity, which gave rise to the debate again. It was at the beginning of the latter phase of debate that Ricardo appeared as an economist. More than 10 years after the suspension of convertibility, the situation of currency circulation in England had largely changed from the former period. For examining Ricardo's plan for monetary reform, it would be necessary to confirm in advance how he recognized the actual situation of the currency circulation.

He says in *High Price* as follows: 'Our circulating medium is almost wholly composed of paper, and it behoves us to guard against the depreciation of the paper currency with at least as much

vigilance as against that of the coins.’ (III/74-5) He confirms here the disappearance of coin, on the quantity and value in circulation of which he explained in detail up to this place of this pamphlet, and that the circulation is assumed for the most part by the paper currency i.e. by the inconvertible BoE note. For the most part, because the gold coin (the guinea from the time of Newton, equivalent to 21 shillings. The name comes from Guinea, locality of the gold, its material.) remained in circulation to some extent, and that silver and copper coins were always circulating as means of payment under 1 pound, minimal face value of paper money. Indeed, in the situation of suspension of convertibility of banknotes the coins gradually went out of circulation and finally disappeared quasi-totally. Instead of being used as money they were melted down and sold in the market at the risk of punishment for offence or exported for favorable transactions, or simply concealed for evasion from domestic use as disadvantageous means of payment (for the detail of this mechanism, cf. pp.97-100 in Takenaga (2013)).

After having confirmed the situation of a quasi-exclusive circulation of paper, he says that against the depreciation of paper more vigilance is required than against that of coin now disappeared. He explains how the depreciation of coin takes place as follows: ‘If one-fifth [miscalculation of Ricardo, this should be corrected to one-sixth, cf. Sraffa’s note 2] were taken off from every guinea, the market price of gold bullion would rise one-fifth above the mint price.’ (III/78-9) He says therefore that the depreciation of coin i.e. the deviation between the above two prices (rise in the former) arises from ‘clipping our coins’ (III/78) (Ricardo advances a similar view in his ‘reply’ on the newspaper in the debate over his contribution ‘The Price of Gold’ to Morning Chronicle in 1809 between him and Trower, who criticized him under the pseudonym ‘A friend to bank-notes’, cf. III/40-1). The coin made of precious metal is itself a lump of valuable material. If its possessor clips a part of it before delivering it to buy a commodity, he can obtain as much material of value. Thus the precious metal coin was liable to gradual diminution of weight as it continued to circulate. Besides, even in absence of such stealing by clipping, the coin gradually undergoes similar loss of weight caused by wear and tear during its long use. But it is practically impossible that such processes go on evenly for every piece of coin in circulation, which we daily experience with the contemporary token coins with their wear and tear or stain in a degree different from piece to piece. If the ‘depreciation of coin’ should be understood as in the quotation above, such circumstances should necessarily be taken into account<sup>3</sup>. But Ricardo seems to suppose an even change (diminution

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<sup>3</sup>Adam Smith thinks about the economic meaning of the unevenness of particular pieces of coin. In the well-known chapter ii of the Book II ‘Of money considered as a particular branch of the general

of weight) for every piece of coins just like in the case of the depreciation of banknote. What he says about the depreciation of coin may have been based not on what was really happening at his time, but on his abstract theoretical presupposition or on what had happened in the past. In fact, just as he says himself, at the time of writing *High Price* the gold coin did hardly circulate, and in addition, the few pieces of coin still remaining in circulation did not undergo a depreciation (or rather deterioration) in the above meaning. He himself says this as follows: ‘This evil [depreciation of silver coin] was then remedied by the recoinage. Similar effects followed from the debasement of the

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stock of the society, or of the expense of maintaining the national capital’ of *Wealth of Nations*, he says as follows: ‘It was the newest, the heaviest, and the best pieces only which were carefully picked out of the whole coin, and either sent abroad or melted down. At home, and while they remained in the shape of coin, those heavy pieces were of no more value than the light. But they were of more value abroad, or when melted down into bullion, at home.’ (Smith (1976), p. 303) That is, the pieces of coin undergone less clipping and wear and tear hence with a weight near to its legal metal content (so called ‘good money’) tend to go out of the domestic circulation, while the light pieces are liable to remain there. As in the time of Ricardo the law forbade the melting of coin and its export as bullion, if not daring to commit offence at risk, selective treatment of pieces of coin in use for domestic circulation may have been rampant. Those who were to buy something would have delivered preferably the light coins in reserving the heavy ones at hand and concealed them if possible, or they themselves clipped them to get gold and so changed them to light ones. And those who were to get paid with coins would have preferred heavy ones, and if it was not possible, they would have refused payment with coins of less than a certain weight or possibly required ‘a premium’ for the payment with such ‘bad’ coins (these acts may have been regarded as illegal acts treating selectively the currency of the same face value, but, as we will see in the next subsection 2, a situation akin to something like a ‘dual prices regime’ was going to really arise not only among particular pieces of coin but also among coin and inconvertible paper). And it is questionable whether in the market of bullion the seller would accept the coins in transactions amounting to evident unequal exchanges between virtually unequal quantity of gold, when requested to deliver bullion at the current market price in exchange for extremely light coins with legal face value. At least it may not be possible to think, like Ricardo, that every particular piece of coin with virtually different ‘value’ was treated without discrimination as the same currency and circulated as such solely because they were all issued from the Mint with the same face value.



gold currency, which were again corrected in 1774 by the same means.’ (III/70) Ricardo mentions here an event called in the history of money the ‘Re-coinage of 1774’.

An interesting literature in which Ricardo argues about the relation between coin and paper and about the depreciation of coin has recently been deciphered and published for the first time in Depoortère (2015), pp. 344-5. This is his commentaries on the manuscript of Galton (1813), contained in his letter of the 6<sup>th</sup> December 1812, a little after the publication of *High Price*, to Leonard Horner, younger brother of Francis Horner. In this manuscript Galton intends to show visually in the form of *A Chart* the relation between the amount of currency issue and the evolution of prices and foreign exchanges after the suspension of convertibility in going back as far as to 1760, on the basis of numerous numerical data published in Mushet (1810), then master of the Royal Mint. This was a project in line with the protagonists of bullionism like F. Horner, R. Mushet, Ricardo etc. Received and read this manuscript probably at the beginning of December, Ricardo expresses in his above letter of response an almost entire agreement with *A Chart* in saying that I ‘find but very few positions with which I do not entirely agree’ (Depoortère (2015), p.344), and writes in conclusion that ‘I hope that your friend will be induced to publish his chart & explanations as I think it very strikingly illustrates the theory which we are both anxious to establish’ (ibid., p.345) (it was actually published at the beginning of March of the following year 1813 and a complimentary copy was sent also to Ricardo). A brief letter of Ricardo to Galton written in the third person without signature was discovered at the same time and is published in Depoortère (2015), pp. 345-6. According to the author, only with the discovery of this letter of Ricardo it was became clear that the work on which he wrote commentaries in his letter to L. Horner was written by Galton<sup>4</sup>.

Now, Ricardo says in his letter about the difference of opinion with the author of the manuscript as follows: ‘It does not appear to me to follow as a necessary consequence that in proportion as the coins in circulation are diminished in weight by wear, they will become depreciated in value. It is possible that a currency might consist wholly of coin diminished in weight by wear, 10 or even 20 pc<sup>t</sup>., without any effect being produced on the price of bullion. Whether the price of bullion would rise under such circumstances would depend entirely on the abundance of such coin. Coin is never depreciated but by excess of quantity. The assertion therefore at the bottom of page 2 though practically correct, because worn coins have always accompanied by an excess of paper money, is not correct in theory. Coins may be deteriorated without raising the price of bullion,

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<sup>4</sup>As for the relation between these two letters and their significance as well as for the circumstance which led Ricardo to write commentaries together with the other two bullionists and the analysis of these commentaries, see the related passages in Depoortère (2015).

but the standard bullion cannot rise above the mint price unless the currency is depreciated.’ (ibid., p.344) In the passage quoted above from *High Price* Ricardo said that the coin may depreciate as it becomes lighter by clipping, but here he denies such depreciation in the same situation. Why does he make such contradictory statements?

Ricardo explains why it is ‘practically correct’ to say like Galton (and like himself in *High Price*) that a diminution of metal content in coin (deterioration) leads to its depreciation i.e. the rise of market price of bullion over its mint price. The reason is that, with the depreciation of inconvertible paper over-issued simultaneously with the ongoing deterioration of coin, the coin has equally depreciated together with the paper in so far as the former makes up a homogeneous constituent part of the total currency circulating with the same face value alongside of the latter. But he adds immediately that it ‘is not correct in theory’. And he develops his critical comments to Galton, in affirming that a depreciation of currency can arise only with the change in its quantity in circulation but never with the change in value of its material medium (gold or other metals for coin, paper for note).

As is evident from the context of these arguments of Ricardo, the point of view he advances here presupposes ‘in theory’ a situation (never existent in reality) in which the circulation is entirely filled with coin without no paper circulating. Such a supposition may be interpreted as being obtained in turning over ‘in theory’ to the exclusive coin circulation the quasi-exclusive inconvertible paper circulation really observed at the time of Ricardo’s writing of these commentaries. And probably he applies just as it is the principle of depreciation of inconvertible paper to that of coin. Here he seems to treat the coin, though in no need to be further ‘converted’ nor never becoming ‘inconvertible’, just like the inconvertible paper. With the cost of only printing figures on a virtually valueless medium, the paper can be issued in principle without no limit or it can be contracted at will, and once issued it must necessarily remain within the domestic circulation in its entirety as far as the issuer does not intend to recover some part of it. On the contrary, the coin is issued in minting bullion which is an expensive commodity containing a certain value in itself. As far as the Mint responds passively to the demand of minting, the minting of coin (its issue) will cease of itself as soon as the coin becomes excessive and the market price of bullion exceeds that of mint price (its change into coin incurring a loss), or insufficiency of coin will lead automatically to the reopening of minting (holding gold in the form of bullion incurring a loss). In the absence of a forbidding law<sup>5</sup>, the gold in the form of coin can be melt down for other uses or sent abroad

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<sup>5</sup>The law in force at that time forbidding the melting of coin with a view to reducing it to bullion to

(exported) for more advantageous exchange, so that it does never remain enclosed in its totality within the domestic circulation but can freely pass both the economic and political borders.

In this way, although both inconvertible paper and coin function equally as currency, there exist between them a large differences of nature. The critical comments of Ricardo to Galton seem to be made in identifying ‘in theory’ the coin with the inconvertible paper at a time when practically the gold coin entirely ceased its circulation. But on the other hand, Ricardo critically comments *A Chart* of Galton on the basis of his observations on the real evolution of currency. Ricardo points out concretely the problem of calculation contained in Mushet (1810) Galton relied on when composing *A Chart* and also enters into technical details concerning the fabrication of coins both from gold and silver. As this point is out of scope of the present article, here we refrain from its presentation. But, as the last point in Ricardo’s commentaries seems to be essential to know how he recognized an aspect of the real evolution of currency up to the beginning of 1810’s (and this constitutes a presupposition for his plan of monetary reform), we will try to present and examine it.

Ricardo criticizes as inappropriate the procedure of Galton in that he includes the small notes of £5 and under issued only after the enforcement of the Bank Restriction Act of 1797 in the total of the amount of issue from BoE together with the large notes of £10 and above<sup>6</sup>: ‘The variations in the

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be exported abroad, was intended to enclose the coin as currency, just like the banknote, within the sphere of domestic circulation once it was issued. If this law was really implemented, it might have been possible to consider, as Ricardo did, the issued quantity of coin and the variation of its value as comparable to those of the banknote (but even in such a case, unlike the paper, the quantity of issue of coin can neither be increased nor diminished at the will of the issuer as Ricardo himself repeatedly emphasized.). But equally as he readily recognized, the ineffectiveness of this law was so to say an open secret, it was a loophole-ridden law.

<sup>6</sup>About the range of the face values of the banknote issued from BoE till his time (naturally prior to the bank restriction period) Smith says as follows: ‘Paper money may be so regulated as either to confine itself very much to the circulation between the different dealers, or to extend itself likewise to a great part of that between the dealers and the consumers. Where no bank notes are circulated under ten pounds value, as in London, paper money confines itself very much to the circulation between the dealers. When a ten pound bank note comes into the hands of a consumer, he is generally obliged to change it at the first shop where he has occasion to purchase five shillings’ worth of goods, so that it often returns into the hands of a dealer before the consumer has spent the fortieth part of the money.’ (Smith (1976), p. 322) According to this, BoE (the sole bank of issue in London) did not issue banknotes under 10 pounds before the bank restriction period. But, as Smith indicates following the above quotation by some examples outside London, banknotes under 10 pounds were issued at that time, minimal face value of which were even under 1 shilling (1/20

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pound). It is not certain how the minimal face value of banknotes was determined (unlike coin, the amount of face value of paper does not entail important technical differences however large or small it may be), but one criterion may be the use of paper of certain face value is destined for, as is mentioned in the above quotation. Smith distinguishes, from the viewpoint of reproduction, the circulation among the merchants (industrialists) and the circulation between them and the consumers, as two distinct spheres of circulation (industrial circulation and income circulation) respectively of different nature (no such distinction is to be found in Ricardo), and attributes to the former the banknote (and commercial bill) and to the latter the coin. Then, according to Smith, the small notes of £5 and under are not necessary. The former transactions are generally of large amount and the velocity of its circulation is small, the latter on the contrary requires means of payment of small amounts and its circulation is generally very frequent (daily repeated). The maximal face value of coin for use as currency is, even if made of most valuable material i.e. gold, is £5 (about 40g according to the legal mint price). At least during the whole period after Smith and Ricardo, no example can be found in England of gold coin of a face value superior to £5 for ordinary use as currency (cf. <http://www.coinsgb.com/index.html> Incidentally the range of weight of the token coins currently in use in the world is from 2 to 20g.). If paper and coin assume respective share of circulation, the higher zone will be necessarily allotted to the former and the lower zone to the latter. But this is not sufficient to determine the border line between them, for which various other elements should be taken into consideration, and in some cases the paper may have to assume also a part or all of income circulation (the contrary is impossible). By the way, Smith seems to have been rather negative to the issue of small notes. 'It were better, perhaps, that no bank notes were issued in any part of the kingdom for a smaller sum than five pounds. Paper money would then, probably, confine itself, in every part of the kingdom, to the circulation between the different dealers, as much as it does at present in London, where no bank notes are issued under ten pounds' value.' (ibid., p. 323) One of the reasons for which Smith thinks like this is that, although it is useful for the advancement of the wealth of a nation to exclude the valuable metals (original money for the classical political economy) from the circulation to replace them with the cheap paper, the paper circulation consists in passing something essentially valueless for value (money) equivalent to precious metals by virtue of credit (it is 'suspended upon the Daedalian wings of paper money') hence 'cannot be altogether so secure' (ibid., p. 321). Then Smith thought it important for the security of currency system to reserve a sphere of circulation for the precious metal coin (ibid., p.323). But Ricardo tried to construct a

price of gold and in the foreign exchanges would I apprehend accord more exactly with the variations in the issues of the Bank of England since 1797 if in all cases we were to reject altogether the amount of notes in circulation of £5 and under, and it is quite just that they should be so rejected when we consider that the greater part of these notes have been issued as a substitute for the gold coin exported they cannot be accounted as so much added to the amount of currency.’ (Depoortère (2015), p.345.) The circulation of currency of small faces value i.e. of coin and small notes underwent an extensive influence, along with the variation in the whole quantity of money in circulation, by the suspension of convertibility at the end of the 18th century and by its resumption a quarter of century afterward (two changes in opposite direction, from gold to paper and from paper to gold ---for the latter change see *infra*). Through the suspension of convertibility into specie (coin) and the export of gold brought about by the increased issue of inconvertible paper, small notes substituted themselves for gold coin, which gradually disappeared from the circulation, and about 10 years after the suspension of convertibility the paper became virtually the exclusive medium of circulation. Therefore, the issue of small notes during this time did not mean an augmentation of the total amount of currency in domestic circulation, in calculating this amount the amount of newly issued small notes was to be subtracted. Otherwise, the amount of currency would be overestimated, so that the rise in prices (bullion price) and the fall in foreign exchange would not be correctly explained, making it difficult to comprehend the relation between the expansion of money and the evolution of these indexes. In eliminating the dually calculated part in Galton’s *A Chart*, this relation can be seized more properly, claims Ricardo.

In fact, in advance of these commentaries on Galton at the end of 1812, Ricardo, already aware of this relation of substitution between small notes and coin, had claimed not to include the former in calculation of the total amount of currency. In a passage in *Notes of the minutes of evidence* for the preparation of *Bullion Report*, probably written after September 1810, he says as follows: ‘the question is whether in judging of an excessive issue by a comparison of the present amount of notes, and the amount in 1797, the amount of small notes should be taken into consideration. If the small notes substituted have not exceeded the amount of guineas withdrawn, it is clear they should not be taken into the account.’ (‘Notes on the Bullion Report and Evidence’, in Ricardo (III/371-2) And also in ‘Appendix’ to the fourth edition of *High Price* he says as follows: ‘The increase of small notes, then, will ultimately be a substitution of one currency for another, of a

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system which can remain still secure even excluding precious metals from the real circulation to the maximum, in designing institutional devices.

paper for a metallic currency, and will not operate in the same way as an actual and permanent increase of circulation<sup>7</sup>.’ (ibid., p.114. In relation to this point, see also the following: III/34, 37, 177, 384)

In the latter half of the passage from *High Price* quoted above (III/74-5), Ricardo said that both paper and coin is equally depreciating, but that the problem is more serious for paper than for coin. In the case of coin, its depreciation by deterioration may be physically checked at a certain degree (‘legal standard’, IV/69. The pieces of gold coin become too much lighter than the legal weight ---about 8g for one pound--- would probably not have circulated. If the limit is half of its legal weight, the deterioration of coin would have stopped there and would not have gone further.), but in the case of paper its depreciation is in no relation with its physical alteration (deterioration), exactly identical new paper money would be continually issued only to be added indistinctively to all the paper money already in circulation, so that the danger of its depreciation would be as much serious (any physical check preventing it from going further beyond a certain degree as in the case of coin does not work, in possibility it could progress infinitely). In another passage from *High Price* he also says: ‘this depreciation in the actual value of bank-notes has been caused by the too abundant quantity which the Bank has sent into circulation. The same cause which has produced a difference of from fifteen to twenty per cent. in bank-notes when compared with gold bullion, may increase it to fifty per cent. There can be no limit to the depreciation which may arise from a constantly increasing quantity of paper.’ (III/78) This may be right in an abstract theory. In his works written in the midst of bullion controversy, Ricardo had a tendency to emphasize a little excessively or rather exaggerate the risk of depreciation of inconvertible banknote. Here he suggests the possibility of depreciation attaining to 50% or going infinitely farther. Of course this may have been a sort of rhetoric to advance vividly the claim of the bullionism for the resumption of convertibility and to arouse the public opinion. In fact, all through the bank restriction period, the depreciation of paper reached its peak at the end of 1813, when the maximum value of bullion price was 5 pounds 10

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<sup>7</sup>Ricardo adds here a note to indicate that: ‘An increase of bank-notes under 5*l.* should be considered as a substitute for the coins exported, rather than an actual increase of circulation, is often and justly maintained by those who oppose the reasoning of the Bullion Report.’ (ibid.) We know thus that the last one point in the commentaries on Galton was only a repetition of what a considerable part of participants in bullion controversy including Ricardo himself (particularly the anti-bullionists who had interests in underestimating as much as possible the expansion of currency) already recognized in common.

shillings (Feavearyear (1963), p.210). Since it depreciated thus to as much as about 41.3% with regard to its mint price of 3 pounds 17 shillings 10½ pence, despite a little exaggeration the discourse of Ricardo cannot be regarded as a simple political demagogy.

Indeed, with a depreciation of currency progressed so far, certain parts of the community like fabricants and merchants may have obtained enormous profits from such a situation, while the others like creditors of contracts concluded before the currency depreciation or those who lived with fixed income would incur serious negative influence, which could lead to destabilize the social relations in the country. In the year 1811, when the depreciation of banknote was advancing toward the above maximum, there were important moves concerning the currency in the parliament on the background of such a situation. Let us examine these moves in the next subsection.

## 2. Conflict on the depreciation of banknote ('dual prices' and legal-tenderization of banknote ---King and Stanhope---

Already from the time of writing of *High Price* at the end of 1809, Ricardo had foreseen what would be brought about by the ongoing depreciation of inconvertible banknote as follows: 'If an ounce of standard gold in guineas would sell in the market [...] at 4*l.* 13*s.* per oz., what shopkeeper would sell his goods at the same price either for gold or bank-notes indifferently? If the price of a coat were 3*l.* 17*s.* 10 *d.* or an ounce of gold, and if at the same time an ounce of gold would sell for 4*l.* 13*s.*, is it conceivable that it would be a matter of indifference to the tailor whether he were paid in gold or in bank-notes?' (III/82-3) As a matter of hypothesis, Ricardo raises here the question whether a seller of a commodity would accept indiscriminately a gold coin or a banknote of the same face value despite the manifest depreciation of the latter. Equally legal currency, both of them should officially be able to buy a same commodity if a same face value was tendered. But actually the banknote of a certain face value is worth only a quantity of gold contained in a coin of inferior face value. In the above example, this means that the seller of a commodity would incur about 16% of loss in accepting the payment by banknote. In such a situation he would set a higher price for the payment by banknote than for that by coin, or if the price has already risen in proportion to the depreciation of banknote, he would allow a discount for the payment by coin. Therefore, Ricardo speaks here about the possibility of emergence of a 'dual prices system' or (with a little exaggeration) of a collapse of the monetary system of a country, since currency of the same face value cannot buy the same commodity or that the same commodity sells with different prices according to the sort of currency (In speaking about the possibility of differentiation of treatment in

the market between coin and paper, Ricardo always supposes a homogeneity of every piece of coin as in the case of paper and makes no question of actual disparity between them).

But in reality, as at that time the guinea almost totally disappeared from the circulation and the discriminating treatment of currency of the same face value was forbidden by law, the public could not behave like this and officially coin and bullion were always considered to be of the same value. 'Whilst it is a criminal offence to buy guineas at a premium [to exchange it with the banknote of a higher face value], it does not seem probable that we can possess the only test which would satisfy these gentlemen [anti-bullionists disclaiming the depreciation of banknote], namely, two prices for commodities, a price in guineas, and another in Bank notes.' (*Reply to Mr. Bosanquet's Practical Observations on the Report of the Bullion Committee*, hereinafter *Reply* for short. III/201) 'When it [coin] is prevented from openly rising to 15 or 18 pc.t (its real and intrinsic value above paper) by the terror of the law which deters all men of character from engaging in a traffic which is disreputable and illegal. Whilst the law can be enforced the currency may be depreciated 50 pc.t, and yet the coin and paper may preserve the same value as currency.' ('Observations on [Vansittart's] propositions respecting money, bullion and exchanges', III/415-6. According to Sraffa, these observations were written from the end of April to the beginning of May 1811, immediately before the bill requiring the resumption of cash payment was rejected.)

Even if the rise in the market price of gold and the depreciation of banknote were evident, therefore that coin and banknote of the same face value were clearly of different value in terms of gold (the quantity of gold contained in the former is superior to that the latter can buy in the market), the law regards both of them as equivalent and enforce a consequent treatment of them. The affirmation that the depreciation of currency goes on simultaneously and in the same degree for metallic coin and banknote therefore their values cannot deviate from each other, must be understood in such a context. Application of dual prices to commodity sales is considered a criminal offence. But, if people act obeying the law, in treating the two kinds of currency as equivalents, it is for fear of punishment, but whenever anyone can violate the law in escaping the punishment, premium will be given to guinea and discount applied to banknote (in economic logic it is more rational and correspondent with the interest of agents).

Despite such a denial by law of the depreciation of banknote and its enforcement, in 1811 a move openly claiming the discrimination between coin and banknote appeared form within the parliament. It is the open circular of Lord King, young aristocrat and member of the House of Lords, addressed in March to the tenants and farmers conducting agriculture on his land. In this circular, he claimed the payment of the rent due to the contracts concluded prior to the beginning of the



depreciation of banknote by the suspension of convertibility, with coin or bullion amounting to the sum initially determined, or with banknote at a due premium (of about 15%). He affirmed this claim to be just and legal for protection of his property right, and at the same time proclaimed that he himself would do the same for his debts owed to others<sup>8</sup> (Feavearyear (1963), p. 204-6). Ricardo did not give open consent to the action of King but he belonged to the camp of bullionism like Ricardo and had criticized the depreciation of banknote since King (1804). According to Bonar, such action of King motivated Ricardo to advance his plan for the reform of monetary regime in 'Appendix' to the 4<sup>th</sup> edition of *High Price* (published in April 1811). 'In the fourth edition [...] an Appendix is added which contains Ricardo's Plan. It is just possible that Lord Kind had again [as when Ricardo began writing *High Price* in 1809] been before him. Lord King's famous letter to leaseholders in March 1811 required them to pay their rents according to old contract. [...] The idea may have been "in the air"; the two men, though quite good friends, made no acknowledgements to each other. King applies the idea to private contracts; Ricardo to the whole system of currency.' (Bonar (1923), p.282)

As if opposing this action of King, after the rejection of the Bill of Resumption, Lord Stanhope, equally member of the House of Lords, proposed a bill enforcing the reception of the notes of BoE as equivalents to the coins of the same face values regardless of the evolution of bullion price and foreign exchange, so as to make the banknotes de facto a legal tender. As a part of the deliberation on this bill, King delivered a speech in the House of Lords on the 2<sup>nd</sup> July, to further develop the idea of his former circular with numerical data (King (1811, pp. 231-59). In this speech he explains his position as follows: 'In this state of things, for the defence of my property, I have thought it advisable, in the management of my private concerns, to inform my tenants holding lands under old leases, and under old leases only, that I can no longer continue to receive bank-notes at their nominal value in payment or satisfaction for such contracts'. (ibid., pp. 232-3) But, despite the arguments of the dissident members, to begin with King, the bill of Stanhope was approved on the 24<sup>th</sup> July and became a law of specified duration valid until the 15<sup>th</sup> March of the following year (Lord Stanhope's Act). Afterwards this Act continued until the resumption of cash payment in May 1821 as Gold Coin Bill passed in the House of Lords on the 18<sup>th</sup> December (Gilbart (1837), pp.53-4. VI/88, editor's note 4.). In view of such a move in the parliament following the rejection of

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<sup>8</sup>But at that time coin had already entirely left the circulation, most of which had been melted down and sent abroad or concealed for future use. Hence, coin or bullion, hardly any gold remained in the country. In such a situation the claim of King was factually for payment with banknote at a due premium corresponding to its depreciation, if not for extorting with force the concealed coin.

Resumption Bill, Ricardo increased the sense of crisis of further continuation of the depreciation of banknote (indeed it continued for more than two years after July 1811, as we have seen above)<sup>9</sup>. About 12 years after that time, on 11<sup>th</sup> June 23, in a parliamentary speech responding to the criticism of Western about the results of the Resumption Act (Peel's Act) passed in May 1819, he mentioned again the conflict between King and Stanhope from the standpoint of supporting the former (cf. Ricardo (1952a), V/316). This was the only one occasion for him to talk publicly about the dispute between them.

On the 27<sup>th</sup> July, three days after the passage of Stanhope's Act in parliament, Ricardo sent a letter, direct petition so to say, to Spencer Perceval, Prime Minister and Chancellor of Exchequer at that time, in order to inform him of the serious crisis and to appeal him to implement the measure for prevent the further depreciation (VI/43-4). Violent changes in the prices and contents of contracts were foreseen soon after the expiration of the law enforcing the fulfillment of contracts according to the prices stipulated prior to the depreciation, not recognizing the depreciation of banknote. From the moment when the Act was approved, the public was under 'all its terrors' (VI/45). The proposal Ricardo made to Perceval was a provisional measure aiming at 'secur[ing] the public against any depreciation of the currency beyond that to which it has already reached' in order to release them from these terrors, and was not a radical one (like immediate dissolution of the depreciation or

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<sup>9</sup>On occasion of the publication of Ricardo's reply in 'Appendix' to the fourth edition of *High Price* published in April to his anonymous review in *Edinburgh Review* of February 1811([Malthus] (1811a)), Malthus sent a letter for the first time to Ricardo on the 16<sup>th</sup> June, after the rejection of Resumption Bill, to give his name as the author of the above review and told him of his position as bullionist in saying that 'we are *mainly* on the same side of the question.' (VI/21, emphasis in the original.) And in his anonymous review published in the same *Review* in the following August entitled 'Review of the Controversy respecting the High Price of Bullion', he estimates positively the action of King and criticizes the Stanhope's Act, affirming that the only possible solution to the problem is the resumption of cash payment ([Malthus] (1811b), pp.364-9). Prior to the publication of this review, Malthus sent a letter to Ricardo on the 26<sup>th</sup> July, two days after the passage of Stanhope's Act, to make him know that 'if I should write again in the review, I will certainly mention your plan [Ricardo had sketched in the above 'Appendix'] with the approbation which I think it deserves.' (VI/41) It was on the following day that Ricardo took action to work on a political leader. This may be said to be a joint action between them coordinated on the political agenda of the moment.

resumption of cash payment). Concretely it was to oblige BoE ‘to sell gold bullion, for their own notes, to any purchaser that shall apply for a quantity not less than 5 ounces [correspondent to a little less than 24 pounds], at the rate of £ 4. 15 p<sup>r</sup> oz. for standard bullion [i.e. at the current price of bullion], and whatever the bullion so delivered by the Bank may arise from, whether from foreign coin, or from light guineas, let it be freely exportable at the will of the purchaser.’ (VI/43-4) This proposal follows, with minor modifications with respect to the way of setting the minimal sum and the selling price of bullion, Ricardo’s ‘plan’ put forward for the first time in ‘Appendix’ to the fourth edition of *High Price*, of obliging BoE to sell bullion for its notes above a certain minimal sum. If the depreciation of banknote goes further and the market price of bullion rises over the above price, bullion will be bought more advantageously at the window of BoE than in the market. Since BoE will then be obliged to sell bullion at a loss under the market price, it will evade of itself such a state of affaires (further progress of depreciation by over-issue). In this way, the further depreciation can be checked.

But the direct petition of Ricardo resulted in an indirect response sent a week after from a secretary confirming the reception of his letter including the proposal (VI/46). Ricardo took his proposal to be ‘politely declined’ (VI/70) and tried again a similar proposal in sending a letter on the 11<sup>th</sup> December of the same year to George Tierney, leader of the Whigs and ex-member of Bullion Committee (VI/67-71). In this way he persistently continued action for implementing his plan. In the next subsection, we will examine the contents of the plan for the reform of monetary regime Ricardo put forward for the first time in the last few pages of ‘Appendix’ to the fourth edition of *High Price*, to think about how it was conceived, its character and its aims.

### 3. First version of the Plan added at the end of ‘Appendix’ to the 4<sup>th</sup> edition of *High Price*

The fourth edition including ‘Appendix’ was published at the beginning of April 1811, about one month before the ‘Resolutions’ prepared by F. Horner, president of Bullion Committee, on the basis of ‘Bullion Report’ (Horner (1811), pp.5-8) were proposed to the House of Commons on the 6<sup>th</sup> May and rejected a few days after. This pamphlet, in particular its ‘Appendix’ supplemented to this edition containing the first sketch of the plan for the reform of monetary regime, can be considered to have been written and published just at that moment with a view to intervening in the then ongoing deliberation in parliament. At the same time, this fourth edition including ‘Appendix’ seems to be a summary review of the heated debates of pros and cons over the Report Ricardo enterprised from his point of view about half a year after it had been proposed to the House of Commons on the 8<sup>th</sup> June 1810 (however it was printed and made public only on the 12<sup>th</sup> August). Toward March of the

following year main points of discussion were already available and it was high time to review the whole of the debate. The first sketch of the above plan occupies such a place, it may be regarded as a nodal point in the debate from 1809 (and at the same time a starting point for the quest for an 'ideal monetary regime' Ricardo continued till the end of his life).

Remarkable steps after August 1810 are: *Practical Observations on the Report of the Bullion Committee* (Bosanquet (1810)) by Charles Bosanquet, director of South Sea Company, published in November (first edition) and in December (second edition), *Reply* of Ricardo published as early as in January 1811, and Malthus' anonymous review ([Malthus, R.] (1811a)) published in February in *Edinburgh Review* surveying the main contributions to the debate (pamphlets of Mushet, Ricardo, Brake, Huskisson, Bosanquet and *Reply* of Ricardo). Ricardo seems to have proposed this plan with a view to giving a better form to the conclusions of the bullionists for their realization at a moment when the main arguments in the debate were already available and the political decision in parliament was imminent.

It may be because of this that he published the 'Appendix' afterwards as an independent pamphlet (III/99, editor's note 4). Though originally published simply as 'Appendix' added at the end of the body of the text of *High Price*, it was given a very long title when published independently: *Observations on Some Passages in an Article in the Edinburgh Review, on the Depreciation of Paper Currency; also Suggestions for Securing to the Public a Currency as Invariable as Gold, with a Very Moderate Supply of That Metal. Being the Appendix, to the Fourth Edition of "The High Price of Bullion," &c.* It is to be noticed that in this title the above plan, placed in the last obscure space occupying less than one sixth of 'Appendix', is taken up, under the modest name 'suggestions', as largely as its 'main body', reply to Malthus' criticism to the previous edition of *High Price*. This may indicate that the main aim of independent publication of 'Appendix' was to appeal to the public once again the importance of this plan.

Incidentally, on every kind of Ricardo's published writings included in *Works*, Sraffa usually studies closely and minutely the process of their writing and the precise moment of their publication in giving material evidences and shows the results in editor's notes. But as for this 'Appendix', he says nothing about when it was published, probably because of the lack of such evidences. Naturally it was published after the beginning of April when it was published together with the body of *High Price*, but it may not be after the 18<sup>th</sup> June, on which Ricardo sent back immediately his response to the first letter of Malthus dated the 16<sup>th</sup>, because Malthus explains here the aim of epistolary exchange between them as follows: 'as we are *mainly* on the same side of the question, we might supersede the necessity of a long controversy in print respecting the points in which we differ, by an

amicable discussion in private' (VI/21), and in response to this proposal Ricardo continued discussion in his letter he sent back soon after<sup>10</sup> (VI/24-8). If this is really the case, the date of the independent publication of 'Appendix' may be somewhere during about two months before and after the 6<sup>th</sup> May on which F. Horner proposed the Resumption Bill to the House of Commons.

Though we cannot affirm it for lack of clear evidence, inferring from his habitual behavior, the publication of 'Appendix' seems to have been intended to influence once again the political process on agenda in parliament from the proposal of bill, the deliberation to its vote, just like the publication of the whole of *High Price* in April. As we will see soon afterward, in view of the fact that the 'suggestions' in 'Appendix' contain several proposals alternative to the conclusions of 'Bullion Report' i.e. the resumption of cash payment, Ricardo seems to have wanted not only to back up the passage of the bill of bullionists just as it was, but also to incorporate into the bill the 'suggestions' contained in 'Appendix' in making them intervene in the imminent process of decision in parliament. If such is the case, though in giving it a more noticeable form, Ricardo published the same text twice in a month, which may testify to his extraordinary persistence in the plan. Or even if the publication was after the rejection of Honer's Bill, Ricardo would have tenaciously tried to make well-known immediately his plan aiming at a next occasion. In any case, profoundly convinced of the importance of his plan for the reform of monetary regime, Ricardo took action for its realization. As we will see later, such action of his was never transitory but continued intermittently all through the rest of his life.

Now, after having finished provisionally the refutation to Malthus, main objective of 'Appendix', before presenting concretely his plan, Ricardo raises problem as follows: 'it is often objected to the recommendation of the Bullion Committee, namely that the Bank should be required to pay their notes in specie in two years' (III/123) In so saying, he reminds the public about the discussion during the foregoing six months to summarize the arguments and doubts raised from anti-bullionist camp to 'Report', and tries to retort on them. This results in his positive proposals embodied in his 'plan' (briefly depicted in a short space of 3 pages in Volume III of *Works* from the last paragraph of page 124 to page 127). In such a context, this plan of Ricardo, who consistently made public his support for the 'Bullion Report', had to become an alternative containing some modifications to its conclusions. For him the above arguments can be reduced to two points, each of which he successively introduces and examines as following.

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<sup>10</sup>However, this was only for the moment. Actually they continued afterwards critical discussions also 'in print'.

First argument against ‘Report’ is: the gold reserve of BoE from 1810 to 1811 amounted to 3 million pounds at legal mint price, corresponding to about one seventh of more than 20 million, the total amount of banknote issued during the same period (Feavearyear (1963), Table in p. 228), to resume cash payment with such a low level of reserve a large accumulation of additional reserve would be required and ‘the Bank would be exposed to considerable difficulty’ (III/123). In order to evade such a difficulty, the ‘Report’ did not propose an immediate resumption but allowed for two years before beginning it, recognizing the necessity of ‘a diminution of 15 per cent. in the amount of the Bank circulation’ in order to lower to the mint price ‘the average price of gold’ (ibid.) now risen to 4*l.* 10*s.* Despite these worries of the anti-bullionists, the bullionists including Ricardo claimed that in two years ‘after such a reduction in the amount of Bank notes, the value of the remainder would be so raised, that it would not be the interest of any person to demand specie at the Bank in exchange for notes, because no profit could be made by the exportation of bullion.’ (III/124) In other words, despite the resumption of convertibility, the recovery of the value of currency would make unnecessary a great amount of gold reserve. This is one of the important points in his plan, which Ricardo subsequently had to affirm repeatedly.

Second argument against ‘Report’ is a worry about the necessity of a great amount of gold reserve for the resumption, even if recognizing the above claim of the bullionists. ‘What security would the Bank have that caprice or ill-will might not render the practice general of discontinuing the use of small notes altogether, and demanding guineas of the Bank in lieu of them?’<sup>11</sup> (ibid.) As already seen, at that time the guinea, the gold coin in circulation from the time before 1797, had almost disappeared and the small notes of 1 pound, 2 pounds were largely circulating in place of guinea (however, their face value being small, their total amount was about one fifth of that of the issue of banknote.). Will not the resumption of cash payment reverse this situation to that observed before its suspension? If such happens, a great amount of gold coin will be required regardless of the depreciation of banknotes. The plan Ricardo is to show subsequently was conceived precisely to evade such a situation.

On these various bases (irrespective of their validity), the anti-bullionists point out difficulties BoE may face to oppose the resumption. The concrete contents of the plan are derived from such a context. ‘It must be confessed, that whether these apprehensions are likely or not likely to be realized, the Bank could not but make some provision for the worst that might happen; and though it

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<sup>11</sup>Even if not by ‘caprice or ill-will’, in fact the behavior worried about here was to become actually ‘general’ toward the end of 1810’s when the resumption of payment was really implemented (in addition, adopting Ricardo’s plan in outline). Cf. section VI *infra*.

is a situation in which their own indiscretion has involved them, it would be desirable, if possible, to protect them against the consequences of it.' (III/124) The apprehensions may become actual because of the mismanagements of the directors of BoE, and in such cases the difficulties will not be worth relief. But, at the same time as being an enterprise in pursuit of its own private interest, BoE was an entity of public character, the bankruptcy of which would have entailed enormous damage to the public not limited to its stakeholders (nowadays it would be 'too big to fail'). Ricardo had recognition of such a contradictory character of BoE or rather a distrust of 'company of merchants' early on (cf. III/133). Such a view of BoE may have been a cause for his subsequent conception of a national bank in its place.

Now, after these 'preliminary remarks' Ricardo begins his positive 'suggestions' capable of responding to the opposition to the conclusions of 'Report', which are evidently addressed to the bullionist authors and M.P.s to call them to get together around these 'suggestions' in order to contain the opposition. At first he speaks rather timidly of these 'suggestions' as 'more gentle means' than the recommendations in 'Report' possibly apt to involve some embarrassments (difficulties or disorders) seen above. But, on the other hand, Ricardo makes anticipate a self-confidence that everyone who agree with the evasion of depreciation of currency will agree with his 'suggestions'. 'If the same benefits to the public, —the same security against the depreciation of the currency, can be obtained by more gentle means, it is to be hoped that all parties, who agree in principle [i.e. the bullionists], will concur in the expediency of adopting them. Let the Bank of England be required by Parliament to pay (if demanded) all notes above 20*l.*—and no other, at their option, either in specie, in gold standard bars, or in foreign coin (allowance being made for the difference in its purity) at the English mint value of gold bullion, viz. 3*l.* 17*s.* 10½*d.* per oz., such payments to commence at the period recommended by the Committee.' (III/124) This is the gist of Ricardo's new 'suggestions' to be habitually called 'Ingot Plan' in later times. Its characteristics are: 1. Setting of the minimal sum of 20 pounds (far superior to the sums used for ordinary income circulation) for the banknotes to be accepted in gold payment, 2. Free choice of the forms of gold to be delivered in exchange for banknote (except for gold in manufactured products), 3. The obligation of gold payment begins in two years according to the legal mint price. It is only the third among the three points which follows faithfully the conclusions of 'Report', which supposes as something natural the specie convertibility without setting a minimal sum.

The points 1 and 2 are measures for preventing the resumption of convertibility from calling back the coin again to circulation as before the suspension. 'Notes above 20*l.*' may not mean that only the banknotes of a face value superior to 20*l.* can be accepted but a number of small notes

amounting in total to at least 20*l.* can also be accepted (But, as we will see soon later, even in this case, Ricardo considered practically as null the possibility of exchange of small notes with gold coin.). And the free choice of the forms of gold to be paid (or ‘sold’) for banknote is a ‘privilege’ (III/125) given not to those who demand payment in gold but to BoE obliged to pay in gold. This means that the payment of banknote to begin in two years was strictly speaking not a resumption of cash payment as it had existed prior to the bank restriction period. It is in this sense that BoE would be consented for a while (‘for three or four years’(ibid.)) a ‘privilege’ of being exempted from the ‘obligation’ it assumed before 1797. Of course, for the anti-bullionists or directores of BoE, this would not at all be a privilege but rather a compulsory measure imposed upon it.

Ricardo advances these ‘more gentle means’ modestly not yet as a definitive but only as a provisionary measure to be tried for a certain time, but it is to ‘be continued as a permanent measure’ ‘if found advantageous’ (ibid.). He calls this ‘plan’ only toward the end of a long paragraph in III/125. In the space of a little more than 3 pages from this paragraph to the end of ‘Appendix’, he explains the aims of the ‘plan’ summarized above in 3 points as well as how it was conceived. In the following we will try some examinations about these points.

Since BoE responds passively to the demand of payment (sells gold at the mint price), or to say the same from the opposite side, since the banknote maintains a purchasing power over gold, fixed by the mint price, its value remains constant and it does never depreciate. ‘The currency could never be depreciated below its standard price’. (ibid.) In fixing the minimal sum for payment at 20 pounds and in paying in bullion<sup>12</sup>, it becomes possible to prevent the withdrawal of small notes from the circulation and the return of the guinea to the circulation. It is bullion which can be obtained from BoE in exchange for banknote. Bullion can be sold as a commodity in the domestic market but the sum of banknote obtained in this way is equal to the sum of banknote paid for obtaining the bullion now to be sold (since the market price coincides with the mint price), which renders meaningless such a transaction. Or, in order to make use of it as currency, bullion must be coined in Mint. Even if there is no seignorage, the process of minting requires some time (‘some weeks or months’, ibid.), which means a loss amounting to the interest calculated for this lapse of time. This will make public refrain from gathering small notes to bring them to BoE for the purpose of getting bullion in order to make it mint into coin. Moreover, as has been seen above, since there can be no

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<sup>12</sup>In the above quotation from III/124, BoE was said to be able to pay at its discretion ‘either in specie, in gold standard bars, or in foreign coin’ or in certain cases probably in mixing all or some of them. This is in fact to reduce the gold in its every possible form to bullion, distinguishable only by fineness and weight. I.e. the payment in any form of gold is nothing other than payment in bullion.



selective treatment between paper and coin of the same face value brought about by divergence between their virtual value, as it really existed in 1811 when ‘Appendix’ was published, the selection between them would be simply a question of the ease of use as currency or of the personal taste. On the other hand, the bullion can work as means of international purchase or payment, but such a use of bullion is profitable only when the over-issued currency is in depreciation and the commodity prices abroad in terms of bullion are cheaper than in domestic market, so that in the absence of currency depreciation bullion export can bring about no profit. Hence in such times purchase of bullion (payment of banknote) at the window of BoE for the purpose of its export should be considered non-existent. In such conditions, even if BoE is obliged to sell passively gold (as a rule without limit in exchange for banknotes of a sum superior to 20 pounds), there will be no necessity to hold in its coffer a great quantity of reserve gold in whatever form it may be. In this way, from every point of view, despite the guarantee of equivalence between banknote and gold, neither in circulation nor in bank coffer gold will be hardly necessary, as far as the value of currency remains stable<sup>13</sup>.

In this way, the stability in the value of currency of itself reduces widely the necessity of gold reserve and of its use, in this sense renders the currency system economical<sup>14</sup>. Here Ricardo employ

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<sup>13</sup>This applies however only in so far as the economic (and political) process is going on without great turbulence. If there are large changes in a short period like those which really occurred in the time of Ricardo (war and its end for example), the currency system he sketched will not work smoothly. His plan does not build in devices to cope with such occurrences. So far it is not to be denied that this plan is fragile, which he could not but recognize in later years. Disturbances in the currency system will become inevitable in case of large changes occurring in a short time such as conditions of production of gold and silver as money materials, relation of their demand and supply on international scale, dimension of economic activities in general (or in particular branches), etc.

<sup>14</sup>Money was originally chosen out endogenously in the course of development of exchange from among the commodities and finally precious metals as particular sorts of commodities came to assume its function. Notwithstanding, since money is a means of exchange hence does not belong to the contents of the wealth of nation, it is expedient for its progress to allot as much labor as possible to the production of material goods, substance of wealth, rather than to waste it in using expensive money. Therefore, it is better to replace precious metal money with cheap paper money. Such a view of money is generally shared in the classical political economy beginning with Smith. Naturally Ricardo’s theory of paper money belongs to this current of thought. ‘The substitution of paper in the room of gold and silver money, replaces a very expensive instrument of commerce with one much less costly, and sometimes equally convenient. Circulation comes to be carried on by a new wheel, which it costs less both to erect and to maintain than the old one.’ (Smith (1976), p. 292) ‘When

the term 'plan' for the first time. At the same time, in addition to the economy in the sense of reducing the use of gold, he emphasizes economy from another point of view. Referring to the history of endlessly repeated coinage and melting of gold, he shows the possibility of economizing the labor uselessly wasted in such operation in implementing his plan: 'Another advantage attending the establishment of this plan would be to prevent the useless labour, which, under our system previously to 1797, was so unprofitably expended on the coinage of guineas, which on every occasion of an unfavourable exchange were consigned to the melting pot, and in spite of all prohibitions exported as bullion.' (ibid.)

After having thus shown that the plan he 'suggests' can contain to the minimum the socially wasteful expenses accompanied with the reserve of expensive precious metals and the circulation of precious metal coin as well as it can stabilize the value of currency, Ricardo tells about the provenance of his plan with such advantages as follows: 'the plan here proposed appears to me to unite all the advantages of every system of banking which has been hitherto adopted in Europe. It is in some of its features similar to the banks of deposit of Amsterdam and Hamburg. In those establishments bullion is always to be purchased from the Bank at a fixed invariable price. The same thing is proposed for the Bank of England' (III/126) The explanation Ricardo gives here on the plan seems to take a different tone, more self-confident. Whether such a way of writing was conscious or unconscious, anyway, in proposing a plan unprecedented at least then in England a considerable determination and prudence seem to have been required.

The Bank of Amsterdam and the Bank of Hamburg, presented here by Ricardo as the prototype of his plan, were established respectively in 1609 and 1619, well-known European banks with about 200 years of history, far longer than that of BoE. During this long history the organization and business categories of these banks probably underwent several changes. It is difficult to know what aspects of their businesses of what time Ricardo takes as 'reference' for his plan, but it is their character as 'banks of deposit' that he regards 'similar' to the bank in his plan.

According to one of a very few specialized studies available on the Bank of Amsterdam, it was engaged neither in discounting of commercial bill nor in issue of banknote (Hashimoto (2013),

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paper is substituted in the room of gold and silver money, the quantity of the materials, tools, and maintenance, which the whole circulating capital can supply, may be increased by the whole value of gold and silver which used to be employed in purchasing them. The whole value of the great wheel of circulation and distribution is added to the goods which are circulated and distributed by means of it.' (ibid., p. 296)

p. 35). But the ‘certificate of deposit’ issued to the depositor in exchange for bullion deposit could ‘circulate from hand to hand like paper money’, was beginning to acquire de facto the function as currency (Nakatani (2006), pp. 31-2). And such a currency as deposit certificate was at any time exchangeable with a fixed quantity of bullion in the form of ‘withdrawal of deposit’. In this sense, as far as the confidence in the capacity of payment of the bank did not shake, its ‘value as currency’ was perfectly stable (however it is not clear what social classes used this ‘currency’ for what purposes, how its face values were set, how far it circulated.). But on the other hand, the ‘security’ of such a ‘currency’ was guaranteed so to say by 100% payment reserve, in this sense it was extremely ‘uneconomical’ as Ricardo himself recognizes. ‘But in the foreign banks of deposit, they have actually in their coffers, as much bullion, as there are credits for bank money in their books; accordingly there is an inactive capital as great as the whole amount of the commercial circulation.’ (III/126) For Ricardo it would be equal to incurring a tremendous waste. In addition, in a 100% reserve system, it is impossible to enlarge at will the quantity of money according to the need of commercial transaction. In his plan Ricardo intends to issue and supply a currency with stable value in any quantity required by the commercial transaction, while getting rid of such waste. The bank reserve is reduced to the minimum in the following way: ‘in our Bank, however, there would be an amount of bank money, under the name of bank-notes, as great as the demands of commerce could require, at the same time there would not be more inactive capital in the bank coffers than that fund which the Bank should think it necessary to keep in bullion, to answer those demands which might occasionally be made on them.’ (ibid.)

The above discussion is on the ‘sale’ of standard metal by the issuing bank for assuring the stability of the value of currency. It is thus possible to check the over-issue of banknote and the fall in the value of currency, but to stabilize the value of currency it is equally necessary to check the unstable movements in the contrary direction. Ricardo’s plan includes thus also the ‘purchase’ of standard metal by the issuing bank (delivery of banknote in exchange for gold, in fact issue of banknote<sup>15</sup>). In some cases BoE bought actually gold, but this was mainly its active operation aiming at preparing the reserve necessary for conversion of its banknote (therefore a certain amount of purchase as target was determined in advance). In contrast, the purchase of gold Ricardo includes in a part of his plan is a passive (and unlimited) trade of gold with the aim of checking the upward destabilization of the value of currency. These two purchases are of very different character. Here

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<sup>15</sup>In the regions to which belonged respectively the Bank of Amsterdam and the Bank of Hamburg Ricardo refers to, the standard metal was silver, not gold as in England at that time. But, by simply substituting gold for silver, the practices in both regions could apply to England.

Ricardo takes the Bank of Hamburg<sup>16</sup> as the precedent. ‘In imitation of the Bank of Hamburg, who purchase silver at a fixed price, it would be necessary for the Bank to fix a price *very little below* the mint price, at which they would at all times purchase, with their notes, such gold bullion as might be offered to them.’ (ibid.)

If, when the market price of bullion falls below its mint price and it becomes more advantageous to make it mint and use as coin than to sell it as it is (i.e. the currency in circulation is insufficient), BoE did not issue additional banknote in buying gold, bullion would be brought into the Mint to be converted into coin and circulate as currency. But, for coinage, in addition to the payment of seignorage, the interest due for the period of coinage (loss of potential benefit) must be taken into account as an additional cost. Then, even if the price set by BoE is inferior to the mint price, but when the loss due to it is less than the seignorage imposed by the Mint, it will be more advantageous to receive banknote immediately at the window of BoE in exchange for gold. Therefore, the purchase of gold at a price fixed by the calculation Ricardo proposes here is a measure conceived by him, inspired by the example of the Bank of Hamburg, for the purpose of preventing the coinage of gold and the circulation of coin, in relying exclusively on the banknote for the increase of currency.

In setting the purchasing price of gold a little lower than the mint price, the bank can obtain a certain profit by its difference with the mint price for its sale (charge for issuing instead of seignorage as charge for minting), but such a price setting was rather for the purpose of stabilizing the value of currency than for obtaining profit. It will be when the market price of bullion will fall below the mint price (i.e. the currency will fall short of its necessary quantity), that the public will sell gold to the bank at a price a little below the mint price. And, on the contrary, it will be when the market price of bullion will rise above the mint price (i.e. the currency will exceed its necessary quantity), that they will buy gold from the bank at the mint price. The variation in the price of gold will be thus enclosed within this narrow range between these two prices and the value of currency stabilized as much (‘The variations in the price of bullion, [...] would be confined within the prices at which the Bank bought bullion, and the mint price at which they sold it.’ (III/127)). Here is admitted a very small degree of increase in it (a very small insufficiency of its quantity). In any case, Ricardo introduced in his plan a free and unlimited bilateral transaction of bullion between the bank and public and its free movement across the border. From his point of view, such a measure would not at all entail any inconveniences (such as were apprehended at times like internal and

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<sup>16</sup>The source of information on the Bank of Hamburg for Ricardo is noted in III/175 (*Reply*, Ch. II. Sec. I ‘Exchange with Hamburg’).

external drains of gold), but on the contrary it was indispensable for stabilizing the price of gold i.e. the value of currency.

By the way, in ‘Notes on Bentham’<sup>17</sup> (written from the 25<sup>th</sup> December 1810 to the 11<sup>th</sup> January 1811, only 1 or 2 months earlier than the drafting of ‘Appendix’ to the 4<sup>th</sup> edition of *High Price*) Ricardo says as follows: ‘The Bank of England is certainly not *quite* so secure as a bank of deposit such as at Amsterdam and Hamburg,— but is infinitely more useful in making the whole capital of a country available. Paper in England performs the office of the precious metals, —and the precious metals are exported for those commodities which can be usefully and advantageously employed. In Holland and Hamburg the advantages of the Banks is [sic] 1<sup>o</sup>. in the use of paper instead of metals which has been admirably described by this author [Malthus], and 2<sup>dly</sup>. in having a uniform measure of value subject to no debasement or deterioration.’ (‘Notes on Bentham’s ‘Sur les prix’’, III/288. Emphasis in original.) After the contrast Bentham makes in a passage in his manuscript ‘Sur les prix’ between BoE and the banks in ‘les pays commerçants de l’Europe’ (ibid.), Ricardo gives here the advantage and disadvantage of the representative banks among the latter. First, in point of being ‘secure’, BoE, issuing inconvertible notes, is inferior to both Banks of Amsterdam and Hamburg ‘having a uniform measure of value’. This is of course because, while the value of the paper of the former being instable, the metal conserved in the latter, never coined and released in circulation (hence undergoing neither ‘debasement’ nor ‘deterioration’) maintains constantly a uniform value of its paper<sup>18</sup> (in circulation as ‘deposit certificate’). On the contrary, in point of being ‘useful’, BoE is far more advantageous. It is because, while the banks on the continent as ‘deposit banks’ leave idle a huge amount of deposit in precious metals in their coffers, BoE, generalizing the banknote circulation and holding an extremely small amount of metal reserve in exemption from convertibility, and so economizing to a maximum the precious metal for use as money, contributes thus to the promotion of the wealth of nation. The BoE, as is depicted here, is not that Ricardo thinks as it ‘should be’ but as it really was at that time.

In view of ‘Notes on Bentham’ written immediately before the plan was proposed, the comparison made here between the banks of contrastive characters may have served as a reference for this plan. As seen above, the plan of Ricardo is made up in adopting respective advantages from

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<sup>17</sup>For the analysis of this manuscript and a comparative study between the theories of money and banking of Ricardo and Bentham, see Deleplace and Sigot (2012).

<sup>18</sup>However, the ‘value’ here means the physical quantity i.e. weight of the precious metals deposited in these banks. If the value of these metals as commodities varies, the purchasing power over the commodities of the deposit certificate in circulation as money may also not be stable. But Ricardo and the other bullionists did not think about such a possibility at that time (see *infra*).

both of these types of banks. The monetary regime during the bank restriction period he did not cease criticizing in *High Price* was certainly very insecure, but at the same time it was in a certain sense (because only for BoE) extremely ‘useful’ (or ‘economical’) (in the quotation above, Ricardo quite exceptionally praises the contemporary state of English currency). Since it was possible to increase the issue of money at will very cheaply with paper and ink, the business of BoE at that time was more economical than any other. As it is particularly manifest in the example of small notes, it may be that the aspect of being ‘economical’ in Ricardo’s conception of an ideal currency was intended to succeed to such a (positive though unexpected) result of the bank restriction period as it was, i.e. the generalized paper circulation, in repelling the coin from circulation (but in emphasizing the advantages of these small notes, Ricardo was not interested in the difficulties and problems to arise afterwards in their actual circulation. Cf. IV/70, 98). His plan may be said to have been inspired also from the state of currency during the bank restriction period. However, the benefit from this economy was naturally not to be monopolized by a private company as it was then but to be allocated to the public, and his plan was provided with the institutional guarantee for that purpose.

Now, for finishing the presentation of his plan, Ricardo speaks of a perfect banking system as of something feasible: ‘the perfection of banking is to enable a country by means of a paper currency (always retaining its standard value) to carry on its circulation with the least possible quantity of coin or bullion. This is what this plan would effect. And with a silver coinage, on just principles, we should possess the most economical and the most invariable currency in the world.’ (III/126-7) The last sentence sounds as though anticipating the proposals to be made still five years afterward and the slogan in the chapter 27 of *Principles* another one year later (IV/66, I/361). ‘A silver coinage’ appearing somewhat suddenly only in this sentence is one of the means of payment of small amounts indispensable for the circulation for every day consumption inferior to one pound, non-negligible for a planning of currency regime<sup>19</sup>.

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<sup>19</sup>It is said that in Ricardo’s time silver coins from 5 shillings to 4 pence (¼ shilling), and copper coins of still smaller amount going from 1 penny to 1 farthing (¼ penny) were in use. These may be thought as token money, of which the ‘intrinsic value’ indicated by the weight of the metal as their material and the face value were mutually independent, but in fact their face values were so set as to be approximately in proportion to 900:60:1, the relative values between gold, silver and copper supposed at that time (IV/55). And the rage of face value of the coins made from each kind of metal was so set that the weight and size of the coins so made were confined within the range not likely to entail major inconveniences for the practical use with human hands. Also in this point a careful examination would be required for applying to coin, independently of the kind of metal as its material, the determination of value of inconvertible banknote by its quantity. A complete separation between the face value and metal content of coins may have taken place after the second world war with the beginning of use of nickel, aluminum and various kinds of alloys.

Anyway, Ricardo says that the quantity of such a currency is constantly regulated to a perfectly right level. Now he calls his proposals repeatedly plan, while it was at first ‘suggestions’ (in the title of ‘Appendix’) then ‘more gentle means’ (III/124).’, Ricardo has largely changed attitude in the process of his arguments before arriving at the last part in ‘Appendix’. Is it a rhetoric for persuasion? ‘The amount of the circulation would be adjusted to the wants of commerce with the greatest precision; and if the Bank were for a moment so indiscreet as to overcharge the circulation, the check which the public would possess would speedily admonish them of their error.’ (III/127) As the adjustment of the quantity of currency is carried on so to say automatically by the public admonishing against an inappropriate quantity of currency (mainly by buying and selling gold, actually meaning the withdrawal and additional issue of banknote), there is no need for the issuer to constantly watch certain indexes to intervene actively at any necessary moment with discretionary measures (here is explicitly mentioned only the risk of over-issue, but potentially also the contrary case is included.). Only if a proper institutional framework is in order, it suffices for the issuing bank to behave passively. Ricardo seems to have thought like this about the regulation of currency issue under the ‘perfect’ regime of banking conceived by him.

We have above introduced the outline of the plan for the reform of monetary regime Ricardo made public for the first time at the beginning of April 1811 and made some examinations on it. As mentioned at the beginning of this subsection, if Ricardo made public his plan at that moment, it was because the proposal of Resumption Bill based on ‘Bullion Report’ and the deliberation and decision on it were foreseen in a month. In proposing to the bullionist members of parliament in particular those belonging to the Bullion Committee his proper project diverging in some points from the concluding recommendations of ‘Report’, he may have intended to persuade them to incorporate his plan into the Bill to be drafted soon. The Bill was composed by F. Horner, chair of the Committee, and proposed to the House of Commons on the 6<sup>th</sup> May. And on the same day Horner delivered a speech for explaining and defending the Bill, but it was finally rejected. In the 16 articles of his ‘Resolutions’ prepared by him along the lines of ‘Report’, Ricardo’s plan outlined at the end of ‘Appendix’ was not at all taken into consideration, the ‘Resolutions’ stated only a resumption of cash payment to be implemented in two years (see the last 15<sup>th</sup> and 16<sup>th</sup> articles. Cf. Horner (1811), p. 8). Considering the provisional ending of the bullion controversy with the rejection of this Bill, the plan of Ricardo did neither draw attention nor became subject of discussion. Except that a few of his

friends spoke a little about it, it remained forgotten for a time<sup>20</sup>. But, as seen above about how he made of ‘Appendix’, Ricardo himself continued during the whole of the rest of his lifetime to appeal to every means possible in order to realize his plan in the monetary system of his country.

### III. From the rejection of the Resumption Bill to the writing of *Proposals for an Economical and Secure Currency*

#### 1. Action of Ricardo after the passage of Stanhope’s Act. Blockage of currency depreciation and its progressive dissolution

Three days after the passage of Stanhope’s Act, Ricardo addressed on the 27<sup>th</sup> July 1811 a ‘direct petition’ to Perceval to recommend him a measure for checking the further depreciation of currency but it ended in failure (see supra). But he did not resign hope and tried again: on the 11<sup>th</sup> December of the same year, just in the middle between the passage of Stanhope’s Act as a legislation of specified duration and its expiration on the 15<sup>th</sup> March of the following year, he addressed a letter to Tierney to recommend him similar proposals. The tenor of these two letters are virtually the same but in the latter one Ricardo explains his proposals somewhat more in detail. Moreover, since here are a little different points from those contained in the plan in ‘Appendix’ and some new measure, we will briefly introduce and examine them.

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<sup>20</sup>In such a situation, Malthus, gotten acquainted with Ricardo only at the beginning of June of this year, exceptionally paid attention to the plan of Ricardo. On the 26<sup>th</sup> July, two days following the passage of Stanhope’s Act, he announced in his letter to Ricardo (cf. note 9 above) that ‘if I should write again in the review, I will certainly mention your plan with the approbation which I think it deserves.’ (VI/41) This was probably because the ‘Appendix’ including this plan aimed mainly to refute the previous review of Malthus in February issue of *Edinburgh Review* ([Malthus] (1811a)). In any case, in his review thus published (anonymously) in the August issue of that year ([Malthus] (1811b)), the gist of the plan of Ricardo is briefly and faithfully reproduced in a positive tone (ibid., pp. 469-70), without a ‘long controversy in print’ as confirmed in their correspondence in June. However, concerning one of the main points in Ricardo’s plan directed to minimizing the precious metal reserve in the issuing bank in abolishing the metal currency circulation, Malthus was to persistently repeat critical comments in their epistolary exchange in later years (cf. the subsection 3 of the next section).



Ricardo proposes here to carry out the conclusions of 'Bullion Report' 'by more gentle means', just in 'Appendix', and to try them at first for a limited time, admitting that 'Report' had already been rejected. In this letter addressed to a political leader, though the contents of the plan of bullion payment are explained not so in detail as in 'Appendix', in contrast he details the preliminaries to its ultimate execution.

He claims as before that BoE should be obliged to pay its banknotes above a certain minimal sum with bullion at a certain price, but here he sets a new minimal limit and a new 'sales' price of bullion. This is conformable to the aim of a letter to recommend to a political leader a measure to be implemented, if possible immediately at that moment.

He says that bullion will be sold in exchange for banknotes to 'any purchaser of not less than 50, 100, or 200 ounces' (VI/67-8) The three numbers are given only as examples, meaning no more than the necessity of setting a minimal quantity of bullion to be sold around these amounts. Since the current market price of bullion was a little more than 4 pounds per ounce at that time, this minimal quantity would correspond approximately to a sum from 200 to 800 pounds. Thus, in choosing any of these sums, the minimal limit would amount to more than ten times higher than that given in 'Appendix' (20 pounds). In raising thus the threshold, the demand of bullion payment would become correspondingly difficult and consequently the total amount of bullion sold by BoE would decrease. This may be interpreted as a certain concession from the part of Ricardo to the counterargument of the anti-bullionists worrying about the necessity of a great amount of gold reserve for cash or bullion payment. And it is only big traders etc. who can demand transactions of such large amounts or be in need of them, and their demand for bullion is for the purpose of its export (payment of imported commodities). Therefore, such bullion payments have no direct relation with small scale domestic circulation. Among the differences from 'Appendix', no less important than this is the change in the term of minimal amount from pound, unit of the face value of currency, to ounce, unit of the weight of bullion. If BoE should pay the banknotes of any sum above a certain minimum with bullion, it will be required a practically impossible procedure, of isolating the mass of bullion into a piece of weight corresponding to the sum of banknote tendered at the window of BoE according to a determinate price of bullion. In order to evade such technical difficulties, BoE should have relied on the 'sale' of ingot (or some sorts of ingots, if necessary) of a certain weight amounting to a certain round number of pounds prepared in advance for bullion payment at a determinate price (which in turn can be a number with fractions without major inconveniences)<sup>21</sup>. As far as concerns this point, the payment in

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<sup>21</sup>Indeed, it was only in 'Appendix' when the plan was sketched for the first time that the minimum

bullion may be apparently similar to cash payment with a certain number of minted gold coin, though bullion used in payment may not be handled like coin, 20 ounces being a gold bar of about 600g with a dimension of about 30cm<sup>3</sup>, 60 ounces being a gold bar of about 1.8kg with a dimension of about 90cm<sup>3</sup>.

In ‘Bullion Report’ the cash payment was to be resumed in two years for every amount of banknote at the legal mint price of 3 pounds 17 shillings 10½ pence, and equally in ‘Appendix’ the bullion payment was to begin at old par for the banknote of an amount above 20 pounds when the bullion price would have fallen to the mint price. But in the letter to Tierney, equally in setting the minimal limit as above, the bullion payment was to begin as early as possible (immediately if possible) ‘at a fixed price somewhere about the present market price’. (VI/68) If the Resumption Bill had been approved and the depreciation of currency would surely not go further, it would have been possible to wait 2 years for the fall of bullion price to the mint price before resuming the bullion payment. But now that the Bill was rejected and in addition an Act enforcing an equal treatment between depreciated banknote and coin i.e. the virtual treatment of the former as legal tender was in force, an unlimited depreciation of currency was to be afraid of (in fact it continued to depreciate) so that it had to be checked as soon as possible, thought Ricardo. For this it was indispensable to ‘secure the public against any further depreciation of Bank notes.’ (ibid.)

But, while being effectual in preventing the further depreciation of currency, this was not for raising the value of currency to the mint price. This was therefore a provisional measure for gaining time for thinking out a more fundamental measure and deciding on it. ‘It would afford leisure too for the consideration of such further measures as might be necessary, without pledging Parliament to any particular course of proceeding.’ (ibid.) Hence here is not the end and so the next step was prepared. Ricardo’s next proposal is as follows: continue the above measure for half a year and if then the rise in the price of bullion is surely stopped, reset the selling price of bullion lower than that applied during the foregoing six month by 6 to 9 pence and continue this for one month, and after that step

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limit of bullion payment was expressed in terms of a currency unit. After the letter to Tierney Ricardo indicated such minimal limit on several occasions, but except for his evidence before the Secret Committees of both Houses in March 1819 immediately after his entry into parliament (V/409) he indicated it always in terms of weight of bullion (20 ounces in *Proposals* (IV/66), 60 ounces in Peel’s Act enacted in 1819 (V/366-7), again 60 ounces in ‘parliamentary speech in February 1821’ (V/75), and finally 100 ounces in his last manuscript of 23 ‘Plan, &c.’ (IV/288)). The 100 ounces in the last manuscript is, however, contrary to the preceding examples, the minimal limit of the weight of bullion BoE *accept to buy*. Here is not set any minimal limit for *selling bullion*, as in the previous cases, so that 1 pound note is acceptable for conversion with 1 pound coin. Why such a fundamental change in the setting of minimal limit occurred, what may be its meaning? These points will be discussed in subsection 2 of section VII of the present article.

down the selling price of bullion (buying price for the holder of banknote) every month at the same pace until it finally coincides with the mint price (VI/69).

The monthly rate of bringing down the selling price of bullion was roughly calculated by Ricardo considering the two opposite restraints: it was not to be so slow as to require too long time to arrive at the destination, nor so fast as to cause the public anxiety. He foresaw 3 or 4 years before reaching the target price. When in this way the banknote would become finally equivalent to the standard metal, i.e. the same amount of commodities would be bought with gold coin or with banknote, the demand for gold (bullion or coin) at the window of BoE would virtually cease, even if institutionally guaranteed. In such a situation an exclusive circulation of paper as was seen in 1811 would be possible without any worry about depreciation. This was what Ricardo aimed at. 'If the public were secured against depreciation by possessing the power of exchanging their notes for bullion at the mint value [price] of gold, I should prefer a circulation, such as ours, consisting wholly of paper, to any other, even as a permanent measure, as being more economical and possessing other obvious advantages.' (ibid.)

The aim of the above measure was to bring down gradually the quantity of banknote in circulation through bullion payment from BoE, thus to dissolve gradually its depreciation, but 'if however from a mistaken view of the subject they [BoE] should diminish the circulation too rapidly' (VI/70), in order to secure the stability of the value of currency the quantity of banknote in circulation would have to be increased on the contrary. In such cases BoE would buy bullion in exchange for banknote. As seen above, in the plan in 'Appendix' to the fourth edition of *High Price*, BoE was required such bilateral transaction of bullion. And also in the letter to Tierney Ricardo wrote this point on a separate sheet which he finally refrained from including into the letter. On the reason for this he writes at the beginning of this sheet as follows: 'on consideration there appeared to be some objections to this part of the plan, the consideration of which would have led me to a longer discussion than was consistent with the object which I had in view.' (ibid.) 'This part of plan' consists in obliging BoE to buy gold at a price a little (concretely by 2 pence) lower than the selling price of the moment. In so doing, it would become possible to prevent the market price of bullion from falling below this buying price, to enclose the value of currency in a very narrow range between the selling and buying prices of gold by the bank. But for the moment it was not necessary to be prepared for an insufficiency of currency and a rise in its value, and proposing a measure for increasing the quantity of issue would serve for nothing other than inviting confusion, which would possibly delay the urgently needed contraction of currency. Thinking in this way, Ricardo did not show this part to Tierney.

To this letter Tierney himself responded in the following day in expressing his gratitude for the proposal and intention of examining it (VI/71). But there seems to have been no clear reply. Thus, again in this second action of trying to work on a political leader, Ricardo could not attain his aim. After that for some time Ricardo did not speak or take action about the currency problem, he resumed it only more than 3 and a half years afterward, in summer 1815 (immediately after the defeat of Napoleon's army in the Battle of Waterloo).

In any case, after the letter to Tierney in which Ricardo showed for the first time the plan of beginning the bullion payment with the current high price superior to the mint price to bring it down step by step, he never mentioned this plan in his publications or letters, until he brought it forward again in spring 1819 when in parliament the resumption of cash payment began to be required (evidence in the House of Commons on the 4<sup>th</sup> March (V/382), evidence in the House of Lords on the 26<sup>th</sup> March (V/439-40)), and this plan was adopted in Peel's Act approved in the same year (V/7-8).

## 2. Criticism to the Bank of England and conception of the establishment of an alternative institution

Ricardo was coherent in criticizing and opposing BoE from the very beginning of his appearance in the bullion controversy. But his plan for the reform of monetary regime we have seen above was for regulating or enforcing with legislative measures the businesses of BoE as issuing bank without bringing its existence into question. At the end of 1814, 3 years after he had sent the above letter to Tierney, Ricardo was asked by Say, dispatched by the French government for stay in England on a special mission of research on the economic situation of the country, his opinion on the plan of currency Say had made as a part of the report of this research, which was not published, leaving unknown the actual nature of the plan supposedly shown to Ricardo. In his letter to Say of the 24<sup>th</sup> December of the same year, he tells his opinion about this plan, which is rather negative to the idea of currency issue from the state. 'The plan for the currency of France which you have sent me to look over differs in no very essential point from that which I recommended for our Bank of England, excepting that you propose Government to be the issuers, and to derive the advantages from the substitution of paper for metallic money.' (VI/165) 'That which I recommended for our Bank of England', as Sraffa says in his note, seems to indicate the plan Ricardo made public in 1811 in 'Appendix' to the 4<sup>th</sup> edition of *High Price*. Then it may be possible to suppose that Say's plan as a result of his research on the economic situation in England (probably mentioning also various controversies during the last time) was based on Ricardo's plan with addition of an essential point of

revision ('Government to be the issuers'). And Ricardo is opposing this revision (but this one point he opposed then was to be claimed afterwards by himself.).

The reason for which Ricardo does not agree with the modified point in Say's plan is that the organ endowed with such a monopoly of currency issue almost always abuses its power tending to over-issue, as he is to say in chapter 27 of *Principles* (I/356). 'My only doubt is whether Government will under all temptations rigidly abide by its own rules. In justice the public ought to derive the benefits which result from the substitution of a paper for a more valuable currency, but it has hitherto been given to a company of Bankers or merchants because they were more under the controul of authority and could not with impunity use so formidable an engine to the injury of the public.' (VI/166) Actually BoE is engaged in a virtually monopolistic currency issue, but it is under the control of government. But if the government holds in their hands the same power of monopolistic issue, it has no superior supervising organ upon it hence no possibility of being controlled or sanctioned, which would increase the risk of abuse of power. Say's plan leaves open how to check it. The benefit from currency issue should naturally belong to the public but up to now it has been monopolized by BoE. This is certainly contrary to justice, but BoE is placed under a severe control and regulation of the government, hence we cannot but admit it. In this letter of Ricardo there is not yet an idea of taking away from BoE the power of issuing money, he seems to be thinking only about how to control its behavior. While speaking here about the risk of excess of currency, he says nothing about how to judge of it, and while he seems to take it for granted the transition from precious metal coin to paper, he says nothing about the criterion or rule to be observed in paper issue. This is probably because the plan Say has shown him already includes the same ideas as his on these points.

As far as BoE is placed under the surveillance of the government and its activities for obtaining benefits (including those by over-issue) are constrained within a certain limit, and as far as the government, as an entity superior to BoE, acts independently of it for the benefit of the public, Ricardo could be sure about his opposition to Say's plan. But about half a year after this letter, in summer of the following year 1815, when he was asked by Pascoe Grenfell, member of the House of Commons, to write a pamphlet criticizing the businesses of BoE for profits and the way of their distribution (to be published in the following year as *Proposals*), Ricardo had occasion to read massive data materials offered from him and as a result his above view on BoE and on its relation with the government underwent a substantial change. And he came to think right to propose 'Government to be the issuers, and to derive the advantages from the substitution of paper for metallic money.' In his letter to Malthus of the 10<sup>th</sup> September of the same year, soon after he began

writing the pamphlet, he shows a large change in his thinking as follows: ‘I think the Bank an unnecessary establishment getting rich by those profits which fairly belong to the public. I cannot help considering the issuing of paper money as a privilege which belongs exclusively to the state. —I regard it as a sort of seignorage [coinage prerogative], and I am convinced, if the principles of currency were rightly understood, that Commissioners might be appointed independent of all ministerial controul who should be the sole issuers of paper money, —by which I think a profit of from two to three millions might be secured to the public. [...] They might invest the 11 millions[sic] which is the average of public deposits in Exchequer Bills, a part of which might be sold whenever occasion required. This, of course (at least all of it) could not be effected till the expiration of the Bank Charter in 1833, but it is never too soon to give due consideration to important principles, which might be recognized tho’ not yet acted on. In looking over the papers which have from time to time been laid before Parliament I think it might clearly be proved that the profits of the Bank have been enormous, —I should think they must have a hoard nearly equal to their Capital. By their Charter they are bound to make an annual division of their profits, and to lay a statement of their accounts before the Proprietors, —but they appear to set all law at defiance. I always enjoy any attack upon the Bank and if I had sufficient courage I would be a party to it.’ (VI/268-9)

Here we can find some of the important points to be developed in the manuscript he was going to draft in 1823, 8 years after this letter (‘Plan, &c.’, entitled ‘Plan for the establishment of a National Bank’ when published in the following year by one of the younger brothers of Ricardo). He affirms here for the first time that the right to issue money belongs solely to the state, so BoE, obtaining extraordinary unjust profits, is unnecessary hence to be liquidated. And in the same way as the later manuscript, the issue should be assumed by the Commissioners, acting independently of the government solely for the public benefit. Though not sufficiently explained, the Commissioners can also make ‘open market operations’ consisting in purchase and sale of government security for the purpose of increasing or decreasing the issued quantity of currency. On the other hand, the idea of dichotomic division of the businesses of BoE into issue and banking is not yet shown here, which is to be the starting point of the plan in the manuscript of 23.

Here Ricardo’s blame and attack against BoE are concentrated on the huge profits it is obtaining and accumulating in its coffers which it does not make public setting ‘all law at defiance’, but are not extended to the excessive issue of inconvertible banknote and the accompanying depreciation of currency, which he had much emphasized since long time. This is probably because he then focused his attention on what he recognized anew ‘in looking over the papers which have from time to time been laid before Parliament’, which resulted in a radical policy of the liquidation

of BoE, he had never thought of till some time before this letter. The request from Grenfell of writing a pamphlet, his offer of massive material, and hitting it off in the repeated dialogues with him, all these seem to have motivated him to conceive a national issuing organ in place of BoE.

But, in talking about the establishment of a national bank to replace BoE, he recognizes at the same time that there is no possibility of realizing such a plan as far as the present Bank Charter remains valid until 1833. What he is speaking about here is a conception in principle about an issuer of currency to be established in future. He says in a letter sent to Malthus in the following month that ‘my views respecting the Bank are entirely prospective.’ (dated from the 17<sup>th</sup> October of the same year, VI/304) Thus for the moment there could be no question of subsistence of BoE. On this point he says in section VI ‘The public services of the Bank excessively overpaid—Remedy proposed’ of *Proposals* that ‘the charter of the Bank was renewed in 1800 for twenty-one years, from its expiration in 1812; consequently it will not now terminate till 1833.’ (IV/88) Such a renewal of the charter was the result of a ‘bargain’ (IV/83) between the government and BoE in return for the repeated loans to the former in extremely favorable conditions. On every subsequent occasion of talking about the same subject, Ricardo always mentioned that the establishment of an institution alternative to BoE was not realizable for a time being (cf. the last paragraph of *Proposals* (IV/114), ‘Plan, &c.’ of 23 (IV/285)). In this way, although the plan of bullion payment and the plan for the establishment of a national bank were both of them plans of Ricardo equally aiming at reforming the monetary regime, the conditions for their realization as well as their time perspectives were widely different, so that these two were not in an alternative relation nor in relation of incompatibility. Ricardo did not pass from the former to the latter, but for the moment he made effort to realize the former supposing BoE in waiting for the occasion for pursuing the realization of the latter in absorbing and incorporating there the former. However, after 1815 Ricardo always continued rethinking about his plans in changing situations in bringing modifications and additions to both of them. We are going to continue considerations on their contents and meaning.

### 3. Request from Grenfell and Ricardo’s drafting of manuscript

In his letter to Malthus of the 27<sup>th</sup> June 1815, Ricardo talks with pleasure about the defeat of the French army in the Battle of Waterloo on the 18<sup>th</sup> of that month as follows: ‘I have been for two or three days at Tunbridge Wells, and have been agreeably surprised to day on my arrival in London, to hear of the great events which are taking place in France, in consequence of the great victory obtained by the Duke of Wellington and his brave army over Bonaparte. With the deposition of Bonaparte I hope there may be no other obstacles to peace, and that we may at length be rewarded

for the blood and treasure which we have expended with a long period of tranquility, —which I have no doubt will also prove a long period of prosperity.’ (VI/232) In all of the three letters subsequent to this one he exchanged with his friends before the end of the following July, the same subject appears (of the 16<sup>th</sup> July from Malthus (VI/235), of the 23<sup>rd</sup> from Trower (VI/238), of the 30<sup>th</sup> to Malthus (VI/239)). This may allude to a victorious atmosphere not only among them but widely diffused in England at that time.

Immediately following these letters, on the 1<sup>st</sup> August Pascoe Grenfell addressed a letter to Ricardo in which he required to write ‘a Short Pamphlet’ (VI/242) on the profits of BoE and its treatment by BoE. Another letter Grenfell subsequently addressed to Ricardo on the following 25<sup>th</sup> clearly shows that the latter was going to begin writing it in accepting the request of the former, but the reply Ricardo may have sent to Grenfell in the meantime is not included in *Works*. While Grenfell sent in total 13 letters to Ricardo on the subject of this pamphlet from the 1<sup>st</sup> August to the 17<sup>th</sup> October, no letters from Ricardo to Grenfell are included in *Works*. But since Grenfell writes in his letters that he received reply from Ricardo, he must have sent replies. Probably Grenfell did not keep them. On the other hand, as Ricardo writes to Malthus in his letter of the 10<sup>th</sup> September (see supra) that ‘I often saw Mr. Grenfell’ (VI/267), they may have exchanged opinion not only by letters but also directly in often meeting. In any case, dissatisfied for a long time with the behavior of BoE, Ricardo seems to have accepted soon the request from Grenfell. And just because it was the time when the War was ending with England’s victory, Ricardo may have seized Grenfell’s request as a good opportunity to develop further his plan of bullion payment he had briefly sketched more than 4 years before in ‘Appendix’ to the fourth edition of *High Price*. This plan, though printed then twice in a short space of time, had afterwards fallen into oblivion without finding any substantial echo. Ricardo may have intended to revive it now.

In his letter of the 1<sup>st</sup> August Grenfell asked him ‘to undertake, in the course of the approaching autumn—or rather I would say—before the next Bank Court in September or October—to write a Short Pamphlet on the Subject to which I have lately called the attention of Parliament.’ (VI/242) What he asked to write was a pamphlet for defending the right of the stockholders in view of the next general meeting of stockholders (Bank Court) to be held in the following month or two months later<sup>22</sup>. In requesting this pamphlet Grenfell wanted it to criticize

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<sup>22</sup>In fact, it was held on the 21<sup>st</sup> September. Grenfell, himself a stockholder, attended the general meeting, put queries to the directors about the real state of the management of BoE, proposed a motion requiring an enhancement of the dividends, but it was rejected. On the same day he sent a letter to Ricardo to make him a report of the meeting (VI/278). The following general meeting was held on the 21<sup>st</sup> December of the same year, and this time Ricardo, equally a stock holder of the



BoE, which, although obtaining a huge amount of profits from the transactions with the government (loan of money and underwriting and management of government bond), was not sufficiently returning these profits to the stockholders as dividends. Therefore, while Grenfell and Ricardo agreed with respect to the need of criticizing the management of BoE, in the original purpose of the request was not included a still larger intent of a reform of monetary regime itself. Despite the frequent exchange of information and opinion with Grenfell about the pamphlet, till the end of the drafting of the manuscript, Ricardo spoke nothing to the requester about his intention of including as its first main theme the plan of bullion payment and its theoretical foundation, or about the contents of the plan itself (see *infra*). After Ricardo accepted the writing, Grenfell made him know in his letters that he was going to send him materials like parliamentary documents for writing the pamphlet, which conformed to the aim of his request, and Ricardo quoted many data and facts presumably drawn from these materials in *Proposals* in particular in the last part of it.

Incidentally, Ricardo was strongly urged by J. Mill to begin a work for the future *Principles* in elaborating an enlarged reedition of *An Essay on the Influence of a low Price of Corn on the Profits of Stock &c.* (in Ricardo (1951c), IV/9-41), a pamphlet published at the end of February of the same year for opposing the Corn Laws. But he remained hesitating about this. On the 30<sup>th</sup> August, at a moment when Ricardo probably began writing the pamphlet requested from Grenfell, he wrote to Mill to inform him that he was finally going to begin the work: ‘The experiment shall however be tried, —I will devote as much time as I can to think and write on my favorite subject, —I will give myself a chance for success and at any rate the employment itself will, if nothing else comes of it, have afforded me instruction and amusement.’ (VI/263) Impatient of the silence of Ricardo during a considerable time after his last letter, on the 10<sup>th</sup> October Mill wrote a letter to him. Not particularly mentioning the preparation of *Principles*, this letter of Mill seems to have been addressed to Ricardo for implicitly demanding him to report what had become of the work in suspense. Probably taking the letter of Mill like this, Ricardo replied on the 24<sup>th</sup>, as much as two and a half months after the last letter of his, reporting that he had finished writing the manuscript of *Proposals* of which Mill seems to have remained totally uninformed, as a pretext for having ‘done very little in the way of studying or writing’, ‘after giving you this detail of our proceedings [the life of his family in Gatcombe]’ (VI/312). In responding to this, in his letter of the 9<sup>th</sup> November, Mill behaved toward

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company, attended it and made a speech criticizing the state of management of BoE but it was altogether ignored without finding any reaction from directors and many other attendant stockholders (cf. his letter to Trower of the 25<sup>th</sup> December, VI/343).

Ricardo with ‘the authority of a schoolmaster’ and strongly encouraged him for the work of *Principles* (cf. equally similar letter of his of the 22<sup>nd</sup> December, VI/338-40).

And the letter to Mill of the 30<sup>th</sup> December, when Ricardo was in a final phase of elaboration of the manuscript of *Proposals* for printing, contains the well-known phrase announcing the theoretical difficulties he encountered in the course of writing *Principles*: ‘I know I shall be soon stopped by the word price.’ (VI/348) But the difficulties he is speaking of here seem to relate with the difficult problems on the theory of money he was facing in the process of writing *Proposals* since the end of last August (cf. VI/348-9) as well as with the problems concerning the latter half of chapter I ‘On Value’ of *Principles*. It may be because Ricardo was passing from writing a manuscript to writing another almost without making pause that his thinking comes to the surface in such a form ---- a phenomenon particular to this period. Here he discusses both of them inseparably. In thinking about the system of fundamental theory of political economy, Ricardo may have not considered it as lying outside the theory of money and price deeply connected with current problems of the time.

Now, once finished writing the manuscript of the pamphlet, he may have sent it soon to Grenfell for perusal. It must have been sent with a letter of some explanations, but in *Works* no such document is included. Anyway, after once sent to Ricardo a letter on the 27<sup>th</sup> September, Grenfell sent another on the following day to report to him the receipt of the manuscript and the impression of leafing as follows: ‘After I had sent off my Letter to you yesterday, I received by Coach from Spring Garden, your Manuscript — of which I read in the Evening about 60 pages with much Avidity and Satisfaction—I shall finish it—and read it a second time before I return from Town—which will be on Sunday—in the mean time I cannot refrain from telling you, that so far as I am a Judge, what I have read is excellent —Your Idea of making Paper convertible into Bullion and not into Coin is quite new to me, and as it now presents itself to me, is admirable.’ (VI/285-6) On the whole he highly praises the finished manuscript, but noticeable is the last sentence. The payment in bullion instead of in coin, Grenfell calls this idea ‘quite new’. This means that in correspondence and in conversation since last August Ricardo never talked him about his basic idea of bullion payment. Somewhat with embarrassment Grenfell at once estimates and approves it as ‘admirable’. He may have noticed naturally the latter half of the manuscript in which was discussed the subject corresponding to his request. In any case, this means also that Grenfell had not read ‘Appendix’ to the fourth edition of *High Price*, or that, even if read it, he had not noticed Ricardo’s plan or forgotten it. In this the reaction of Mill was similar. But, Malthus may have remembered it, since he had written a review article on the plan of ‘Appendix’ in *Edinburgh Review* in August 1811. In this

way, the plan Ricardo had put forward four and half years before was almost entirely forgotten among the people around him, though surviving in his thinking. Therefore, rather than making public a new version of his plan, he had to present it before the public as an entirely new ‘proposal’.

In the first half of *Proposals* (from section I to IV), Ricardo explains succinctly the fundamental points of his theory of money, and subsequently develops his plan of bullion payment further than four years before, but he discusses how to check the profit seeking activities of BoE only in the latter half (from section V to VII), a subject required to be treated by Grenfell. And the subject Ricardo added afterwards for himself is noted also in title as if it were the main theme of the pamphlet. Once having finished the manuscript, he reported this to Malthus after Grenfell in saying that: ‘I have been writing in my unconnected and confined style my opinions on the profits of the Bank, and on the advantages of a paper and nothing but a paper currency. I am too little pleased with it to think of publishing. The whole is too little for a pamphlet.’ (VI/294-5) Though Grenfell ‘highly praised’ it, Ricardo himself was quite dissatisfied with the manuscript as it was. Soon after that, he sent the manuscript to Malthus to ask him his opinion, who advised Ricardo to publish it though he found in it some problems concerning the style and composition (letter to Ricardo of the 15<sup>th</sup> October, VI/298).

And Ricardo informed Mill of this manuscript in the letter of the 24<sup>th</sup> October (see supra), i.e. in the last place. This was because he thought that ‘before I finally determine I should like to have your candid opinion about it’ (VI/313), and in addition because a psychological reason to make him hesitate to talk to Mill about this manuscript may have intervened, since, while promising Mill to write the manuscript of *Principles*, he was absorbed in another occupation since August without telling about it to Mill, leaving unkept the promise with him. In any case, in the middle of November the manuscript seems to have arrived at Mill’s hands. But some of the letters exchanged between them in November were lost, so that it is impossible to know directly what Mill said about the possibility of publishing it or about the measures to be taken for this. But in view of the fact that Ricardo was occupied with its final elaboration for publication until the end of the year, Mill seems to have advised him to publish it like Malthus. Afterwards, in his letter of the 22<sup>nd</sup> December (see supra), Mill tells Ricardo his opinion about the manuscript, while giving him several instructions as his ‘schoolmaster’ or setting him ‘an exercise’ (VI/339). This opinion is not on the state of the manuscript or formal retouches to it (this has already finished before the 9<sup>th</sup> December. See Mill’s letter to Ricardo of that day), but concerns Mill’s evaluation on the whole of the manuscript. In dividing it into the first and second half, he seems to make an appropriate judgement on each of the points of argument. In particular for the first half, seeing what Ricardo intended in writing this part

he correctly points out as follows: ‘the first, it appeared to me, was not only the most important, by far, but that on which you laid the greatest stress’ (VI/337)

After such a process, Ricardo began negotiation for publishing it with Murray from the beginning of 1816, and the pamphlet appeared on the 6<sup>th</sup> February. Though not in time for the opening of the parliamentary session on the 1<sup>st</sup> February, it was one week earlier than the motion of Grenfell proposed to the House of Commons. It sold beyond expectation, the second edition was published at the end of February, the third in March. These were substantially the same as the first edition (cf. ‘Note’ by Sraffa, IV/47-8).

4. Malthus’ objection and Ricardo’s response ---variations in the value of gold as standard of money---

Once finished writing the manuscript of *Proposals* at the end of September, after having shown it to Grenfell to ask his opinion, next Ricardo sent it to Malthus at the beginning of October also to ask his opinion on it, to which he replied in the letter of the following 15<sup>th</sup> and advised to publish it in pointing out some problems of style and composition (see supra). At the same time, on only one point concerning the first part of this manuscript containing the plan of bullion payment, Malthus makes a counterargument as follows:

‘With regard to the matter I agree almost entirely with you, except that I do not think you have considered all the variations to which such a currency as you propose must be subject, particularly the great variation that is likely to arise from a sudden demand for bullion operating upon the scanty supply which is likely to take place upon your plan. If Mr. Vansittart [anti-bullionist, current Chancellor of Exchequer] wanted suddenly to send four millions[sic] [pounds] in specie to Spain, as he did one year [probably from 1813 to 14], I cannot help thinking that it would occasion upon your system a most distressing diminution of currency. If you recollect, we found upon calculation that the value of gold in this country at some periods during the Peninsular war [a phase in Napoleonic War, from 1807 to 14] was ten and fifteen per cent higher than at Amsterdam and Hamburgh; and I feel no doubt that, without very extraordinary stores in the Banks, the variations in the value of the precious metals would always be found the greatest, (from sudden demand) in those countries in which a paper currency was most universal. I have no doubt that the precious metals during the last ten years experienced less variation, (with regard to commodities) in France than in this country.’ (VI/298-9)

Here Malthus points out first that in the plan Ricardo does not take into account all the possible variations a currency can undergo. The only one he considers is the variations, in particular the fall

(i.e. 'depreciation'), the 'value of money' in the sense of the purchasing power of a currency over the bullion in the market (expressed as the reciprocal of the market price of bullion) , becomes to be liable to under the inconvertible regime. Malthus, as a bullionist like Ricardo, well understands this point, cannot have any argument against it. When the 'value of money' in this sense varies, the price of bullion in the market and the prices of commodities in general vary in the same direction and in the same degree, i.e. only the relative value of the currency to both the bullion and the other commodities varies, the relative value between the bullion and the other commodities remaining the same. But, in addition to this, Malthus points out that the 'value of money' can vary in other sense. It is the variation of the value of gold as commodity, standard of money (a term employed by Ricardo only exceptionally). In this case, since the money of which the value varies means bullion itself as a sort of commodity, the variations in the value of money manifest themselves as the same variations both in the price of bullion in terms of currency and in the relative price between the bullion and the commodities in general. In this case, therefore, as long as there is no simultaneous expansion or contraction in the quantity of currency, there will be no change in the prices of commodities in general, and the relation between currency and commodities in general remains unchanged.

When Malthus affirms that Ricardo does not think of the variations in the 'value of money' in this latter sense, he supposes in particular its rise. If the 'value of money' in this sense rises, only the price of bullion rises while the prices of commodities in general in terms of currency remain the same, as seen above. According to the bullionist theory including that of Ricardo, this is a situation which can be interpreted as one of the excess of currency though there is no change in its quantity, and the issuer will be required to contract this quantity to bring down the bullion price to the mint price. When the depreciation of currency will thus be dissolved, there will be a general fall in the prices of commodities compared with the situation prior to such a change in the 'value of money'. Malthus calls this 'most distressing diminution of currency'. On the contrary, what changes with the depreciation of currency Ricardo exclusively keeps in view, is both the price of bullion and that of commodities in general in the same direction and in the same degree. And, according to him, when the depreciation will be dissolved equally through a contraction of currency, every relation will have returned back to the state equal to the one prior to the occurrence of change, hence such a situation as Malthus worries about cannot appear (the prices of commodities will certainly fall, but they only fall to the initial level prior to the rise). Malthus emphasizes that Ricardo does not think about the cases of a general fall in prices brought about by a contraction of currency.

Malthus says that Ricardo's plan contains possibilities of such a worrying situation to appear, because it requires an exclusion of metal currency from the circulation as well as minimization of

metal reserve in the issuing bank, i.e. an expulsion of the precious metal in relation with domestic circulation. The paper currency can circulate only in the domestic area. The precious metal money becomes indispensable for the unbalanced unilateral external payments, whether from commercial needs or not. When such payments will be needed and in great amount, a tension between demand and supply of gold will raise its value (or more correctly 'market price') and possibly lead to a rapid fall in general prices as seen above. In order to evade such a risk, a sufficient gold reserve ('very extraordinary stores') should be held in the country, so as to evade the surge of the value of gold in releasing it in emergency to secure the stability of currency system. But Ricardo's plan has no protection against such risks.

This criticism of Malthus is directed to Ricardo's plan which was still something ideal existing only in the thinking (or on paper), but in the latter half of the above quotation he tries to prove the validity of his criticism in citing a case England had really experienced in the immediate past. Such a way of reasoning was possible because, altogether irrespective of Ricardo's plan, in England at that time the circulation of gold coin was virtually equal to null and the gold reserve of BoE was also at a level of about two million pounds (Feavearyear (1963), p. 228), the lowest all throughout the bank restriction period except for February 1797 when BoE suspended the convertibility (hence inferior to four million, the amount of remittance to Spain implemented immediately before, given by Malthus as an example of sudden demand for gold), such a real situation was in certain points common with the supposition adopted in Ricardo's plan (of course at the cost of depreciation of the inconvertible banknotes). But in reality BoE never tried to bring down the price of bullion in contracting the currency in circulation. Hence, if the value of gold was 'ten and fifteen per cent higher than at Amsterdam and Hamburg<sup>23</sup>', as Malthus wrote, it was because the rise in the price of bullion caused by the rise in the value of gold itself was superposed on the parallel rise in the price of bullion and the prices of commodities in general caused by the over-issue of currency (according to the sources easily accessible to the researches nowadays, the related variables observed at that time are given as follows: i) the amounts of external remittance of 1813 and 14 were a little more than 20 million pounds, more than twice as large as those in the previous and following years (Viner (1937), p. 144), ii) from February 1814 to August 1815 the amount of note issue rose by about 10% (Cannan (1919),

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<sup>23</sup>In 'Appendix' to the 4<sup>th</sup> edition of *High Price*, Ricardo introduced the 'banks of deposit' in Amsterdam and in Hamburg as the representative examples securing the stability of the value of currency. But at the same time he pleaded for the necessity of dissolving the extraordinary waste of de facto 100% reserve held in these banks. Here Malthus cites this 'extraordinary waste' for the contrary purpose of affirming its function as defense mechanism against the variations in the value of precious metal subsequent to sudden changes in the relation between its demand and supply.

p. Xliv), iii) from 14 to 15 the general level of prices fell by about 15% (ibid., p. Xliii), iv) the price of gold, with its peak of 5 pounds 10 shillings in 1813, maintained during the time from 12 to 15 a high value of 5 pounds 7 to 8 shillings, higher than the mint price by about 40% (Feavearyear (1963), p.210). In order to judge empirically whether such an evolutions of values means a rise in the value of gold caused by the foreign remittance of millions of pounds of gold, as Malthus claims, more detailed additional data would be required.

Ricardo thought that the maintenance of the value of currency in the sense of its purchasing power over bullion in the market would simultaneously contribute to keep stable various economic relations. And it would be possible to contain the instability of monetary system within the range of variations in the conditions of production of gold. The bullionists generally considered these variations most of the time very slow and mild hence theoretically negligible. Here Malthus also does not bring into question the case of change in the value of gold by the variation in the conditions of its production. The question for him is about the large changes in international relations in a short time, typically war and its consequences. In this regard, Ricardo's plan may be said to be conceived concentrating mainly on domestic relations, leaving aside the external ones.

Now, to Malthus' letter with his critical comments on the manuscript of *Proposals*, Ricardo sent a letter of reply two days later on the 17<sup>th</sup> October. The response Ricardo gave there seems to consist in incomprehension about Malthus' criticism and in switching the subject from the points in question. Perhaps because of this, unsatisfied with the reaction of Ricardo, afterwards Malthus cast on him the same criticism or question on every possible occasion, and for the reason of somewhat mysterious response from Ricardo the 'debate' between them further continued intermittently for several months, and it was finally 'settled' when Ricardo frankly recognized Malthus' claim (in an altogether different context) as long as four years later<sup>24</sup>.

The first cause for such a vicissitude was the way of responding by Ricardo in the above letter. He replied to the letter Malthus sent two days earlier as follows:

'I expected that you would not quite agree with my plan of abolishing the metals from circulation, but the grounds on which you object to it may I think be answered, and then your objections would I hope be removed. You fear that without a metallic circulation we could not on an emergency supply a large sum of bullion for the exigencies of the state. The fact is however against

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<sup>24</sup> Except for possible direct oral discussions, this debate was conducted entirely in their correspondence. The related letters of them subsequent to the two mentioned above are the following: Malthus→Ricardo, 30/10/1815. R→M, 24/12. R→Trower, 25/12. M→R, 09/02/1816. R→M, 23/02. R→M, 21/9/1819. Including the first two, we have in total 8 letters, among which only one is addressed to Trower, a third party to the debate, of which explanation will be given below.

you for we have supplied large sums when the metals have been absolutely banished from circulation. This has been the case during the whole Peninsular war [from 1807 to 14]. If indeed on my system the Bank could keep a less quantity of bullion in their coffers to answer the demands of the public, the objection would be well founded, but the only difference would be that in one case their hoards would consist wholly of coined gold and silver, —in the other they would consist of the uncoined metals, —but on both systems, if the Bank paid their notes on demand, the currency must be equally reduced in quantity if gold and silver should become more valuable. That argument then may be used against a currency convertible at all, into specie or bullion, but does not apply to one more than the other.’ (VI/300-1)

Ricardo shows at first an attitude full of self-confidence pretending that he can answer the criticism of Malthus without difficulties, which will oblige him to withdraw the criticism. But in examining what he says in the following, this will turn out to be a disguised expression of the fact that he did not really understand the meaning of the critical comments directed to him. The central point in the criticism of Malthus was how to cope with the possibilities of variation in the value of gold itself, but Ricardo does not at all bring this point into question and affirms as if the problem can be resolved in dissolving the ‘depreciation of currency’ in his meaning. On the contrary, although Malthus said nothing critical about the bullion payment, one of the central point in Ricardo’s plan, Ricardo, in supposing as if Malthus’s criticism turned around this point, tries to respond to an imaginary ‘criticism’.

In criticizing the plan of Ricardo in the above letter, Malthus cites an event really occurred in an immediate past in England without any relation to this plan, to which Ricardo in his turn responds as if this event had something to do with the execution of his plan. The debate was confused from the outset. Faced with the criticism of Malthus to the effect that the tension between demand and supply of gold raised its value for lack of sufficient stores of gold in the country when England sent large sum of it to Spain for waging the war, Ricardo claims that gold was sufficiently supplied then in saying that ‘the fact is however against you’. For explaining this, he says that the change of medium of circulation from precious metal to paper naturally resulted in its withdrawal from the circulation and in its accumulation in the coffers of Bank, which was released when the demand for gold suddenly increased. But this may not correspond with what he had claimed since 1811. He had always claimed that, inside or outside the circulation, the use of gold as material of money (not as luxury goods, ornaments or other manufactured products endowed with substantial use value) is in itself ‘waste’, and recommended to expel it abroad in order to obtain in exchange substantial material



wealth as promotion of the wealth of nation. Ricardo seems here to respond to the criticism of Malthus in bringing forward an argumentation contradictory to what he had claimed.

And, in the latter half of the quotation above, Ricardo, again under the influence of Malthus' criticism, tries refutation supposing an execution of his plan. Here again, he says that Malthus' criticism would be well founded if BoE diminished the quantity of reserve necessary for the payment of banknote, pretending as if such a measure were not supposed in his plan just as above. And, in saying that, even if BoE diminished the reserve, Malthus' criticism is not more valid for the bullion payment recommended by himself than for the cash payment, he advances an argument in no way contained in Malthus's criticism (but maybe essential for Ricardo) as if it were targeted on his system of bullion payment. It is beside the point, and even if it were to the point, it would apply equally to both cash payment and bullion payment, so that it is off the point to target only on the latter, he says. Further, to Malthus who points out the possibility that the contraction of the quantity of currency issue subsequent to a rise in the value of gold would bring down the prices and make difficult the economic activities, Ricardo says only that the quantity of currency will diminish and the depreciation disappear if BoE accepts the payment in cash or in bullion, not at all mentioning whether this process will lead or not to a fall in prices as Malthus points out. What Ricardo is thinking about is, just as Malthus brings into question in his criticism, only the process through which an excess of currency with constant value of gold is dissolved by payment in cash or in bullion, returning the prices simply to the initial level without lowering them.

Thus, the response of Ricardo consisted only in incomprehension about the criticism and in switching the subject from the points in question. While pretending to reply to the criticism, he was autistically thinking only of his own concerns and idled the arguments. Malthus did naturally not get satisfied with this. Indeed, in his letter of the 30<sup>th</sup> October, about two weeks after he received a 'reply' from Ricardo, he raised anew the problem he had initially set in affirming that Ricardo had virtually not responded to it. This reaction of Malthus seems to be justifiable.

'I allow most readily that the country *did* send the bullion, although it had none in circulation, but the demand for it and the sending it under these circumstances, certainly produced very great fluctuations in its value: and what I mean to say is, that if the whole currency by being proportionably diminished had been made to experience the same fluctuations, the mercantile world [would] have been extremely distressed<sup>25</sup>. I do not believe that any thing[sic] like the same

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<sup>25</sup>Malthus had claimed from earlier times (cf. [Malthus] (1811a), pp. 364-5) that the rise and fall in commodity prices caused by expansion and contraction of currency would have the effect of activating and stagnating the industrial activities in general including commerce. But, to such a point

fluctuations in the value of the precious metals took place during the course of the war at Hamburg[,] Amsterdam or in France. If you recollect in some of our inquiries it appeared that the price of gold was at times considerably above ten per cent higher here than at Hamburg, —at one time I think above fifteen. I do not mean my observation to apply to your system as paying in *bullion* instead of *coin*; but to every system in which a sudden demand may come upon a country, possessing altogether but a small quantity of the precious metals.’ (VI/317)

Here Malthus, repeating some of the same sentences as in his previous letter half a month before, virtually expresses his dissatisfaction with Ricardo’s non-response on them. He points out also the insufficiencies in Ricardo’s reply (his interpretation on the foreign remittance of bullion) and his switching of the subject (comparison between the bullion payment and cash payment). Thus Malthus does not recognize the previous response of Ricardo as a reply and urges him to respond again. But, in Ricardo’s latter of the 24<sup>th</sup> December, addressed to Malthus about two months later for the first time after that, he did not at all mention the above questions of the latter, leaving them unanswered. However, since they had occasions to meet and discuss directly as usual ---cf. Malthus’ letter of the 13<sup>th</sup> November, VI/322-3---, these questions may have already been ‘settled’ in oral discussion. But, in the letter of the 25<sup>th</sup> December, the following day, addressed to Trower, Ricardo virtually recognizes Malthus’ contentions about the questions he had raised since the 15<sup>th</sup> October, as follows:

‘The bullionists, and I among the number, considered gold and silver as less variable commodities than they really are, and the effect of war on the prices of these metals were certainly very much underrated by them. The fall in the price of bullion on the peace in 1814, and its rise again on the renewal of the war on Bonapartes entry into Paris are remarkable facts<sup>26</sup>, and should never be neglected in any future discussion on this subject. But granting all this it does not affect the theory of the bullionists.’ (VI/344)

In accordance with the theory of currency of the ‘bullionists’ contained in ‘Bullion Report’, Ricardo had repeated since *High Price* that the price of bullion under the regime of inconvertible banknote varies up and down according to rise and fall of its issue and the level of this issue is judged

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of view far going back to Hume’s theory of ‘successive effect’, Ricardo was critical from the outset (cf. III/122-3, a passage in ‘Appendix’ to the 4<sup>th</sup> edition of *High Price*), or recognized it at most in a very limited sense.

<sup>26</sup>In the note to this place, Sraffa reports that in the former case the price of bullion underwent a fall of about 17% during about 4 months, from 5 pounds 8 shillings on the 1<sup>st</sup> March to 4 pounds 10 shillings on the 28<sup>th</sup> June, while in the latter it rose rapidly by about 20% during a little more than 1 month, from 4 pounds 9 shillings on the 28<sup>th</sup> February to 5 pounds 7 shillings on the 4<sup>th</sup> April (VI/344, editor’s note).

‘proper’ when this price coincides with the legal mint price. And this proper level of the quantity of its issue is determined in its turn by the total amount of domestic transactions and by the value of money (gold as its standard), their intermediary, (and also by the means serving to economize money like clearing of commercial bills, but these are put aside here), and this level varies proportionately to the former and inversely to the latter. The cause of variation in the price of bullion mentioned in the above quotation is the events suddenly happening in political and military affairs, and if they do not have caused large changes in the former, it must be considered that the variations in the latter gave rise to the changes in the price of bullion. The fall in the price of bullion on the peace in 1814 means that the currency has relatively risen in its value, i.e. that its quantity has relatively fallen without any change in its issued amount because of a rise of the proper level of its circulation, hence that the value of bullion has fallen. And on the contrary, the rise in the price of bullion on the return of the war in the following year means a rise in its value. In this way, in contrast to the direct response to Malthus, Ricardo frankly recognizes the variation in the value of gold itself as the ‘standard of money’ pointed out by Malthus since his letter in mid-October and the accompanying variation in the ‘value of money’, in this letter addressed to Trower, a third part, just on the following day without explicitly mentioning the exchanges with Malthus<sup>2728</sup>. In addition, here he is thinking over this point as a problem contained in the theory of bullionists including himself.

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<sup>27</sup>In ‘Introductory notes to the correspondence’ placed at the beginning of Volume VI of *Works*, Sraffa says of Hutches Trower (1777-1833) as one of Ricardo’s ‘main correspondents’ as follows: ‘Unlike the other main correspondents of Ricardo, Trower has no claim to literary fame in his own right; he is only remembered because of this correspondence. He was, like Ricardo, a stockbroker and their friendship had been formed in the early years of the century.’ (VI/xxiii) He was one of the ‘main correspondents’ of Ricardo for a long time together with J. Mill, Malthus, McCulloch, but unlike the other three, after their brief debate at an early phase in the bullion controversy, Trower was almost exclusively in a position of a ‘fan’ of Ricardo and between them there never arose a serious difference of opinion or a debate over some issues in economic theory. It may be because of this that Ricardo ‘spilled’ only to him what he was ‘really thinking’, what he did (could) not say to other correspondents (Malthus in this case).

<sup>28</sup>Apart from the letter to Trower, in citing an example of an immediate past Ricardo recognizes that the value of the standard of money itself can change in exercising influence on monetary system, in saying at the beginning of section III of *Proposals* as follows: ‘While a standard is used, we are subject to only such a variation in the value of money, as the *standard* itself is subject to; but against

But finally he ends up with the sentence that ‘granting all this it does not affect the theory of the bullionists’, which may be a little bluff. This theory is no doubt composed in supposing invariant the value of gold or silver, but it is equally certain that this supposition does not always apply in certain situations. While recognizing this, Ricardo does not mention as before the doubts Malthus casts on the maximal economizing of gold reserve and the necessity of hoarding gold to cope with the variation in the value of gold. In a letter addressed a littler later on the 30<sup>th</sup> to Mill (see supra), he always claims the relative (but almost absolute in his theory) invariability of the value of precious metals as an indispensable presupposition for the whole of his theory, in saying that ‘this invariability of the value of the precious metals, but from particular causes relating to themselves only, such as supply and demand, is the sheet anchor on which all my propositions are built’ (VI/348). The variations in the value of gold he recognized in the letter to Trower was only temporary and accidental, non negligible in analyzing situations in a sort term, but they were to be left aside as before on the abstract level relative to the principles of his theory.

On the other hand, after having ‘questioned again’ in his letter of the 30<sup>th</sup> October, Malthus always had to wait in vain for an answer from Ricardo in the subsequent exchanges. Probably he was watching for a new occasion to hang on to Ricardo with his question in suspense. The occasion came soon. In a brief letter of thanks of the 9<sup>th</sup>, shortly after having received a complimentary copy of *Proposals* published on the 6<sup>th</sup> February of the following year, together with some words of general gratitude and praise, Malthus rehashes his question he had raised since previous October concerning the first half of the pamphlet where Ricardo develops his plan, translating manifestly his dissatisfaction with the attitude of Ricardo both in his letters and conversations since the previous year. ‘I have read your pamphlet, and do not think that you have reason to be dissatisfied with it. It seems all to be very clear and good, and I should not wonder if it were very successful. My only doubt with respect to the former part of it, is the one I expressed to you, that is, whether if there were no metallic circulation, there would not be occasionally great variations in the value of the precious

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such variation there is no possible remedy, and late events have proved that, during periods of war, when gold and silver are used for the payment of large armies, distant from home, those variations are much more considerable than has been generally allowed.’ (IV/62) Ricardo seems to have drafted these sentences in considering the comments or criticisms from Malthus since his letter of the 15<sup>th</sup> October. Though it is difficult to determine precisely the moment of writing of a particular part in *Proposals* as it was actually published, the passage quoted above may be inferred to have been added or rewritten in a relatively later phase in the revising process Ricardo continued till the end of 1815.

metals, from a great demand.’ (VII/20) But, in spite of this, in his letter of response Ricardo posted on the 23<sup>rd</sup>, two weeks later, he did always not show any reaction to Malthus’ query as he did not in the previous year. But in the letter to him on the 21<sup>st</sup> September 1819, i.e. as much as 3 and a half years later, Ricardo says that the value of money gold as a commodity is liable to variations, though in a context different from bullion problem.

Ricardo had made no clear answer on the question of change in the value of money as a commodity raised and persistently repeated by Malthus, except having betrayed it to Trower, but here he recognizes quite frankly the claim of Malthus. ‘You know I agree with you that money is a more variable commodity than is generally imagined, and therefore I think that many of the variations in the price of commodities may be fairly attributed to an alteration in the value of money.’ (VIII/73) But this is not in the context of the bullion controversy concerning the variations of the value of currency, but in relation to an important point in *Principles of political economy* in the writing of which Malthus seems to have been absorbed at that time. The money of which Ricardo is speaking here is gold itself, and the ‘value of money’ is the value of gold as a commodity, expressed not by the purchasing power of money as non-commodity over gold as its standard, but by the proportions of exchange of money with all the other commodities (its purchasing power over them). However, such a ‘settlement of debate’ is only for researchers of later times having easy access to the correspondence between them, but they themselves may possibly have forgotten a problem pending since as long as 4 years, or the above sentence of Ricardo may have been written only to make Malthus know a new opinion of his own on Malthus’ new work. In any case, at that time Ricardo was quite content with the current state of currency after the Royal Assent on the 2<sup>nd</sup> July of the Resumption Act (Peel’s Bill). But after some time, with the appearance of a situation he did in no way expected then, faced with the problem of variations of the value of gold as a commodity, standard of money, he was going to repeat the position stated in this letter to Malthus (see infra, subsection 2 of section VI).

We have now arrived at a step for examining the contents of *Proposals*.

#### IV. Ricardo’s Plan for the reform of monetary regime in *Proposals*

##### 1. Structure of the Pamphlet and ‘General principles of the laws of currency’

The pamphlet of Ricardo was published between the 1<sup>st</sup> February, the opening day of the parliamentary session of 1816, and the 13<sup>th</sup>, on which ‘Grenfell’s motion on certain Transactions between the Public and the Bank of England’ (IV/51, Sraffa’s note 1) was proposed, was with a long

full title *Proposals for an economical and secure currency; with observations on the profits of the Bank of England, as they regard the public and the proprietors of Bank stock*. This pamphlet is therefore made up of two parts, but only the first part of the full title is included in the title in Sraffa's *Works*, which makes less noticeable the latter part, originally typeset in a smaller point. Indeed, this pamphlet seems to have been taken up to the present as a document proposing a currency regime Ricardo considered ideal. In view of its origin, it was rather the theme of the latter half apparently somewhat receding to the background that was to occupy a central place. But, when requested from Grenfell to write a document criticizing and attacking the profits of BoE and their unjust treatment by it, Ricardo intended to appeal anew to the public (to the parliament in particular) his plan for the reform of monetary regime once he had made public more than four years before but already forgotten almost entirely, in seizing as good opportunity this period of time when the war was ending and the resumption of convertibility was in perspective. And both Mill and Malthus, when they read the manuscript of it, also considered the first part more important in understanding the intention of the author. But of course, quite agreeing with the request from Grenfell, Ricardo was never negligent of it in putting it off to the later part.

Indeed, in working on this part he became much better acquainted with the real state of management of BoE, and because of this some new important elements were added to the plan for the reform of monetary regime he had conceived from much earlier. He says in 'Introduction' as follows: 'It cannot, I think, be doubted, that all the services, which the Bank perform for the public, could be performed, by public servants and in public offices established for that purpose, at a reduction or saving of expense of nearly half a million per annum.' (Ricardo (1951c), IV/52-3) Therefore he says straight that BoE is superfluous. And as *Proposals* sold well against the expectation of Ricardo (see his letter to Murray, the publisher, of the 16<sup>th</sup> January 1816), the second edition was in print already on the 23<sup>rd</sup> February, a fortnight following the publication of the first edition (cf. Ricardo's letter to Malthus of the same day (see supra), VII/24). If *Proposals* could enjoy such a favorable reaction from the public, it was probably not by virtue of the first part describing an abstract theory on money not easily accessible to the general public and the plan still remaining in idea, but because of the latter part which may have widely attracted attention with its attack on BoE giving concrete examples including many numerical data.

Now, the first part is composed of 4 sections and it is in the last 4<sup>th</sup> section that the concrete contents of Ricardo's plan are presented. In the preceding 3 sections, in order to give theoretical foundations to the plan, 'some of the general principles which are found to constitute the laws of currency' (IV/51) are explained. Along with *High Price*, these sections give a certain systematic

description to the theory of money of Ricardo. But, while *High Price* finally explained the present state of currency (the depreciation of inconvertible banknote going on ad infinitum) in order to criticize BoE as its prime cause, beginning with the explanation of the principles of currency, the first 3 sections (particularly the first one) of *Proposals* aim at justifying the plan of bullion payment to be advanced in the last 4<sup>th</sup> section in remounting to the principles of monetary theory. For this reason, the first 3 sections are devoted mainly to abstract theoretical arguments rather than to the descriptions on the current concrete situation and the criticism of the policy of issue of BoE. Because in the previous articles on the relation between the value and quantity of money in Ricardo's theory, the author of the present article took up and examined this part of *Proposals* (Takenga (2000), pp. 162-71, Takenaga (2013), pp. 90-97), the examinations on the first half of *Proposals* in the present article suppose the corresponding passages in the previous articles, and here we confine ourselves to summarizing them briefly.

Ricardo says that to a 'currency in its perfect state' he is aiming at are required the following three conditions: 'a currency may be considered as perfect, of which the standard is invariable, which always conforms to that standard, and in the use of which the utmost economy is practised.' (IV/55)

The first condition ('the standard is invariable') means an invariability of the value (or market price) of gold (or silver) as standard, but a commodity with constant and invariable value can be found nowhere, the precious metals, though considered relatively invariant, are no exception thereof. Hence, 'while the precious metals continue to be the standard of our currency, money must necessarily undergo the same variations in value as those metals.' (ibid.) The stability of the value of money (meaning not its purchasing power over the precious metal as standard, but its purchasing power over the commodities in general) is confined within an unsurmountable limit drawn by the instability of the value of standard itself, which cannot be eliminated even if another element of instability (the second condition above) is completely removed.

The second condition ('always conforms to that standard') means that it is always possible to buy bullion in the market at the mint price determined by the law (nominal price of the coin per unitary weight of gold as standard, the seignorage put aside here), i.e. a constant coincidence of the market price of bullion with its mint price. This amounts to an exchange of gold as currency with the bullion of the same weight in the market, i.e. to a state of absence of any deviation of the value of gold as currency from that of gold as commodity. But, if the quantity of transactions mediated by the currency is constant, the former value deviates from the latter in inverse proportion to the quantity of currency issued. In a hypothetical situation of exclusive metallic circulation in which 'money is more valuable than bullion or the standard' (IV/57), i.e. in a situation diametrically contrary to the current

actual situation in England, Ricardo tries to simulate the process through which will be dissolved the deviation between these two values i.e. will be met the second condition above.

Such a situation arises because the quantity of gold circulation as currency is insufficient, and then the coined gold will be exchanged with gold in the form of bullion heavier than itself (since the market price of bullion is inferior to the mint price). But in such a situation the transaction of bullion in the market substantially amounting to the exchange between unequal quantities of gold will cease, and those who possess bullion will bring it to the Mint to make it transform into coin. In this way the quantity of currency (gold coin) will gradually increase and at the same time the quantity of bullion in the market will diminish as much. Through this process the value of money will gradually fall and the prices of commodities will rise proportionally. The market price of bullion too will equally rise, but since, unlike the other commodities, only bullion will diminish its quantity available in the market in this process giving rise to a particular demand only for bullion, its price will rise more rapidly than those of the other commodities. And when the market price of bullion rises to the mint price and these two coincide, the benefit the possessors of bullion obtain till then will disappear and this process will cease. Then the currency will be equivalent to its standard, but the prices of other commodities will remain a little lower than their initial level. Thus the value of currency in the meaning of its purchasing power over the commodities in general will not be maintained constant. The 'second condition' above is met but this prevents at the same time the 'first condition' from being met. The value of gold as standard (more correctly, its market price, not in terms of currency but in terms of other commodities) is not constant but remains a little higher than the initial level. 'If the increase in the circulation were supplied by means of coin, the value both of bullion and money would, for a time at least, even after they had found their level, be higher than before' (ibid.)

If then an additional quantity of gold is supplied anew from a mine (in the same conditions of production as before), only the market price of gold will not rise more rapidly than those of the other commodities, and when the currency will become equivalent to the standard, the prices of other commodities too will have risen as much as the market price of gold. Then the stability of the value of currency would have been secured. If this is not the case in Ricardo's hypothetical situation, it is because he implicitly supposed a new supply of gold to be null. Ricardo adopted such a supposition, because he thought that the production and supply of gold as a kind of commodity was placed under particular constraints different from those for the other general commodities (industrial products in particular), that for this reason its supply could not flexibly and rapidly respond to the change in its demand. Ricardo was coherently aware of such particularities in the conditions of production of gold



(or silver) since *High Price*. In looking over this point, some important aspects in his theory of money would become incomprehensible<sup>29</sup>.

The stability of the value of money, difficult to attain only with coin, is secured by the introduction of banknote. This is an argument Ricardo has usually employed since *High Price*. 'This inconvenience is wholly got rid of, by the issue of paper money; for, in that case, there will be no additional demand for bullion; consequently its value will continue unaltered; and the new paper money, as well as the old, will conform to that value.' (ibid.) In conforming the market price of bullion to its mint price by means of supplying (convertible) paper from the bank as a virtual substitute for bullion, the value of bullion will not rise. Therefore, the currency (composed of coin and paper) has now recovered the equivalence to the bullion, and also its purchasing power over the commodities in general (its value) has restored to the initial state, i.e. the prices of commodities has returned back to its initial level. 'Besides, then, all the other advantages attending the use of paper money; by the judicious management of the quantity, a degree of uniformity, which is by no other means attainable, is secured to the value of the circulating medium in which all payments are made.' (VI/57-8)

The invariability of the value of money is thus secured by the paper currency, which is at the same time the substitution of coin made of gold, an expensive commodity, for cheap paper money made of paper, meeting the 'third condition' above i.e. the 'utmost economy' in the use of the standard. In the example above the currency is to be partly replaced with paper, but it is possible to abolish entirely the use of gold coin 'by the judicious management of the quantity', and then the 'utmost economy' will be achieved. In this way, the three sections (in fact the first section) end with the conclusion that the 'economical and secure currency' consists in a paper currency with guarantee of its equivalence to the standard. 'The advantage of a paper circulation, when established on correct principles, is, that this additional quantity can be presently supplied without occasioning any variation in the value of the whole currency, either as compared with bullion or with any other commodity; whereas, with a system of metallic currency, this additional quantity cannot be so readily supplied, and when it is finally supplied, the whole of the currency, as well as bullion, has acquired an increased value.' (IV/58)

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<sup>29</sup>The typical example of this is the critical comments by Marx about the theory of money of Ricardo in 'C. Theories of the medium of circulation and of money' added at the end of chapter two of *Contribution to the critique of political economy* (1859) and the Ricardo studies following this. On this point, cf. 'Appendix 2' of Takenaga (2000), pp. 188-94.

2. Plan for the bullion payment, Relation with the ‘Appendix’ to the 4<sup>th</sup> edition of *High Price*, its integration into the 2<sup>nd</sup> edition of *Principles*

In section IV of *Proposals*, entitled ‘An expedient to bring the English currency as near as possible to perfection’, is presented a concrete ‘plan’ (IV/69) for realizing in England the ‘perfect currency’ introduced throughout the first three sections. In this sense the section IV is not only the central part of the first half of *Proposals* but also the center of the whole of this pamphlet. The plan itself had been already made public as long as nearly five years before, but it could find almost no reaction, remained neglected by political leaders in spite of Ricardo’s repeated efforts, almost wholly forgotten except by Ricardo himself. After having made public the plan for the first time, he too did never mention *High Price* or its ‘Appendix’ in his letters and publications (in particular in *Proposals* and *Principles*). Probably these were considered by their author himself as ‘throwaway’ temporary pamphlets on current topics and so as ‘finished’. Therefore, in section IV of *Proposals*, Ricardo had to depict his plan for the reform of monetary regime as entirely new one with no precedent. For this reason, when comparing the ‘first version’ of 1811 and the ‘second version’ five years later, a reader belonging to posterity can naturally find a number of repetitions. As the former has already gone through detailed examinations in subsection 3 of section II in the present article, here will be taken up a few points particular to the ‘second version’ for comparing it with the ‘first version’, in order to characterize more accurately the plan of Ricardo through these two ‘versions’ of it.

Incidentally, as is well known, the central part of this section IV (IV/66-70) is reproduced as a long quotation in chapter 27 ‘On currency and banks’ in the second version of *Principles* (I/356-61, pp. 453-460 in the edition of 1819). This is a measure taken according to the advice of McCulloch who published a review article of *Proposals* in *Edinburgh Review* published in December 1818, at a time when Ricardo was preparing the publication of the second version of *Principles*. Immediately after having published the ‘first version’ of the plan in ‘Appendix’ to the 4<sup>th</sup> edition of *High Price*, Ricardo republished this ‘Appendix’ as an independent pamphlet with a title stressing the existence of the plan. The inclusion in *Principles* of the essential part of the ‘second version’ may be said to have been a measure taken for the same purpose of making the plan known widely in public, though a little different with regard to its circumstance and way. In fact, it is not deniable that *Proposals* has been read and examined much less frequently than *Principles*, so that his plan would have been much less known than it is now, if Ricardo had not presented it also in *Principles* following McCulloch’s advice. In his letter addressed to McCulloch some time after the publication of his review article, on the 7<sup>th</sup> April 1819, at the same time as reporting to him that thanks to his review *Proposals* was newly attracting attention among the the members of parliament (the 3<sup>rd</sup> edition had

appeared in March in three years), he says as follows: ‘my plan might have slumbered, or have been forgotten, if you had not rescued it from oblivion, and said more in its favour than I had been able to do.’ (Ricardo (1952d), VIII/20) These sentences of his seem to endorse the fact that the large reaction *Proposals* had just after its publication 3 years earlier (a reedition was needed in less than a month) was not due to the plan in the first part, and also that the wide attention to the second part including attacks against BoE was only temporary.

The core part in *Proposals* incorporated into a part of *Principles*, opus magnum of Ricardo, constitutes an exceptionally long quotation, likely to give impression of a somewhat extraordinary ‘foreign matter’. Probably because of this, this long quotation may have been either read separately from the body of the text, or else totally neglected. Anyway, it seems to have been rarely read in connection with the adjacent sentences on which it breaks in. But Ricardo seems to have inserted it in a certain context considering the logical consequences in *Principles*. If such a reading is possible, a different view on the conception of his plan for the reform of monetary regime would become possible. But the discussion on this point will be reserved to the next section V of the present article.

Now, Ricardo makes quite clear what is the target of the plan presented in this section at its opening: ‘in the next session of parliament, the subject of currency is again to be discussed; and, probably, a time will then be fixed for the resumption of cash payments, which will oblige the Bank to limit the quantity of their paper till it conforms to the value of bullion.’ (IV/65) Just like the plan in ‘Appendix’ published in April 1811, the plan here proposed is also brought forward as a concrete political measure in view of the deliberation on a possible resumption bill and its vote in parliament which were to begin soon. And the plan was foreseen to be executed through regulations of the acts of BoE. The plan of bullion payment of Ricardo was conceived thus as executable in a relatively short time in supposing an existing banking institution.

Though the suspension of convertibility was accompanied with many evils, Ricardo did not propose a simple return to the state prior to its suspension. He would succeed to the cessation of the circulation of precious metal coin and to the consequent domination of paper circulation, both arisen during the period of the suspension of inconvertibility, as an ‘economical currency regime’. ‘A well regulated paper currency is so great an improvement in commerce, that I should greatly regret, if prejudice should induce us to return to a system of less utility.’ (IV/65) For Ricardo the advantage of the paper currency was too evident, and to deny it or act against it was due only to ‘prejudice’. And ‘to return to a system of less utility’ is to call back again the precious metal coin into the circulation, which means concretely that BoE withdraw the small notes actually in circulation in place of the precious metal coin, to use anew the coin as money by paying it for banknote or by new coinage. The

weight of gold coin of one pound minted according to the mint price was a little less than 8g, so that for its practical use as currency the maximum of its face value would be 2 pounds. Indeed, there has been no historical fact of long continual issue of coins of a face value superior to 2 pounds (cf. <http://www.coinsgb.com/index.html>). That is, the small notes of and under 5 pounds, rapidly penetrated in the circulation in replacing the gold coin during the bank restriction period, corresponded in their face values to the gold coin, so that these two kinds of currency were in an alternative (or competing) relation. For this reason, as it was indispensable not to allow the reflux of gold coin into circulation to realize the plan of Ricardo, the treatment of such small notes was an extremely important problem for him. Then he says as follows: ‘If those who use one and two, and even five pounds[sic] notes, should have their option of using guineas, there can be little doubt which they would prefer; and thus, to indulge a mere caprice, a most expensive medium would be substituted for one of little value.’ (V/65-6)

If a coin and a banknote of the same face value are freely interchangeable, it is quite evident which will be more convenient for use as currency. There can be no problem of choice for Ricardo. If, however, someone wants to use coin but not paper, it cannot but be a ‘mere caprice’. In the same way, such an act was attributed to a ‘prejudice’ in the above quotation. The advantage of paper currency is certainly evident for those who, like ourselves, have followed faithfully the argument of Ricardo, but the everyday behavior, based on the longtime habit, of the majority of people not necessarily acquainted with what Ricardo says, cannot be correctly understood in describing it as originating from ‘the obstinate prejudices of those who no doubt will continue to refuse their assent to doctrines so mathematically demonstrated’ (letter to McCulloch of the 3<sup>rd</sup> January 1819, VIII/1) or from ‘a mere caprice’. Indeed, the consequences subsequent to the passage in 1819 of Resumption Act adopting his plan in outline show that problems arose, irresolvable only by thus blaming the behavior of the masses, and that they finally turned out to be a stumbling block for the execution of the plan of bullion payment (see *infra*, section VI).

The plan of Ricardo consisting in paying bullion instead of coin for banknote aimed among others at preventing gold coin from passing directly from BoE to the public. But those who are paid in bullion can bring it to the Mint to make it transform into coin. Indeed, Ricardo says that the execution of his plan does not exclude the working of the Mint (cf. IV/67). But it is because the currency in general including coin is in depreciation, that the public bring the banknote to BoE to exchange it for bullion. To change bullion into coin in such a situation is to incur losses voluntarily, hence such an act can be supposed to be impossible (in fact the bullion obtained from BoE will not be coined in the country but exported as it is for advantageous transactions.). When, therefore, the

currency is in depreciation, the public can neither obtain coin directly from BoE nor transform the bullion received from BoE into coin in the Mint. If the coin minted in the Mint can enter into circulation as currency, it is when the market price of bullion is equal to or below its mint price, i.e. when the currency is not depreciated. It is because, in such situations, the public can get benefits from changing the bullion in their possession (the bullion obtained in foreign commerce, or foreign coins considered to be equivalent to bullion, on the supposition that there is no hoarding of bullion from 'a mere caprice') into currency (banknote or coin) for use as money.

Then, the public will have to make a choice of bringing the bullion in their possession to BoE to sell it for banknote, or of bringing it to the Mint to make it coin. For the issuers of currency here arises a mutual relation of competition. Even if the face values of the currency obtained with the same weight of bullion (i.e. the selling ---or buying--- price of bullion) are equal, the banknote can be handed on immediately at the window while a certain time is required for coinage, giving rise to a loss equivalent to the interest for that interval, putting aside the seignorage. This gives to BoE a more favorable position in competition. But in addition to this, Ricardo proposes a measure for containing the coinage of bullion also in the setting of buying price of bullion by BoE, in saying that 'the price ought to be so fixed as to make it the interest of the seller of gold rather to sell it to the Bank than to carry it to the mint to be coined.' (IV/66, note) The Mint levies a commission from the applicants for coinage, which is concretely to raise by this commission the buying price of bullion for minting (in other words, for obtaining coin of a certain face value the applicants must pay a quantity of bullion amounting to the commission in addition to its quantity corresponding to that face value). Naturally, BoE too must levy a commission at the same time as recovering the cost for the note issue and for the business at the window, so that it must bring down as much the buying price of bullion. Ricardo proposes to set this price, a little higher than that set by the Mint, in contracting the range of cutting it, so as to guide to BoE the sellers of bullion. He calculates this buying price at 3 pounds 17 shillings, by 10½ pence inferior to the mint price, 3 pounds 17 shillings 10½ pence, but this is only an 'arbitrary price' (ibid.), it can be any price only if a little higher than the price set by the Mint. If this plan works as expected, and if BoE and the public do not behave 'irrationally' from 'a mere caprice' or 'prejudice', there will be no possibility of new coinage and of their circulation in addition to a very small quantity of them still remaining in the country.

The selling (paying) price of bullion is on the contrary set at the mint price. Hence, if the value of currency ever varies up or down, BoE can benefit from the difference between the selling and buying prices, but actually, since such transactions themselves constrain the variations in the value of banknote within a narrow range of this difference between the two prices, 'these transactions in

bullion would be very few in number'. (IV/67) In this way, though BoE is officially obliged to make unlimited payments of bullion for the banknote, actually a very small amount of reserve of bullion will suffice for this purpose. With an extreme economy in precious metal with respect to both currency circulation and reserve, the currency system will become very 'economical'. In addition to these measures, in order to reduce the necessary payment in bullion, here also as in the plan advanced in 1811, Ricardo sets a minimal sum of banknote for BoE to accept the payment. BoE can refuse the demand of payment for a sum under this minimum. This can be interpreted as a measure aiming at preventing the reflux to BoE of the small notes inferior to this minimal sum to retain them in circulation (but in fact a bullion payment is said to be obtainable in gathering a certain number of small notes attaining to the threshold.).

This minimal sum is set at 20 ounces in terms of a number of the unit of weight of bullion sold by BoE (in the plan of 1811 it was 20 pounds, expressed in terms of a number of the unit of face value of the currency<sup>30</sup>). Converted at the mint price, 20 ounces of bullion (about 600g) correspond to an amount of a little less than 80 pounds. According to Bowley (1900), the average weekly wages of the agricultural laborers in 1810 were 14 shillings 6 pence, those of the craftsmen 30 shillings (ibid., p.23). In terms of annual revenue, the former were a little less than 40 pounds, the latter about 75 pounds, hence their average being around 55 pounds. If the average revenue of the contemporary laborers was at about this level, the minimal sum Ricardo set for bullion payment may be an amount superior to this by 40 to 50%. This is of course the result of a rough approximate calculation. It is still clear that such a minimal sum was set for the purpose of blocking the exchange for bullion of the money in income circulation used for the general consumption spending, and so to confine the bullion payment exclusively to the money used for the transactions among dealers (moreover, between the English and foreign dealers, bullion being used in international commerce). In limiting thus the bullion payment only to the transactions of great scale, it will be possible 'not to give too much trouble to the Bank' (IV/66), since it has then to conduct business only with a far smaller number of dealers than the general consumers. But, as seen above, these demand for bullion transaction can occur, only when the currency is in depreciation in England. Since the depreciation of currency takes place evenly for all the banknotes in circulation (or, if coin is circulating, for all the pieces of coins) irrespective of their face values, the holders of small notes too will naturally undergo its influence and possibly incur losses because of the rise in prices. But, in spite of the limit set as above, as the mechanism of contraction of banknote issue along with its depreciation is secured, even

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<sup>30</sup>For the changes in this respect and their meaning, cf. the first part of subsection 1 of section III in the present article.

when depreciation occurs, it will not become large nor continue long, a check will be set to work soon to revolve the depreciation. In this sense, it may be said that also the holders of small notes, not allowed to receive bullion directly, are however protected from the depreciation of currency. By the way, Ricardo says that 20 ounces as the minimal quantity of bullion for sale, are not based on any special foundation but only a simple example, just as 3 pounds 17 shillings given above as the buying price of bullion per ounce (IV/66, note). But even if it were 10 or 30 ounces, the setting of such minimal sums would have always the same meaning.

The market price of bullion at the time of publication of *Proposals* was, according to the Table 1 at the end of Tooke (1838) (*ibid.*, 276), already tending to fall somewhat, but still at the level of 4 pounds 13 shillings 6 pence per ounce i.e. superior to the legal mint price by about 20%. Ricardo foresaw the execution of bullion payment at the mint price, but if it had been executed immediately in such a situation, a serious confusion (run on BoE for payment and sudden fall in reserve, and at worst resuspension of payment) would have happened. But in the plan shown in *Proposals* there is no clear indication about when to resume the payment. In ‘Bullion Report’ rejected about 5 years earlier, the resumption of cash payment was foreseen in two years, and in it was included a measure for evading the confusion which would possibly happen with the resumption: to contract the currency in circulation in the meantime and reduce the difference between the market price of bullion and its mint price. And, when he recommended the resumption of cash payment to two political leaders in July and December 1811, Ricardo also proposed them, in view of the actual situation of the bullion price, not to plunge immediately into payment at the mint price, but to begin it first with a price a little lower than the current market price, after that in bringing it down step by step at a certain interval to finally realize the payment at the mint price in about two years (cf. subsection 1 of section III of the present article). Such a proposal disappears in *Proposals*, but Ricardo had never forgotten it: in 1819, 3 years later, with the opening of the session of that year when the parliament actually began to proceed to the resumption, he proposed again the same procedure, which was to be adopted in the Bill (cf. sections V and VI of the present article).

The coupling of payment and purchase of bullion in Ricardo’s plan was conceived as a measure to dissolve the divergence between the value of currency and the value of bullion, and in so doing to stabilize the former as much as the latter. For this the bullion must be able to move freely across the national borders. This is a measure necessary to prevent the value of bullion from deviating from its international level. In this way, the value of currency will be kept equivalent to the international value of the bullion as a commodity and its standard, which will secure the maximal stability in its value as far as possible under a system adopting gold as standard of money. ‘The most

perfect liberty should be given, at the same time, to export or import every description of bullion.’ (IV/67) At the same time, Ricardo predicts that, as far as such a system is working, both the mutual conversion between bullion and currency and their import and export will almost cease although they are perfectly free. I. e., under such a gold standard regime, the actual gold transaction will become almost unnecessary. Thus in the plan of Ricardo a ‘secure currency’ is necessarily an ‘economical currency’. For him, the execution of this plan will not require a great amount of gold reserve.

But, in reality, he had to face ‘the alarm of the Bank Directors at the thoughts of providing coin for that purpose [resumption of cash payment]’. And ‘they have officially declared that not less than 30 millions [pounds] would be necessary, besides the usual reserve’. (letter to McCulloch of the 7<sup>th</sup> April 1819, VIII/21) According to them, therefore, a reserve should be accumulated over and above the total amount of the banknotes currently in circulation. In addition, at the moment when Ricardo was writing this letter, the resumption of cash payment was not yet officially decided. The preparatory process had only begun: in parliament the committees were nominated in both Houses and the hearing of evidence was going on. The words and deeds of the directors of BoE appeared to Ricardo to be based on an entire ‘ignorance’ and ‘prejudice’, were the height of folly describable only as ‘impossible to describe’ (ibid.) or as ‘puzzled to account for’ (VIII/1).

But ‘irrational’ deeds of the public based on such an ‘alarm’ were repeated many times in the history. Ricardo calls this ‘extraordinary occasions’ happening ‘when a general panic seizes the country, and when every one is desirous of possessing the precious metals as the most convenient mode of realizing or concealing his property’, and ‘against such panics, Banks have no security, *on any system*; from their very nature they are subject to them, as at no time can there be in a Bank, or in a country, so much specie or bullion as the monied individuals of such country have a right to demand.’ (IV/68. Emphasis in original.) In so far as not backed up by virtually 100% precious metal reserve like the ‘deposit banks’ in Amsterdam and Hamburg mentioned sometimes by Ricardo and Malthus, the banking system necessarily conditioned on a ‘confidence’ (Thornton) in the issuing bank is keeping in it constantly the potential danger (since lacking any ‘rational’ reasons) of falling into failure as a result of run arising from such panics. Smith also was aware of this (the paper system is ‘suspended upon the Daedalian wings of paper money’ hence ‘cannot be altogether so secure’, Smith (1976), p. 321). But for Ricardo who sees panics as above, there can be no devices to prevent them. If a panic happens, it is not because of the defects in the currency system, but because of the behavior of the public triggering a panic.

When mentioning the panics in proposing the plan for a maximal economizing of the use of precious metal, he bears in mind above all the events in February 1797. ‘A panic of this kind was the



cause of the crisis in 1797 [...]. Neither the Bank nor government were at that time to blame; it was the contagion of the unfounded fears of the timid part of the community, which occasioned the run on the Bank. [...] If the Bank had continued paying in cash, probably the panic would have subsided before their coin had been exhausted.’ (IV/68) Therefore, to be blamed is the public upset without reason moving around in search of precious metal, to which nothing can be done. In the letter addressed to Trower on the 26<sup>th</sup> May 1819, two days after Peel’s Bill for resumption of cash payment was actually approved in parliament, in reporting it to him, Ricardo says that ‘the alarm that prevailed in the City is incomprehensible’ and he attributes this ‘alarm’ to the agitation by the agents of BoE, who might have fallen themselves into a similar psychological state (VIII/32). From the standpoint of Ricardo, faced with such a situation, one could only blame or look on with contempt at it as incorrigible behavior of a certain sort of people.

Above is what happened before he wrote *Proposals*. In the process of the execution of Peel’s Bill of 1819 (Resumption Act) enacted under an important influence of this pamphlet, the directors of BoE really embarked on the actions such as Ricardo described in the letter to McCulloch of 7<sup>th</sup> April of the same year (see supra) when the Bill had not yet taken its definitive clear form. And, together with the treatment of small notes, this was to put serious obstacles in the way of realizing the plan of bullion payment. He could then no more only look upon it as ‘incorrigible folly’.

### 3. Monopolization of profits by the Bank of England, its abolition and transfer of the issuing power to the State

Now, the sections from V to VII of *Proposals* are devoted to the criticism and attack against the management of BoE, as was requested by Grenfell, in the last slight space of which Ricardo briefly presents an idea of transferring the issuing power of paper to the state. This is open to the idea Ricardo is to develop afterwards in his manuscript entitled ‘Plan, &c.’ (IV/276-300) drafted in summer 1823, and it is worth paying attention that it is already present in this pamphlet written during the last 4 months of 1815. Of course it does not present itself here abruptly. We will turn our attention also to the link between the fact that the idea is presented in this place and the first and second parts of this pamphlet.

At the opening of section VII, turning point between sections VI and VII, central part of the latter half of *Proposals*, he says on the subjects of these two sections (i.e. of the latter half) as follows: ‘I have hitherto been considering the profits of the Bank, as they regard the public, and have endeavoured to shew that they have greatly exceeded what a just consideration for *their* rights and interests could warrant.—I propose now to consider them in relation to the interests of the

proprietors of Bank stock, for which purpose I shall endeavour to state a basis on which the profits of the Bank may be calculated, with a view to ascertain what the accumulated savings of the Bank now are. —If we knew accurately the expences of the Bank, and the amount of cash and bullion which they may at different times have had in their hands, we should have the means of making a calculation on this subject, which would be a very near approximation to the truth.’ (IV/96. Emphasis in original.) Therefore, he is going to show with concrete numerical data and calculations how much profit BoE earns mainly from the transactions with government, and how much of which is returned as dividends to the stockholders, its proprietors. The numerical data and the other materials, bases for accomplishing such tasks, were massively offered by Grenfell, member of the House of Commons, and they appear to have been widely made use of in ‘Appendix’ extending to as many as 20 pages in the latter half of *Proposals*. Such tasks had to be carried out by Ricardo, a free writer out of office, because BoE did not make public most part of information about the state of its managements.

Ricardo criticizes BoE in pointing out its concealing tendencies as follows: ‘the publication of accounts, besides being necessary as a check against the *corrupt* administration of the Directors, is also necessary to give assurance to the proprietors, that their affairs are *ably* administered. Since 1797, no statement has been made of the condition of the Bank; and, even in that year, it was made to Parliament, on a particular exigence, and not to the proprietors of Bank stock.’ (IV/111. Emphasis in original.) From the great amount of loan to the government for financing the war continued during the period of suspension of convertibility after 1797, BoE obtained a huge income of interest. It was paid in the end from nothing other than as much charge on the public, hence an enormous benefit of such a nature should have been correctly made public. Moreover, such a benefit of BoE, a joint-stock company, should have naturally been allotted to the stockholders, its proprietors, it should have paid dividends satisfactory to them in detailing the breakdowns of profits. The directors of BoE are negligent of their duties to both the public and its stakeholders, and in violation of the rights and interests of both of them it has continued to accumulate huge funds ‘tacitly’. The latter half of *Proposals* aimed at disclosing and bringing to the light such a real state of BoE in showing concrete figures and at appealing its unjustness to the stockholders, to the parliament and to the general public. At the same time, Ricardo himself seems to have come to recognize anew such a ‘too bad’ real state of BoE in carrying out these works. Incidentally, both Ricardo and Grenfell were its stockholders, i.e. stakeholders so to speak. The latter asked the former to write a pamphlet disclosing the real state of BoE in his letter of the 1<sup>st</sup> August 1815, originally as a campaign document for accusing the managers of BoE and demanding a dividend increase at its general meeting of stockholders to be

held on the 21<sup>st</sup> September. Therefore, what Grenfell had in mind then appears to have been a pamphlet for agitation, relatively simple and focusing on the above subject, to be prepared in a month or so from the request to its actual publication. But in fact Ricardo was going to write a document endowed with both a far longer range and theoretical considerations on Ricardo's own theory of money, including naturally contents responding to the request of Grenfell.

A Table is printed in section VII (V/101), showing the annual evolution of the profits and dividends of BoE from 1797 to 1816. According to it, the rate of dividends during the last 10 years in the 19<sup>th</sup> century remains continually at the same level after it was brought down from 12 in 1806 to 10% in the following year, notwithstanding the residual profits after the payment of dividends has doubled on the other hand. Maybe this Table is also based on the data offered by Grenfell, who thinks the appropriate rate of dividends should be about 20 to 25%, more than twice as higher as the actual rate (his letter to Ricardo of the 24<sup>th</sup> September 1815, immediately after he himself had attended the general meeting of stockholders, proposed a motion for dividend increase and it was rejected). Ricardo for his part considers it at that moment (in 1815) to be 19% according to his own calculation. He shares anyway the same opinion with Grenfell in that 10% is too low. 'It will appear on an examination of the accounts in the Appendix for the subsequent years, that the profits of the Bank for every year, since 1801, have exceeded the annual dividend paid to the proprietors, and that in 1815, the surplus for that year only must have amounted to 1,066,625*l.* so that the Bank could have paid a dividend for that year of nineteen per cent., instead of ten per cent.' (IV/103-4)

Not publishing the state of its management, BoE is accumulating lots of funds 'hitherto withheld from the proprietors' (ibid.) 'During 18 years the directors have been silently enjoying their lucrative trade, and may now possibly think that the same course is best adapted to the interests of the Bank'. (IV/113-4) This is the BoE that is tacitly continuing to accumulate funds, making tremendous benefits from collusive transactions with the government, while invading the rights and interests of both the general public and the stockholders in concealing information. Consolidating such a recognition, Ricardo concludes *Proposals* with words bringing into question the subsistence itself of BoE.

In this ultimate part Ricardo adds a new reason for which BoE is required now to publish the state of its management. This publication is certainly useful for suppressing the tyranny of BoE, however it is not more than a best which can be done for a moment but is not likely to dissolve the burden actually imposed on the public by the profits gained by BoE. For this it is indispensable that the public 'deprive them of the most profitable part of their trade' (IV/114), i.e. to abolish 'the policy of permitting a company of merchants to enjoy all the advantages which attend the supplying of a

great country with paper money'. But 'the Bank are secure of their charter for seventeen years to come', 'against this danger, however, the Bank is secure till 1833'. And in conclusion Ricardo says once again that 'therefore on every ground publicity is expedient.' (ibid.)

By virtue of the 'charter' still remaining valid as long as 17 years to come, BoE is for a considerable time guaranteed a subsistence as an exclusive issuing bank in the central part of commerce in England. The most which can be done in supposing the subsistence of BoE as it is will be to protect the interests of the public and of its stockholders (squeezing of its profits and a transparent dividend policy) in implementing the plan presented in the first half of *Proposals* and publishing the necessary information. For the moment it would be out of question to 'deprive them [BoE] of the most profitable part of their trade', i.e. the power of issuing paper and to transfer it to the state. Now it is only possible to draft a rough sketch as a possibility in a distant future. But, even if such was the case, Ricardo nevertheless gave a sketch of this kind at the closure of *Proposals*. probably under a firm conviction that finally BoE should not be allowed to subsist.

In the following Ricardo presents concretely a 'means' 'by which so considerable an advantage might be obtained for the state, independently of all control of ministers'. To issue paper money is to create a currency equivalent to gold as its standard from paper as its medium devoid of value. Therefore, the value of paper as money is wholly due to the seignorage belonging to its issuer as its earning. This earning, incomparably larger than the seignorage for precious metal coin, should be received by the public but not by a private banking company. 'Seignorage in all countries belongs to the state, and with the security of convertibility as proposed in the former part of this work, and the appointment of commissioners responsible to parliament only, the state, by becoming the sole issuer of paper money, in town as well as in the country, might secure a net revenue to the public of no less than two millions[sic] sterling.'(ibid.) The idea that in place of BoE the state should issue paper (naturally presupposing a non-renewal of its 'charter' and the cessation of its function as issuing bank), was already stated in the letter to Malthus of the 10<sup>th</sup> September 1815 when Ricardo was writing the manuscript of *Proposals* (cf. subsection 2 of section III in the present article). The reason why the power of issuing paper belongs only to the state, the organ assuming the paper issue and its position, the dimension of the benefit obtained by the state in issuing paper, on all these points there is no change from what was said in the above letter. And the two versions are also same in the absence of an idea of dividing into issuing and banking departments the organ to replace BoE. The important difference of the second from the first version is that the plan of bullion payment proposed 'in the former part of this work' is integrated here as a part of the proposal of issuing organ

substituting for BoE<sup>31</sup>. I.e. Ricardo thought that, if there is a change in the issuing organ, the plan of bullion payment will remain valid as it was originally conceived. For him two plans alternative one to the other did probably not exist.

Another important difference in other regard is that this idea is stated not in a private letter but in a publication. The text in the letter is similar to the sentences quoted above from *Proposals* to such an extent as confirmed above. This may be because Ricardo continued thinking about a new issuing organ as substitute for BoE from the time when he began to write the manuscript, if the concluding pages of *Proposals* were written a considerable time later than the letter to Malthus. In any case, the idea of abolition of BoE as issuing bank was not only a temporary idea but seems to have taken a fairly clear shape toward that time<sup>32</sup>.

The way of presenting briefly an idea (or plan) at the end of a publication is the same as for the plan of bullion payment in ‘Appendix’ to the 4<sup>th</sup> edition of *High Price*. And in like manner as at that time, the new plan (though too succinct to be called plan) may have been noticed at all, neither at the time of publication of the first and second editions of *Proposals* in 1816, nor when the plan in the first part of this pamphlet was taken up for the first time in parliament in 1819. McCulloch, largely contributed to the diffusion of this pamphlet in publishing its review in the issue of December 1818 of *Edinburgh Review*, did not pay attention to this last paragraph, though he had payed attention to the last part of ‘Appendix’ to the 4<sup>th</sup> edition of *High Price* in his review on it published in August 1811 in the same magazine. And, except for a unremarkable description in the middle of chapter 27 of *Principles*, the sentences occupying not more than half a page at the end of the last paragraph remained the only one in which Ricardo made public during his lifetime his conception of an issuing organ substituting for BoE.

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<sup>31</sup>Another minor difference is that Ricardo cites here ‘experience’ in ‘other states’ (ibid.). For the issue of money from the state as is briefly sketched here, were there some precedents (at the end of ‘Appendix’ to the 4<sup>th</sup> edition of *High Price*, the banks of deposit in Amsterdam and in Hamburg were given as historical precedents of the issue of secure currency.)?

<sup>32</sup>Deleplace says in Deleplace (2008) as follows: ‘Deux questions sont posées: ces deux plans sont-ils compatibles? Pourquoi Ricardo passa-t-il de l’un à l’autre? Les réponses à ces questions sont recherchées dans la défense présentée par Ricardo au Parlement en 1822-1823, lorsqu’il y fut accusé d’être responsable de la déflation ayant suivi le retour à la convertibilité. Je suggère que le passage d’un plan à l’autre s’explique par sa conviction que la Banque d’Angleterre avait torpillé la mise en œuvre du premier.’ (p. 13) But, as seen above, though not named plan, the latter plan had already existed in the thinking of Ricardo, before the former plan was somehow put into execution and friction with BoE arose. This will become clearer when examining chapter 27 of *Principles* in the next section VI in the present article. And ‘two plans’ in no way contradict to each other, they were conceived rather as something to be finally unified. Therefore, a compatibility between them or a passage from one to the other are out of question.

V. End of the War and approach of the resumption of cash payment (*Principles* and Ricardo's Plan, evidence before the Parliamentary Committees)

1. Currency 'in its most perfect state' in the first and second editions of *Principles*

McCulloch, in the letter addressed to Ricardo on the 6<sup>th</sup> December 1818, probably immediately after having finished the manuscript of the review of *Proposals*, advises him as follows: 'I think you ought to extend the preliminary part of your Chapter on Currency and banks —You might in the space of three or four pages engross into it the substance of the first part of your most excellent pamphlet on "an economical currency".' (VII/353) At that time Ricardo had already finished preparation for the 2<sup>nd</sup> edition of *Principles*, and he had already sent to Murry, the publisher, a list of corrections for the new edition (his letter of the 23<sup>rd</sup> November, VII/331). But, in adopting this advice from McCulloch at the beginning of December, he sent anew a letter (not included in *Works*) with concrete indications for inserting a passage excerpted from *Proposals* in chapter 27 (25 in the first edition. Hereinafter chapter 27 after *Works*) and demanded him again to accept it in his letter of the 3<sup>rd</sup> January of the following year (VIII/5). It may have been from such a circumstance that Ricardo asked Murry to insert the passage in question in using a copy of *Proposals* probably Murray had at hand instead of making himself a new addition to the manuscript of chapter 27. And in his letter, McCulloch did not say anything about what part (IV/66-70) to insert where (I/356-61), which was decided entirely according to the judgement of Ricardo. Such a measure was taken naturally because chapter 27 in *Principles* is closely related to the subject of *Proposals*. But at the same time these two works are very different in their character. The one is a pamphlet of temporary character written for imminent political agenda like general meeting of stockholders of BoE and deliberation of bills in parliament. The other was a systematic work of political economy of grand scale with a range reaching as far as the long-term evolution of capitalist economy as a whole and its ultimate future, about the writing of which Ricardo remained hesitant worrying about his limited capability in spite of strong advice of Mill. But though of such contrastive characters, these works were written successively almost without making pause. The writing of chapter 27 of *Principles* treating a subject akin to that of *Proposals* was probably about one year after he had finished writing the latter. In this subsection, taking into account such points, we will examine how the common subject is treated in chapter 27 of *Principles* published about one year later than *Proposals*, and the meaning of inclusion in the second edition of a long quotation from the latter.

In the first paragraph of this chapter Ricardo says about the task of it as follows: 'I shall, therefore, take only a brief survey of some of the general laws which regulate its quantity and value.'

(I/352) In the following we will also see from this point of view what he says in this chapter. Then in the first page, he tells briefly about how the value and quantity of money is determined, when gold (or silver) itself is money, therefore in the case as if the precious metal as commodity circulated in itself as money<sup>33</sup>. Since *High Price*, Ricardo usually sets at first a situation belonging to his ‘principles’. But, unlike *High Price*, in *Proposals* and *Principles* attention is concentrated on money in circulation in domestic area (i.e. in England), and the international circulation which should be supposed on the background does not apparently come on the scene.

After having presented his ‘fundamental’ point of view on the central point in his theory of money, he introduces the issuer of coin as the form precious metal must take in order to really circulate as money in a country, i.e. ‘the State’<sup>34</sup> (I/353). And he tells whether the above relation belonging to his ‘principles’ changes or not, when money is issued (for the moment precious metal is issued as coin) by the State. When money becomes coin minted by the State instead of gold itself, the ‘seigniorage’ is introduced as the cause giving rise to the gap between the value of gold as commodity and the value of gold as money (this gap must be expressed as nothing other than a gap in the purchasing power over many other commodities gold has respectively in each of these forms). If the same quantity of gold has generally a higher value in the form of coin than in the form of bullion, it is because the State levies a seigniorage in minting gold. The term seign(i)orage meant originally a ‘privilege of seignior’ to create money, ‘coinage prerogative’, but it turned afterwards into a term meaning a commission or tax levied by a monarch or a State when delivering gold transformed into coin. Being a ‘commission’, it must have originally been for the purpose of levying the equivalent of the incurred real cost. Also Ricardo takes at first ‘seigniorage’ like this. And this ‘cost’ is reduced to the toil and trouble i.e. to labour necessary for transforming gold into coin. Therefore, the fact that gold becomes more valuable in becoming to coin by this seigniorage is perfectly explainable from the standpoint of labour theory of value. This is the basic position of

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<sup>33</sup>As our view on what Ricardo says here is already presented in our previous articles (cf. Takenaga (2000), pp. 180-3, Takenaga (2013), pp. 86-90), we don’t enter into detail here.

<sup>34</sup>As Sraffa notes (I/353, editor’s note 1), this term was written ‘the state’ in minuscule in the first and second editions, but in the third edition it was changed into majuscule ‘the State’. This applies to the whole of the rest of this chapter. Even the term ‘the state’ (IV/69) in the meaning of a ‘supreme national organ’ appearing twice in the quotation from *Proposals* introduced in the second edition was changed in the third edition into ‘the State’ (I/359, 360), while it was originally transcribed in minuscule in the second edition. In contrast, the state employed in the quotation in the sense of ‘condition’ (IV/66, 69) remained unchanged in the third edition (I/357, 359). Though apparently very trivial, such a thoroughgoing revision might show that Ricardo was strongly conscious of the relation between money and state during the time from the latter half of 1820 to the beginning of the following year when he was occupied with the revising work for the third edition.

Ricardo on the difference between the value of ‘coined piece of money’ and ‘the value of the uncoined piece of metal’ (ibid.). It does not come from an enigmatic added value when a thing is used as money. In so far as this, the seignorage brings about neither benefit nor loss both to the Mint and those who are delivered coin. It means only a social burden (cost) to be born when amount of coin is minted and circulates in the world as money.

However, as the ‘seignorage’ is also translatable as ‘benefit for issue of money’, it is not confined to the simple commission equal to the real cost of coinage. ‘While the State alone coins, there can be no limit to this charge of seignorage; for by limiting the quantity of coin, it can be raised to any conceivable value.’ (ibid.) This is what Ricardo called ‘the principle of limitation of quantity’ (ibid.) in a paragraph added in the second edition according to the advice of McCulloch in his letter of the 6<sup>th</sup> December 1818 (see supra) that ‘I think you might also enlarge a little on the principle of *limitation*’ (VII/353. Emphasis in original). McCulloch noticed this principle and took it up in the review article published in *Edinburgh Review* in December 1818 (see supra), in introducing and paraphrasing it with his own particular interpretation ([McCulloch] (1818), p.56-8. Cf. Takenaga (2000), pp. 171-4 for this review article). It is only when the power of issuing and circulating money is monopolized by one single organ, which act so as to increase infinitely the seignorage, that the quantity of money in circulation in a country can be unlimitedly limited and the seignorage can increase infinitely. And in such a case, only this organ (and its stakeholders) acting in this way can be interested in the increase in seignorage.

If, as it was in England at the time of Ricardo, the Mint only passively changed into coin the bullion brought in by holders of it including BoE in levying a certain seignorage, even if the Mint was royal, the quantity of coin would not have been limited or expanded at the will of someone particular, it could not but be determined spontaneously. And, from the time when he intervened for the first time in the bullion debate several years before writing *Principles*, Ricardo was coherent in claiming a free minting and free melting of coin and a free export and import of bullion, in pointing out the ineffectiveness of the law prohibiting these acts. In such cases, the value of precious metal coin would constantly tend toward the value of precious metal, at least it would be impossible for the former to deviate upward (and also downward) infinitely from the latter, as is described in the above quotation. I.e. here Ricardo does not talk about what really happened or may possibly happen to the value of coin.

In fact, this principle of limitation of quantity was an advance hint for explaining the determination and variation of the value of inconvertible banknote, does not literally show the possibility of an infinite rise in the value of precious metal coin, without mentioning the possibility



of limitation of quantity of banknote under the inconvertible regime resulting in an infinite rise in its value, which Ricardo would have never dreamt of. Indeed, he says immediately after the above quotation: 'it is on this principle that paper money circulates: the whole charge for paper money may be considered as seignorage [benefit for issue of money]. Though it has no intrinsic value, yet, by limiting its quantity, its value in exchange is as great as an equal denomination of coin, or of bullion in that coin.' (ibid.) In the case of paper money, unlike the precious metal coin the value of paper itself as its material being virtually null, the value of the paper as currency (i.e. its purchasing power over the commodities in general) is seignorage as a whole. Hence, according to Ricardo, the whole value of paper money is due to the principle of limitation of quantity (indeed he says so). In the case of precious metal coin, in taking as criterion a state of non-limited quantity (coincidence of the value of 'coined piece of money' with 'the value of the uncoined piece of metal'), it is possible to say whether there is a limitation or not (though it is unthinkable that such limitations could actually exist<sup>35</sup>). But, is it possible to think, in the same meaning as this, of a state of absence of the limitation of quantity as criterion of limitation for paper money (state of coincidence between the value of 'paper as money' and the value of 'a mere piece of paper', i.e. of a state in which the value of paper money becomes null (hence a state in which the paper money becomes non-money)? Daring to imagine such a state, it would be when the quantity of issued paper became infinitely large. But such can never actually take place.

Therefore, the paper money would be always in 'limitation of quantity' how much of it might be issued, hence the paper issue would be necessarily accompanied with 'seignorage'. Even if with the decreasing degree of 'limitation' the value of a unit of face value of paper money decreases, the issuer can never incur any loss for the reason of an excessive issue. The 'principle of limitation of quantity' may be finally reduced to elucidating such a situation. Indeed, while beginning with the quantity of coin, Ricardo has now changed the subject of discussion to the issue of inconvertible paper by BoE after 1797. 'After the establishment of Banks', along with the State 'the Banks would

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<sup>35</sup>Immediately following the above quotation, Ricardo claims, in citing 'the history of the British coinage' (ibid.), that this principle applies also to coin just as it applies to paper. As well known, the sovereign power repeatedly practiced the re-coinage (debasement) in diminishing the metal content (intrinsic value) of coin issued by itself to inject it into circulation at the same face value as before such operations. But what happened in consequence was a rise in price. I.e. even if it was possible, just by virtue of 'seignorage (coinage prerogative)', to continue to issue at the same face value a coin with less metal content, it was impossible for it to maintain simultaneously the same purchasing power for debased coin. If, however, the fall in the purchasing power was somewhat checked, it was because the coin issued earlier with a higher 'intrinsic value' disappeared after every re-coinage and so its quantity remaining in circulation was 'limited', but this 'limitation' is of a totally different nature from what Ricardo calls the 'limitation of quantity'.

have an equal power of adding to the whole quantity of circulation' (I/354), so the value of currency cannot be maintained. But here Ricardo gives once more a twist to his 'principle of limitation of quantity'. If the whole value of paper money as currency consists in seignorage, as he said above, it is because the value of paper as material of paper currency is virtually null. I.e. the criterion with which to judge of the seignorage obtained from 'limitation of quantity' was considered to be the value of its material medium also in the case of paper money as in the case of coin. But this criterion lies 'infinitely far away' beyond any sight hence cannot be fixed at a certain point as in the case of coin, so that for the paper money it is possible to say only relatively whether the quantity is limited in a larger or smaller degree. However, when it comes to considering a situation in which the issuing bank is increasing the quantity of its paper and decreasing its value, Ricardo introduces a new criterion with which to judge whether the quantity of issue is proper, and explains that, if it is possible to regulate the quantity of issue on this criterion, the convertibility is not necessarily required.

'On these principles, it will be seen that it is not necessary that paper money should be payable in specie to secure its value; it is only necessary that its quantity should be regulated according to the value of the metal which is declared to be the standard.' (ibid.) Since a cash payment is said to be unnecessary, an inconvertible regime is naturally presupposed here, and the question is how to regulate the value of currency under such a regime. And here Ricardo brings forward gold as 'standard' of currency. If the quantity of paper issue under an inconvertible regime is regulated in the light of this 'standard' so as to conform the value of currency to the value of standard, there will be no necessity of convertibility which is a mechanism for carrying out this regulation automatically so to speak<sup>36</sup>. And if with such a regulation of quantity the conformity of the value of paper with the value of 'standard' is maintained, the variation the value of paper (its purchasing power over the commodities in general) can undergo will be confined within the variation of value of the 'standard' itself as a commodity. The gold as standard of money, considered most stable in its value among all the commodities, is also not exempt from variations of its value in certain cases (cf. subsection 4 of section III in the present article.). 'If the standard were gold of a given weight and fineness, paper might be increased with every fall in the value of gold, or, which is the same thing in its effects, with

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<sup>36</sup>Ricardo approaches thus virtually the subject relative to the claim of the bullionists in the bullion controversy in which he had participated since more than five years before, but in the discussion in *Principles*, a work developing systematically an abstract theory, mention of the concrete issues in debate at that time (such as actual state of the bullion price in the market, its deviation from the market price, or choice between cash payment or bullion payment) is contained as much as possible, the subject seems to be discussed generally and abstractly.

every rise in the price of goods.’ (ibid.) Ricardo aimed in this way at a monetary regime in which the value of currency, whether coin or paper, will be anchored to the value of gold (or silver) as a commodity and the deviation between them will remain minimal. Hence, although gold itself does not circulate now, a situation similar to that presented at the beginning of chapter 27 of *Principles* is reproduced here; as far as concerns the value of money, it is as if gold as a commodity were exchanged with other commodities. What was said there about the relation between ‘value and quantity of money’ recovers here its validity.

Thus the ‘principle of limitation of quantity’ has undergone several changes in both its objects of explanation and the theoretical foundations: from increase in value of coin to depreciation of paper and finally to regulation of the value of paper.

If the issuer voluntarily refrains from issuing loosely (and obtaining benefits in this way) and regulates the quantity of issue on the above criterion without obligation of convertibility imposed on it, there will be no need of convertibility involving much cost and trouble, but in reality such a voluntary regulation is not to be expected, so that without an obligatory mechanism a stabilization of the value of paper will not be realizable. For Ricardo the convertibility was an unavoidable ‘necessary evil’. As a conclusion of a series of discussions he has continued after having introduced at the beginning of chapter 27 an issuer of money and the seignorage it levies, he says as follows; ‘experience, however, shews, that neither a State nor a Bank ever have had the unrestricted power of issuing paper money, without abusing that power: in all States, therefore, the issue of paper money ought to be under some check and controul; and none seems so proper for that purpose, as that of subjecting the issuers of paper money to the obligation of paying their notes, either in gold coin or bullion.’ (I/356) The necessity of obliging the issuing bank to pay for the banknote is thus confirmed, but the fulfillment of this obligation will be ‘either in gold coin or bullion’. Here Ricardo does not insist on the bullion payment he emphasized in the previous year in *Proposals*.

In the first edition of *Principles*, Ricardo begins from the following paragraph a brief sketch of an ‘ideal’ currency regime he conceives on the basis of the theoretical analyses on the determination of the value of currency and its variation. It is precisely at this logical junction that he introduces the long quotation from *Proposals* in the second edition. The opening of the paragraph following the sentences quoted above (‘a currency is in its most perfect state when it consists wholly of paper money, but of paper money of an equal value with the gold which it professes to represent.’ (I/361)) corresponds with the first sentence in the quotation from *Proposals* (IV/66, I/356-7), and in the quotation Ricardo’s ‘plan’ (IV/69, I/360) of bullion payment is explained in the space of following four pages. And, with the negation of the choice between ‘either in gold coin or bullion’ in the text

of *Principles* immediately before the quotation, the payment of banknote is unified in bullion payment. But in the text of *Principles*, Ricardo does not use the term ‘plan’ implicating a concrete program of action. Therefore, in the first edition of *Principles* no concrete explanation is to be found on how to carry into execution the convertibility though its necessity is affirmed, except for a following brief comment on the above quoted sentence on the ‘most perfect state’ of a currency: ‘the use of paper instead of gold, substitutes the cheapest in place of the most expensive medium, and enables the country, without loss to any individual, to exchange all the gold which it before used for this purpose, for raw materials, utensils, and food; by the use of which, both its wealth and its enjoyments are increased.’ (I/361)

This short paragraph of less than 10 lines, which, in the second edition of *Principles*, follows immediately the long quotation from *Proposals*, can be regarded as an extremely compressed abstract version of what Ricardo had already explained in detail and concretely in *Proposals*. This simplified version may of course be said to imply virtually the basic points in Ricardo’s plan of bullion payment, such as regulation of the value of currency by means of bullion payment, substitution of paper money for coin. But this can be said for those who know what Ricardo had already said in *Proposals*. Considering that this pamphlet (in particular the first part of it) may have been already forgotten by many of the readers when the first edition of *Principles* was published in the following year, they may have hardly seen how Ricardo thought about the way of cash payment and its consequences in *Principles*. In including in the second edition the long quotation from *Proposals* following the advice of McCulloch, so to speak, he restored to its original form what he had once compressed in the extreme.

But the sketch of an ‘ideal’ monetary regime, following the paragraph in which was affirmed the necessity of convertibility in the first edition of *Principles* (I/356), does not end only with this short paragraph. In some paragraphs next to this short one, he raises the problem whether the issuer of money should be ‘a Bank’ (not called by name but it is evident from the context that it means BoE) or ‘the Government’ (or the State), and indicates briefly the reason for which it should be the latter and how to put it into execution. ‘In a national point of view, it is of no importance whether the issuers of this well regulated paper money be the Government or a Bank, it will, on the whole, be equally productive of riches, whether it be issued by one or by the other; but it is not so with respect to the interest of individuals. In a country where the market rate of interest is 7 per cent., and where the State requires for a particular expense 70,000*l.* per annum, it is a question of importance to the individuals of that country, whether they must be taxed to pay this 70,000*l.* per annum, or whether they could raise it without taxes.’ (I/361) After having explained in short the measure to be taken for

stabilizing most economically the value of paper currency in the immediately preceding paragraph (but in the second edition, after having explained this clearly as ‘plan’ in inserting a quotation from *Proposals*), Ricardo raises such a problem in relation with this explanation. It is evident that the large amount of cost to be financed by the State mentioned here means the war expenditure the Government was actually procuring by lending from BoE for the long-lasting war with France. And it is also evident that he is bearing in mind here the experience during the war time, that the payment of interest due to such a great amount of loan was yielding enormous profits to BoE and because of this the public was assuming a heavy burden in paying taxes. It was precisely against this background that Ricardo claimed in the closing paragraph of *Proposals* that the issuing organ should be placed under the State or Government (‘the public would have a direct interest that the issuers should be the State, and not a company of merchants or bankers.’ (I/362)).

But in these paragraphs in *Principles*, Ricardo mentions neither that it is BoE which is profiting from the taxed burden born by the public, nor that by virtue of the Bank Charter delivered from the State BoE is secured still for a long time its subsistence so that for the moment there is no possibility of replacing it. However, from one or two years before writing *Principles*, Ricardo was continually thinking about a reform of monetary regime bringing into question also the subsistence of BoE itself (cf. subsection 2 of section III in the present article). This may not be forgotten in reading these paragraphs. The following hypothetical counterargument against placing the issuing organ under the Government was in fact the position Ricardo himself had taken in opposing Say’s proposal in his letter to Say of the 24<sup>th</sup> December 1814. ‘The danger, however, is, that this power would be more likely to be abused, if in the hands of Government, than if in the hands of a banking company. A company would, it is said, be more under the control of law, and although it might be their interest to extend their issues beyond the bounds of discretion, they would be limited and checked by the power which individuals would have of calling for bullion or specie. It is argued that the same check would not be long respected, if Government had the privilege of issuing money; that they would be too apt to consider present convenience, rather than future security, and might, therefore, on the alleged grounds of expediency, be too much inclined to remove the checks, by which the amount of their issues was controlled.’ (ibid.) But, in the process of preparing the writing of *Proposals*, Ricardo got aware of the real state of management of BoE and came to conceive an issuing organ placed under the State in place of BoE, in dispelling such worries. At the same time, he proposes institutional devices preventing this new issuing organ from falling into such corrupt practices like BoE (check on the collusion and adherence between the issuer and lenders, above all ‘ministers’ as heads of the departments in Government). The conception of an issuing organ

alternative to BoE he shows in such context is not different from what he had already shown in his letter to Malthus of the 10<sup>th</sup> September 1815 and in the last page of *Proposals*. ‘In a free country, with an enlightened legislature, the power of issuing paper money, under the requisite checks of convertibility at the will of the holder, might be safely lodged in the hands of commissioners appointed for that special purpose, and they might be made totally independent of the control of ministers.’ (ibid.) These commissioners assuming the paper issue are nominated by the parliament and ‘responsible only to parliament.’ (I/362-3)

What Ricardo discusses after the long quotation from *Proposals* is nothing other than a reaffirmation of the idea about the paper issue by the State sketched in the last page of *Proposals* supposed to be written about one year earlier. In reading this reaffirmation as following from the quotation from *Proposals*, it will become more understandable, than in reading only text of the first edition of *Principles*, that Ricardo’s plan of bullion payment was, according to its character, to be continuously extended to what was to become called afterwards ‘plan for the establishment of a national bank’. However, he does not intend to show in this place of *Principles* his ‘plan’, but to show only what a currency in its ‘most perfect state’ should generally be like. Therefore, it was not his aim there to enter into the details of concrete measures to be taken for actually realizing it.

## 2. Evidence on the resumption of cash payments before the Secret Committees and Plan of bullion payment

As the war with France ended with the conclusion of Treaty of Paris at the end of 1815 and the threat of invasion by French army disappeared, the English government had no more need of financing the great amount of war expenditure. And at the same time disappeared the main grounds on which the anti-bullionists had opposed the resumption of convertibility in May 1811. In a growing mood of abolishing the Bank Restriction Act of 1797 with a view to resuming convertibility, *Proposals* of Ricardo was written and published as proposals for putting it in execution. Though enacted as a legislation of specified duration, the Act was still in force by the measure of prolongation taken by parliament, but as it did not prohibit executing the convertibility, BoE tried to resume it partially, considering the state of its gold reserve, limiting the banknotes to be converted to those issued before a certain date. The first trial was implemented in December 1816, but as the current market price of bullion was below its mint price so that the conversion of banknote into specie meant rather loss at that time, there was almost no demand for conversion. A similar announcement was repeated early in the next year 1817, but the situation did not change. In this way, the execution of conversion remaining suspended, the amount of specie hoarded in the coffers of

BoE extended to near 12 million pounds. Afterwards, though the price of bullion was above the mint price by 2 to 3%, when BoE declared again the opening of a similarly limited conversion in September of the same year, this time a large amount of demand arose. This was of course because of the benefit obtained from melting and exporting the coin delivered in conversion with banknote (Cf. Cannan (1919), p. xxxi). For this reason, the gold reserve in BoE rapidly diminished. In view of such a situation, Vansittart, Chancellor of Exchequer at that time, though watching for the chance of resumption of convertibility, was obliged to propose in May 1818 a bill for extending further the restriction. And subsequently high price of bullion and fall in gold reserve still continued. But, when at the beginning of the parliamentary session in 1919 he proposed a motion to nominate committees in both of the Houses for examining the expediency of further extending the suspension, these committees were set up at the beginning of February (Sraffa, 'Notes on the evidence on the resumption of cash payments', in Ricardo (1952a), V/350). As the time limit of the extension was fixed on the 5<sup>th</sup> July 1819 by the act of postponement of resumption of cash payment enacted in the previous year (ibid.), the Committees in both Houses began activities aiming at settling the issue before this time limit.

With Mill's strong advice and actions behind the scene, it was just at that time that Ricardo took seat in the House of Commons (on the 26<sup>th</sup> February). He must have regarded this as a good opportunity to make realize the convertibility through his activities in parliament in line with the 'plan' he had nourished for a long time. As if for coordinating the timing with the parliamentary session with Ricardo as a member, the second edition of *Principles* including the main part of 'plan' (cf. the previous subsection in the present article) was published on the following 27<sup>th</sup>. And also the third edition of *Proposals* was published in March, in about three years, 'rescued from oblivion' (letter to McCulloch of the 7<sup>th</sup> April 1819 (see supra), VIII/20)) by McCulloch who published a favorable review on it in *Edinburgh Review* in December of the previous year. These events, successively occurred in a short space of time, seem to have contributed to make known widely the point of view of Ricardo (particularly in parliament) and to heighten his renown as economist and monetary theorist, hence to strengthen his position as 'novice' member in parliament. Two days after he had attended the session for the first time as a member of parliament, he reported to Trower the atmosphere as follows: 'The inquiry into the state of our currency, and exchanges, is proceeding in both houses very satisfactorily. I have had many conversations with several of the Committees of both Houses—with Lord Grenville, Marquis of Lansdown, Lord King, Mr. Huskisson, Mr. F. Lewis, Mr. Grenfell and others. All have a very perfect knowledge of the subject, and all agree that the progress of the public in comprehending the question has been very great. The Bank Directors

themselves have improved, and they are far behind every other person. I confidently rely on measures being taken to place our currency in a satisfactory state. I am told that I shall be examined.' (VIII/19) In these words we can see vividly how favorably Ricardo was received at once by the members with whom he was in friendly relations for a long time. We can also read from these words that his opinion was known to these colleague members and obtained a certain support from them. In such an ambience he convinced himself of an early adoption of 'measures to place our currency in a satisfactory state' i.e. his 'plan'. Though he himself was not a member of the Committee already set up, when he sat in parliament, it may have been already decided that he was to be examined before the Committee in the following month. This evidence before the committees of both Houses was to become his first activities as a member of parliament.

The examination of Ricardo before the committee was implemented twice in the House of Commons on the 4<sup>th</sup> and 19<sup>th</sup>, twice in the House of Lords on the 24<sup>th</sup> and the 26<sup>th</sup> March, in total four times. The subject of the examination in both Houses were officially announced as 'the expediency of the Bank resuming cash payments' (V/371, 416). As in the 'Bullion Report' of 1810 and the debates over it in and out of the parliament, both bullionists and anti-bullionists (including the directors of BoE) understood at that time generally the resumption of convertibility as a resumption of exchange of banknote for cash (coin) just like that practiced before its suspension. In this sense, it is questionable how far the fundamental point in Ricardo's plan of bullion payment was understood. In the above quotation he writes about favorable estimation and understanding of his theory by his colleague members, but they may have taken Ricardo's theory and proposal only according to their own view on money. It is however certain that, on the other hand, by virtue of his important writings and the review on them<sup>37</sup> successively published at that time, his theory and proposal exercised a considerable influence on the examinations of parliamentary committees and the subsequent deliberation. After having finished all the schedule of examination, Ricardo expresses gratitude to McCulloch in the letter to him of the 7<sup>th</sup> April (see supra) as follows: 'You have I am sure been the means of affording the most useful instruction, to many members of the Committees of both houses [...] an investigation into the probable results of adopting that plan, or some modification of it, has formed one of the leading subjects of examination, by both committees, and from the speech of Mr. Peel [president of the committee in the House of Commons], as well as

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<sup>37</sup>McCulloch had published a review on the first edition of *Principles* in the issue of August 1818 of *Edinburgh Review*. It accelerated the sale of remaining copies of the first edition, and in November, only three months after that, Ricardo was asked by Murry, the publisher, to prepare the second edition. It was published in a good timing on the 27<sup>th</sup> February 1819 ('Introduction' to *Principles*, I/1)



from those of Mr. Canning, and the Marquis of Lansdown, I have very little doubt but that it will be recommended, as a temporary, if not a permanent measure, in both reports.’ (VIII/20) Two committees of both Houses had presented their first reports on the 5<sup>th</sup> April, two days before this letter. What Ricardo says here seems to be based on these reports (incidentally, these first reports advised to the parliament to prohibit the partial resumption of conversion of banknote BoE had already begun from September 1817.). Unlike in the letter to Trower of the 28<sup>th</sup> February quoted above, in which he said about a general prospect of reception of his plan in parliament, here he reports more concretely that his plan, with certain revisions, would be recommended as a temporary measure.

The examinations in both Houses and his evidence are on the whole something like a catechism between the members of the committees with ‘most useful instruction’ inspired from his writings and their author. In some not rare cases, the committee members already familiar with the theory of Ricardo ask questions anticipating a certain answer, or questions like leading questions intended to draw from him a positive answer. Hardly any scene can be found in which the witness gets embarrassed by harsh questions cast on him by the members. In spite of this, however, it seems that, with nearly 300 questions and answers exchanged during the 4 days in total, the record of the evidence shows some problems likely to arise when the plan Ricardo bore in mind was submitted to an official discussion before the committees with a view to actually implementing it. In the following we will review briefly some of these problems relevant to the present article. But the dates of examination containing each of questions and answers will not be indicated, and related items will be taken up at random according to the nature of the problems regardless of their dates or question numbers.

To pay the banknote not with coin but with bullion, moreover to accept such a payment only with regard to banknotes equal to and above a certain amount, these were the essential points of the plan of bullion payment. To the question about the advantages expected from the former Ricardo answers as follows: ‘First, it would exempt the Bank from providing a Quantity of Gold necessary to replace all the smaller Notes which are now circulated in London and the Country. Secondly, it would obtain for the Bank, and therefore for the Nation, all the Advantages which a Capital equal to the Amount of all the small Notes would produce.’ (V/422) The most important advantage and aim of the system of bullion payment is to maintain as it is the circulation of small notes expanded for the first time during the bank restriction period, so as not to allow the coin to circulate again. ‘The Object of my Plan would be most completely effected by there being no Gold Coin in Circulation’ (V/424) For Ricardo himself, the advantage of paper circulation was evident in the sense that the use

of paper instead of coin serves to economize the expensive money material, and also that the paper is free from every inconvenience arising when handling many pieces of coin. In spite of this, it was not always certain whether it would be possible to substitute paper for coin, it 'must depend entirely on the Preference of the Public for metallic Circulation'. (V/423) For Ricardo, the 'irrational' behavior in the use of money the public was accustomed to for a long time was beyond his comprehension, so that in order to carry into execution a plan, the advantage of which seemed to him as if 'mathematically demonstrated', he could not but fight against such a 'prejudice'. The members of the committee 'had to contend with public prejudice, and perhaps too with prepossessions which they themselves felt in favour of coin.' (letter to McCulloch of the 8<sup>th</sup> May 1819, immediately after the second and final reports of both committees were submitted, VIII/27) The attachment to coin was deeply penetrated not only among the common people but also among the members of the parliamentary committee deliberating the monetary regime. But any consideration about such a point was not contained in the plan of Ricardo. This was soon to place serious obstacles in the way of execution of the plan<sup>38</sup> (see *infra*).

Now, the other essential point in the plan of bullion payment was the setting of a minimal amount to the sum of banknote to be paid. To the question clearly anticipating a certain answer: 'do you mean that the Bank should be obliged to pay each Note on Demand in Coin or Bullion, at its Option; or would you limit the Obligation to Notes of a certain Amount, and to what Amount?' (V/422), Ricardo responds as follows: 'I would limit the Obligation on the Part of the Bank to Notes of £50, £60, or £100 Value, or to a Number of smaller Notes amounting in the Whole to such a Sum [cf. note 21 in the present article]. The Object which I have in view, is to regulate the Value of Currency, by having an effectual Controul over its Quantity. I have no Preference for any Sums I have stated, provided they may not be too small.' (*ibid.*) It was for the purpose of attaining economically the stabilization of the value of currency, in evading both the circulation of coin and the massive accumulation of coin in the coffers of BoE as reserve for cash payment, that the payment of banknote had to be in bullion but not in coin. The holders of banknote, supposed to behave rationally in economic sense of the term, demand to the issuing bank the exchange of it for gold at its legal mint price for one of the following two reasons: this is because, when the paper is in depreciation and the market price of bullion is above its mint price, it is more advantageous to obtain

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<sup>38</sup>In the last part of Bonar (1923), bearing in mind the failure of the 'Ingot Plan' and comparing the England at the end of the bank restriction period and the England after the World War I moving toward recovering the gold standard system, Bonar says as follows: 'The English people in the mass are better instructed economically than a hundred years ago; and this time they may prove to have been really weaned from their fondness for gold coins, and a dear currency.' (*ibid.*, p. 300)

gold at the window of the bank in the form of bullion or coin than to buy bullion with banknote in the market, or because, in selling the gold thus obtained, they can get a benefit equal to the difference between its market price and mint price. But in reality, if everyone crowds in upon the window of the bank, the transaction in the bullion market will cease, so that the arbitrage supposed above will become impossible. And, even if coin could be obtained in exchange for banknote, it would not be used as it is as currency in the country, it would be (illegally) melted down to bullion with a higher price. But in reality, since it was impossible to use this bullion for any advantageous domestic transactions (to sell it in the market or to use it as currency), it would be sent (exported) to a foreign country where it can buy commodities (including foreign currencies) in more advantageous conditions.

Therefore, whether the payment of banknote is in coin or in bullion, the gold obtained from the bank should be considered to be wholly reduced to bullion and used for transactions with foreign countries. Of course a part of this gold will be used as a raw material for manufacturing industry, but also in this case it will be first reduced to bullion form. Thus, in so far as not intended to get precious metal money in exchange for paper note simply from 'a mere caprice' or 'prejudice', the payment in coin would be meaningless. Even if the banknote is paid in coin when the paper is in depreciation (and it is only then that the banknote returns to the window of the bank), coin will be only melted down to bullion. Or the demand for cash payment will cease if the public fear the punishment for committing an illegal act. In any case, the demand for bullion actually arising in the condition of currency depreciation is wholly for foreign trade, except for demand for gold for manufacturing. In parliamentary evidence Ricardo says in this respect as follows: 'all our transactions in bullion would be confined to our foreign trade, and to the uses for our own manufactures, that is exactly the amount of our trade in bullion at this moment'. (V/415) I.e. otherwise than for these two purposes there is no bullion transactions.

And to satisfy these demands (i.e. payment of banknote with bullion by BoE) is at the same time to recover the currency issued in excess, hence to stabilize its value in dissolving its depreciation. Such a demand for bullion comes wholly from foreign traders engaged in large scale transactions, and the amounts of such demand will be limited to those by far superior to the household expenditure. If Ricardo set a certain minimal limit of considerably large amount for bullion payment, it was for the purpose of confining the object of payment to the banknotes used for the industrial (or commercial) circulation in order to exclude the small transactions at the bank window.

Now, at the moment when the plan of bullion payment was adopted in outline in the Bill and was to be carried into execution, two practical problems arose: when to begin its execution, how to set the price of payment at its beginning when the bullion price was still above the mint price. In the plan presented in *Proposals*, Ricardo took a position of beginning the bullion payment a few months later, in a proximate future, with the mint price. And also in the evidence based on this plan, he stated the same position when asked his opinion on this point in the first question on the first day of examination before the committee in the House of Lords (cf. V/415-7). He said then that, though the resumption of payment could be commenced on the 5<sup>th</sup> July (i. e. 3 to 4 months later), on the expiring date of the last extended Act of Suspension, in view of the current price of bullion superior to its mint price by 'Four per Cent', the resumption 'must be attended with some little Inconvenience' (V/416) of 'Four per Cent' fall in the price of commodities caused by the so much contraction of the total quantity of currency in circulation. However, when at the beginning of the examination on the second day one of the members questioned him: 'are you of Opinion that it would be more advantageous to require the Bank to commence this System by Payment of its Notes in Bullion at the Mint Price, or that any Facility would be given to the Plan, by the Adoption of a graduated Scale, by which they should pay at first at the present Market Price, and at Prices successively reduced at stated Periods, until they came down to the Mint Price?' (V/439), in his answer he chose naturally the latter. It is evident that this questioner knew in advance the opinion of Ricardo and was going to draw from him an expected answer.

In fact, Ricardo had proposed such a way of bringing down successively the price of bullion by 'a graduated scale' on the 11<sup>th</sup> December 1811, more than 8 years before, in his letter to Tierney (cf. subsection 1 of section III in the present article). But after that he did ever mention this idea neither in his letters nor in his publications. If also he did never mention it orally, it must have been only two persons, Ricardo and Tierney, who knew (if remembered) such an idea prior to this questioning. After having answered almost echoing the questioner, Ricardo says as follows: 'by far the most important Consideration with me is, preventing the Currency being depreciated, as compared with Bullion, below the present Rate of Depreciation, and by adopting the graduated Scale you would have complete Security upon that Point.' (ibid.) Since this claim of Ricardo for preventing first the further aggravation of the depreciation of banknote before dissolving it and conforming the market price of bullion to its mint price, was precisely what he had stated at first in explaining his idea to Tierney in a letter addressed to him many years before (cf. VI/68), it would be difficult to think that such a question and answer occurred to Ricardo and the questioner independently of the letter to Tierney (they were surely in agreement beforehand). But Tierney

should not have been this questioner, since he was a member in the House of Commons like Ricardo. Then it may be inferred that someone in the committee of the House of Lords had made an arrangement with Ricardo (and also probably Tierney) in advance to fabricate a dialogue seen above. This is a rather extreme example, but there exist a number of similar cases other than this one in the examination of Ricardo before the committees in both Houses in March 1819. Anyway, this idea of his was adopted in the Bill to be approved two months later and was restored more than 8 years after it had been conceived for the first time.

The gold reserve of BoE in February 1819 is estimated at 4.2 million pounds, while the quantity of banknote in circulation at 25.1 (Feavearyear (1963), p. 229). According to Ricardo, during the period prior to the suspension of cash payment in February 1797, 'four millions[sic] [pounds] was about the sum which the Bank considered as fair cash' (IV/99) After 1790 till the suspension, the total amount of the banknote of BoE was constantly around 10 million pounds, and the its cash reserve before 1795 was far above 4 million, 'considered as fair cash' (though falling in the meantime from about 8 to about 5 million). From the beginning of 96, while there was no great change in the total amount of issue, the reserve fell to the level between 2 and 3 million to attain its minimum of 1.1 million in February 97 when the suspension began<sup>39</sup> (cf. Feavearyear (1963), p. 227-8, Table in these pages). Calculating from these figures, the story would be that the minimal limit of the secure rate of reserve for BoE was about 40%, and when it fell down to about 10% it decided to suspend the cash payment. On the contrary, calculating from the above figures, we can see that the rate of reserve in this period, when the resumption of cash payment was appearing on the agenda, was less than 20%. This is a level nearer to that at which BoE had suspended the payment than to one it considered as secure. The directors of the Bank could have never thought the resumption possible with such a level of gold reserve. But since BoE at that time was not obliged to pay the banknote in cash or in bullion, in principle it had no need of gold reserve. If in spite of this it kept the reserve rate at a certain (though not sufficiently high) level while expanding note issue, it was for preparing against the resumption of payment which was to come necessarily sometime or other. And when this resumption appeared near in view, the directors of BoE was captured with

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<sup>39</sup>But Ricardo claims that, in spite of this, the suspension was not actually necessary, so this measure was an error, in saying that 'if the Bank had continued paying in cash, probably the panic would have subsided before their coin had been exhausted'. (IV/68) (cf. subsection 2 of section IV in the present article)

‘alarm’ ‘impossible to describe’ ‘at the thoughts of providing coin for that purpose’. (his letter to McCulloch of the 7<sup>th</sup> April (see supra), VIII/20-1)

Thus it had to become a subject among others in the examination before the committees what actions, impossible to check with legislative measures, BoE would take when the outline of the plan of Ricardo would be adopted in an act and carried into execution. Here again it was as if the members of the committee had substantially of the same opinion with the examinee, Ricardo, and they wanted to draw from him positive answers or at most some supplements to the questions. As is clear from the figures given above, the worries about the possible reactions of BoE were about an excessive contraction of banknote and on the contrary an excessive hoarding of gold reserve. Both of them, each through different channel, was expected to bring about a general fall in prices far exceeding the level of about 4%, Ricardo described as ‘some little Inconvenience’ (V/416).

On the first point. Question: ‘If the Bank should for their own Security think proper to make a further Reduction of their Notes to the Amount of Three Millions, between this Time and the Month of July next, what Effect would this have upon the Prices of Commodities?’ Answer: ‘I think a greater Effect would be produced on the Prices of Bullion, on the Currency and on the Prices of Commodities, than what is necessary to bring Bullion down to the Mint Price. Both Bullion and Commodities might probably fall 8 or 10 per Cent. No such Fall could take place if the Mint were open, or the Bank were obliged to buy Bullion at £3 17s. 6d. The Bank could not then reduce the Circulation Three Millions.’ (V/452-3) It is as if this question foresaw the actions BoE would really take afterwards, and also it is as if the answer of Ricardo anticipated the negative results of these actions. The figures of 8% and 10% correspond to the proportion the amount of 3 million pounds occupied in the total amount of banknote in circulation at that time. A fall in prices nearly equal to these figures did not take place till July of that year, but it became actual as the price evolutions two years later. The device to prevent such an excessive rise in the value of currency was already prepared in the plan as a purchase of bullion (new issue of paper) at a price a little inferior to its mint price as well as free minting in the Mint (new issue of coin). Ricardo set this purchasing price at 3 pounds 17 shilling 6 pence, lower than the mint price by 4½ pence (at the rate of about 0.5%). If this measure was carried out, the value of currency should have not risen beyond this degree.

On the second point. Question: ‘Supposing the Bank not to think that they could engage with Safety to pay their Notes in Bullion at any specified Period, according to the present Market Price, without previously making a considerable Purchase of Gold, would not such Purchase have a Tendency to increase the Price of Bullion?’ Answer: ‘I think it would have such a Tendency; but I should not admit this Plea [of BoE], for I should think it not founded on a Knowledge of the true

Principles of Currency, the Purchase of any great Quantity of Gold being wholly unnecessary.’ (V/453) Here again as in the previous question, already at that moment the worrying situation which would appear after the passage of Resumption Act seems to have been foreseen. With his usual blame on BoE of ‘ignorance of the true principles of currency’, Ricardo wants to reject resolutely such an act of ‘purchase of great quantity of gold’. But it was not possible to really prevent it with his power.

The evolution of situation after May 1819 appeared to be a theoretical and political victory of Ricardo, but with time some worries contained in his parliamentary evidence seen above became true, which was to force him a continual hard struggle during a few years of the rest of lifetime.

## VI. Decision on the resumption of cash payment (decision on Peel’s Bill) and its aftermaths

### 1. ‘The triumph of science, and truth, over prejudice, and error’

Peel, the president of the Secret Committee deliberating the resumption of cash payment, submitted the first report to the House of Commons on the 5<sup>th</sup> April after the examination of witnesses, and submitted, after its deliberation in the House, the second and final report on the 6<sup>th</sup> May. This report adopted Ricardo’s plan in outline, with some revisions. And Peel proposed on the 24<sup>th</sup> May the Bill of resumption of cash payment on the basis of this final report. On the same day Ricardo delivered a speech for the passage of the Bill, which played an important role in its enactment and was also his first important speech after he sat in the parliament. On the 26<sup>th</sup>, two days after that, the Bill passed and on the 2<sup>nd</sup> July of the same year it received the Royal Assent of the King George III. The Act was then to come into force on the 1<sup>st</sup> February 1820. The outline of the Resumption Act (Peel’s Act) is as follows (cf. V/7-8. The text of this Act is reproduced in Bonar (1923), pp. 301-3).

The payment of banknote in bullion is a temporary measure during 3 years and 3 months from the 1<sup>st</sup> February 20 to the 30<sup>th</sup> April 23, from the 1<sup>st</sup> May the payment in coin would become obligatory. In addition, the bullion payment was to begin at 4 pounds 1 shilling, i.e. at a price superior to the mint price by 4%, the current price of bullion in March 1819, and from the 1<sup>st</sup> October 20 it would be decreased to 3 pounds 19 shillings 6 pence i.e. to the level superior to the mint price by 2%, and further from the 1<sup>st</sup> May 21 would begin the bullion payment at the legal mint price (cf. No. 78 in the questions and answers of the examination in the House of Lords. V/439-40). Within the range determined here, the date of decrease in the bullion price and its extent could be regulated at the discretion of BoE but the price should move always

downward, upward movement prohibited (cf. No. 79 supra. V/440). The payment at these different prices would be made with bullion cast into a bar or ingot of 60 ounces (amounting to about 240 pounds). I.e. bullion would be paid only against the banknotes of a face value equivalent or superior to 60 ounces of bullion and with this weight as a unit. And from the 1<sup>st</sup> May 22, one year after that, BoE would be permitted to choose payment in bullion or in coin. And from the 1<sup>st</sup> May 23, further one year after that, the bullion payment would be abolished and BoE was to be obliged to pay in coin. The coin thus obtained could be freely melted and exported. This measure was indispensable for the bullion as a commodity to be able to function as the standard of value of the currency of a country and so to contribute to stabilize the value of this currency.

In this way, Ricardo's plan of bullion payment was integrated into the Act, not as a permanent regime, but only as provisional measure for preparing for a real resumption of convertibility (i.e. the cash payment). He was of course content with this in keeping a hope that the advantage of his plan would be widely recognized, if it would be executed even for a few years, and it would be finally adopted as a permanent regime<sup>40</sup> (his letter to McCulloch of the 7<sup>th</sup> April 1819 (see supra), VIII/20). But, as was shown above on two points, in the examination of witnesses in March the concrete measures for implementing the bullion payment proposed by Ricardo (or by one of his questioners) were adopted. However, the procedure shown above, while aiming at dissolving the depreciation of currency and restoring its equivalence to the gold as its standard, did not include any consideration about the instability of value of currency to the contrary direction (the same can be said of the letter Ricardo addressed to Tierney in December 1811. Cf. the last part of subsection 1 of section III in the present article. pp. 34-5.) In his plan Ricardo always foresaw that BoE would purchase bullion (or coin) at a price slightly inferior to the mint price, every time when the value of currency would rise above the its standard and the bullion price would fall below the mint price (cf. subsection 3 of section II and subsection 2 of section IV in this article). In his letter to Trower of the 28<sup>th</sup> May, two days after the passage of the Bill, he expresses almost unreserved pleasure as follows: 'I am every day rejoicing with increased satisfaction at the triumph of science, and truth, over prejudice, and error. You will perceive by the Newspapers that Parliament has at length decided that we should revert to a sound currency. The feeble resistance, in point of argument, of the Bank Directors, was

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<sup>40</sup>But, when Ricardo made public the plan of bullion payment for the first time in 'Appendix' to the 4<sup>th</sup> edition of *High Price*, he presented it equally as an only provisional measure for the resumption of cash payment (cf. III/125). If he proposed it in such a 'reserved' way, it may be because Ricardo himself was afraid that something like his plan of bullion payment would be taken as an extremely novel idea. But such a reaction hardly changed in 1819.



easily overcome.’ (VIII/31. Cf. also the letter to Say of the 11<sup>th</sup> January of the following year, VIII/150) But at the same time he did not forget to add: ‘I regret that the Committees have not adopted the measure of obliging the Bank to buy gold at £3 17. 6, whenever it is offered to them at that price’ (VIII/32) Ricardo himself was aware of the omission of this point at the moment of the passing of the Bill, but the members of the committees may not have felt it necessary for the moment to take into consideration the risk of excessive contraction of the currency, obsessed by the urgent need of contracting it in excess issue. But, if the Bill had included this point and the mechanism had worked properly, the course the English currency would have traced during a few years after the passage of the Bill would have been fairly different from what it actually did.

Anyway, in the above letter to Trower Ricardo reports also of the ‘harangue’ he made in parliament for the first time on the 24<sup>th</sup> as follows: ‘I had the courage to set myself foremost in the battle, and was amply rewarded by the support of the House, which enabled me to get to the end of my speech without any great degree of fear or trepidation.’ (VIII/31) Indeed, his speech on that day seems to have been a great success. Mallet (Joh Lewis. The diary he kept is sometimes quoted in the volume V of *Works* as testifying vividly the air in the parliament), in presence then, noted in his diary as follows: ‘The phenomena of that night was Ricardo; who notwithstanding his slender footing in the House, his jewish name and his shrill voice, obtained the greatest attention, and was cheered throughout his speech’. (V/17, editor’s note 2)

On a sentence appearing at the beginning of the speech ‘the difficulty was only that of raising the currency 3 per cent in value’ (V/10), Sraffa adds a following note: ‘On 4 March, to the Commons’ Committee, Ricardo had given the figure as 5 or 6 per cent [V/385]; on 24 March, to the Lords’ Committee, as 4 per cent [V/417], and now, on 24 May, 3 per cent. The variation in these figures reflected the falling market price of gold’. (ibid., editor’s note 2) This proves that Ricardo obtained numerical data in continuously observing by very small steps the chronological variations and gave them properly at each moment. According to these figures, the rate of depreciation of the banknote of BoE i.e. its rate of excess had fell to the half from 6% to 3% during less than 3 months preceding the passing of the Act of Resumption. If this evolution was due solely to the contraction of the total amount of banknote in circulation, BoE, captured with the sense of crisis, would have begun very early the recovery of its notes (through diminution or limitation of the discount of commercial bills or sale of securities it held), as soon as the parliament began to move toward the resumption of convertibility at the beginning of February. In addition to this, as we have seen at the beginning of subsection 2 of section V in the present article, BoE was continuing a partial conversion. The most part of the banknote recovered by this operation did not circulate in the form of coin but was melted

and exported, which may have been an additional important factor leading to the contraction of the total amount of currency in the country and so to the fall in the price of gold.

But the actually approved Act contained a device sufficient for checking such a rapid contraction in the quantity of paper note and the accompanying rapid fall in the price. As it would take a time of one year and 3 months to bring down these indexes by 4%, beginning with selling bullion at its current market price, BoE should have had no need to be in haste to recover currency or to try to buy as much gold as possible, since there would be no reason to demand convertibility once the depreciation of currency would disappear. ‘Till October 1820, the Bank need make no reduction, and then a slight one [hear!]; and he had no doubt that if they were cautious they might arrive at cash payments without giving out one guinea in gold. The Bank should reduce their issues cautiously; he only feared they would do it too rapidly [hear!]. If he might give them advice, he should recommend to them not to buy bullion, but even though they had but a few millions [the gold reserve in BoE at that time was around 4 million pounds. Feavearyear (1963), p. 229], if he had the management of their concerns, he should boldly sell. Every sale would improve the exchanges, and till gold fell to 3*l.* 17*s.* 6*d.* there would be no necessity for the Bank to make any purchases.’ (V/13. The record of parliamentary speech is written in the third and not first person of the speaker, and voices in the conference room are included. About these points, cf. ‘IV. How the Speeches were Reported’ and ‘V. The Speeches in the Present Edition’ in Sraffa’s ‘Introduction to the Speeches in Parliament’, V/viii-xxxiv. Ditto *infra*.) This speech of Ricardo made a large contribution to the passage of the Bill two days later. And, after having reported in the letter to Trower of the 28<sup>th</sup> of the circumstances till its passing and of his satisfaction about all, he ceased to speak about the problems of currency for a time.

On the situation relative to the currency from the 2<sup>nd</sup> July, on which the Peel’s Bill was given a Royal Assent, to September of the same year, when the Bill had not yet come into force, Ricardo tells briefly his view in the two letters addressed to Trower.

In the letter of the 8<sup>th</sup> July, he says, repeating the same words in the letter of the 28<sup>th</sup> May quoted above, ‘the triumph of science and truth, that the ‘great satisfaction’ it gave him ‘is not a little increased by observing the present state of the price of bullion and the foreign exchanges’. (VIII/44) And from the present state that ‘Gold is I believe at £3 18. P.r oz, —silver at the mint price, and the exchanges very nearly at par’ (*ibid.*), he predicts that ‘I think it but reasonable to hope that the permanent price of bullion will settle at the present rate’ (VIII/45) The market price of bullion Ricardo gives here is above its mint price only by 1.5 pence (at the rate of 0.16%), they are already in quasi-conformity. Since in his speech on the 24<sup>th</sup> May this rate was 3%, the price of bullion fell by

about 3% during the subsequent one and a half month. This rate of fall is about twice as rapid as the fall from 6% to 3% observed during a little less than preceding three months. In spite of such a rapid fall in the price of bullion, Ricardo stated that ‘the permanent price of bullion will settle at the present rate’. This was an extremely optimistic view. In order to check the fall of the bullion price below the mint price, the issuing bank should purchase gold passively and unlimitedly. But, as seen above, such a measure had slipped from the Resumption Act approved a little earlier. And even if there had been no such omission, BoE should not yet have been obliged by the provisions of law to do any transactions for stabilizing the price of bullion, since the law had not yet come into force. If a similar situation had invariably continued, at that time it would have already become necessary to review the Peel’s Act, to be implemented half a year later in supposing the price of bullion superior to its mint price by 4%. Considering such circumstances, Ricardo’s view on the present state of currency may be said to have been too optimistic.

Another source informing of Ricardo’s view on the present state of currency during a time from his parliamentary speech of the 24<sup>th</sup> May to the beginning of 1821 is his letter addressed equally to Trower on the 25<sup>th</sup> September, two and a half months after the above letter. He says there as follows: ‘I have pretty nearly discarded the subject of bullion from my mind. Every thing regarding its price and the foreign exchanges is going on so much to my satisfaction that I have nothing to wish for. I repose in full confidence on the wise checks which have been put on the Bank Directors—if they had been unrestrained they would again have mistaken the object which they ought to have in view; instead of taking measures to equalise the value of paper and gold they would have been thinking of the public good, and under a mistaken idea of promoting that, they would have administered an increased dose of paper.’ (VIII/79) While in the previous letter Ricardo told of his estimation in showing concretely the price of bullion, here he says only that he is satisfied with the present state, probably because he has already ‘discarded the subject of bullion from my mind’. He is as if completely feeling at ease in view of a law adopting his plan in outline. The only worry of which he still remains conscious is the excessive issue of banknote which actually occurred for a long time in the past. But now it is no more possible to recur.

Originally, BoE could issue its banknote in excess and expand its income of interest, only because it was exempted from the obligation of convertibility. But even if exempted from this obligation, for the first one or two years after the enactment of the Bank Restriction Act, BoE contained of itself the quantity of issue and was applying itself to hoarding gold reserve, for ‘fear’ of the convertibility possibly to be resumed soon. Subsequently, only toward the turn of century when such a fear faded away, BoE began to increase its issue in taking advantage of its exemption from

convertibility (cf. IV/99-100). Judging from such a 'timid' behaviour of the directors of BoE of which Ricardo was clearly aware, there would have been no possibility of an excess issue of currency at a time when, though not yet enforced, a law stipulating the resumption of convertibility existed undeniably. On the contrary, it was rather its excessive contraction that should have been worried about. He was talking about such worries in his parliamentary evidence in March etc. Once the Bill approved, did he forget that? At least in the above quoted letter, he seems to have lost every sense of caution with this regard.

But in fact, a few years later Ricardo got clearly aware of the fact that, while he was absorbed in such a satisfaction and optimism as seen above, BoE was to set about an excessive recovery of banknote and an equally excessive accumulation of reserve gold. In his speech of the 11<sup>th</sup> June 1823, his last parliamentary address on the currency problem, Ricardo presents a view on the situation existed four years before, entirely different from that in the above quoted two letters. 'The Bank, from the moment of the passing of the bill in 1819, set their faces against the due execution of it. [...] Instead of maintaining an amount of paper money in circulation, which should keep the exchanges at par, they so limited the quantity as to cause an unprecedented influx of the precious metals, which they eagerly bought and coined into money.' (V/312) Because BoE started such actions contrary to the enforcement of the Resumption Act far before Ricardo got aware of it, the step by step procedure of the execution it stipulated from the 1<sup>st</sup> February 1820 to the 1<sup>st</sup> May 1823 was to be obliged to adopt halfway a large amendment. Ricardo could have noticed its symptoms as early as in summer or autumn 1819. In the same parliamentary speech quoted above, he recognizes his error on this point as follows: 'this, then, was the error which he (Mr. Ricardo) had been guilty of: he had not foreseen these unnecessary, and, as he must add, mischievous operations of the Bank.' (ibid.)

As summarily introduced above, the Peel's Act stipulated the bullion payment with 60 ounces (corresponding to about 1800g) of it as unit to begin from the 1<sup>st</sup> February 20. To prepare for this obligation of payment, BoE brought bullion of a certain weight and fineness to the Mint to make it cast into ingot stamped with a seal composed of the initials of the King Georg (R. G.) and of the design of crown<sup>41</sup>. The ingot itself is not extant, only the bronze stamp to engrave the seal on the ingot is handed down. According to the image of the stamp published in *the Economic Journal*, this ingot seems to have been of a cylindrical form of 34mm in diameter. Calculating from its diameter, its

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<sup>41</sup>The following description about the ingot fabricated at that time draws on the related passages from 'Notes on the evidence on the resumption of cash payment' by Sraffa, V/368-70, and on the short notice on 'current topics' published in p. 591 of the issue of December 1923 of *The Economic Journal*, issue following immediately Bonar (1923). A part of the related passages by Sraffa is also based on this notice.

area of base is about  $9\text{cm}^2$ . Since the density of gold is about 19, the volume of 60 ounces  $\approx 1800\text{g}$  is about  $95\text{cm}^3$ . Therefore, this ingot was like a gold bar of  $3\text{cm}$  in diameter and of about  $10\text{cm}$  in length. As Ricardo's plan of bullion payment became known in and out of parliament in the first half of 1819 and an Act adopting this plan was expected to be approved soon, the fabrication of the ingot for this purpose was also expected. As early as in May, in advance of the passage of the Bill, this ingot was named 'Ricardoes' after the name of the proponent. But it was only a commonly used name, not the official name. Till the beginning of 1820, the Mint cast 2028 Ricardoes in total and delivered them to BoE. This quantity of Ricardoes amounts to a little less than 500,000 pounds, i.e. to about one tenth of the total quantity of bullion BoE held at that time.

The bullion payment with Ricardoes (their sales for banknote) was begun according to the law at first with the rate of 4 pounds 1 shilling per ounce, but at that time the price of bullion was below its mint price, and there was virtually no one who would buy Ricardoes (be paid in bullion from BoE) at a loss. Afterwards, according to the stipulation of the Peel's Act, the price of Ricardoes was decreased, but it still remained higher than the market price of bullion. Finally, only a very few rich collectors bought them out of curiosity, and during one year and three months from the 1<sup>st</sup> February 20 to the 1<sup>st</sup> May 21, not more than 13 were sold at the respective current prices. The rest of 2015 were sent back to the Mint to be melt to bullion or mint to coin. 'It is unfortunate but not surprising that neither at the Bank nor at the Royal Mint nor at the British Museum is there any sample of the Ricardian bars. Sixty ounces of gold, with no "artistic merit" superadded, are a costly curiosity.' (Bonar (1923), p. 297) The ingot was made only for the convenience of the business of bullion payment of BoE without any other use, so that those who obtained it could not but change it in other form destined for respective uses. That is why only the stamp for seal on the ingot is handed down.

The fall in the price of bullion under its mint price means an influx of gold from abroad. BoE made a large amount of purchase of gold which began to overflow in the country. In this way, compared to the level observed two years before, in May 1821 the gold reserve in BoE had nearly tripled (which is the highest since before the bank restriction period. Cf. Feavearyear (1963), p. 227-9). This is a level at which the cash payment would have been regarded possible enough. In such a situation, the Bank Cash Payments Bill was approved on the 13<sup>th</sup> April 1821 (the text of which is reproduced in Bonar (1923), pp. 303-4), according to which the freedom of choice (between bullion and coin) to be given to BoE in the Peel's Act from the 1<sup>st</sup> May 22 would be advanced by one year to begin from the 1<sup>st</sup> May 1821<sup>42</sup>. In this Bill cash payment was to become obligatory equally from the

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<sup>42</sup>In fact, in addition to this, the Bank Cash Payments Bill was enacted for another reason, the spread

1<sup>st</sup> May 23. Though bullion payment was to remain legally possible for 2 years, the Ricardoes, especially conceived for this purpose, had already disappeared. Ricardo's plan of bullion payment virtually ended here. Furthermore, for the first 1 year and 3 months till April 21, the plan did not actually work even as a temporary measure. When the conversion began factually only in coin from the 1<sup>st</sup> May 21, it was carried out not only for the banknotes with a face value equivalent and superior to 60 ounces of bullion, set as the minimum for payment, but the minimum unit of payment must have been the face value of small notes (1pound notes) corresponding to that of one pound sovereign coin newly issued from 1817.

## 2. Change in the state of currency and agricultural distress, pursuit of the 'responsibility' of Ricardo

As seen in the previous subsection, during a time as long as one year and a few months after he expressed an extremely optimistic view on the evolution of the state of currency and its future prospect in the letter to Trower of the 25<sup>th</sup> September 1819, Ricardo made no mention on the problem of currency in his writings, as if he had truly 'pretty nearly discarded the subject of bullion from my mind' (VIII/79). Around this time, he was occupied with the drafting of *Funding System*. And, after *Principles of political economy* of Malthus was published at the beginning of April of the following year 1820, Ricardo continued till toward the end of this year to write a detailed 'Notes' on this new publication of Malthus (included in volume II of *Works*), and during the latter half of this year, in the intervals of the writing of 'Notes', he was busy preparing the third edition of his *Principles* including a number of wide-ranging corrections, above all in chapter one 'On value'. During a time when Ricardo's attention was thus temporarily away from the 'subject of bullion', the state of currency was steadily evolving toward a direction widely different from what he had expected under the Peel's Act in force from the 1<sup>st</sup> February 20. The first symptom of this evolution was the petitions repeatedly submitted to parliament from landed and commercial interests coming from various districts. After the enactment of the Peel's Bill, already during the time from the end of 1819 to the end of 20, such petitions had been submitted, but the first of them Ricardo found it necessary to take seriously was 'Trade of Birmingham --- petition of merchants'. It is shown in his speech delivered about this petition on the 8<sup>th</sup> February 21, one year after the enforcement of the Act.

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of forgery of the small notes, typically of 1 pound notes, emerged to the surface in this period (cf. next subsection). The trend, contrary to what Ricardo aimed at, toward recovering the small notes inevitably involving the inconvenience of the spread of forgery and toward replacing them with coin, was one factor pressing on to its enactment (cf. V/91-2).

The business conditions on which the merchants made appeal to the parliament were a slowdown and distress in the commercial activities caused by the general fall in price. Moreover, such a situation was not limited to some particular towns but spread over the whole of England. And the responsibility for this distress was attributed to the Peel's Bill, which had decided a change in monetary regime 2 years before, and to Ricardo, its virtual proponent. Then, equally in parliament Ricardo was accused for the same reason. Compelled to plead or argue against it, he said as follows: 'the relative value of the two metals [gold and silver] had varied since the act of parliament; but what was the cause of that variation? It was this: the Bank being a timid body, seldom clinging to the true principles of circulation, had taken alarm, and had made great and unnecessary purchases of gold, although they found, by experience, that no person applied to them for any. He [Ricardo] almost doubted whether a single bar [Ricardoes of 60 ounces of bullion] had been demanded from them since the commencement of the new plan.' (V/75-6) Focusing on solely one point, rise in the value of gold, Ricardo claims here that the cause of the distress described in the petition is not the proposal he himself had made but the erroneous acts of BoE, saying that the true cause of the fall in price consists in BoE's unnecessary great purchases of gold enhancing its value. After that, similar petitions were continuously submitted to parliament and in parliament a review of the procedure of execution of the Peel's Act was repeatedly claimed. On each occasion, Ricardo was to stand in a position of the 'responsible author' to be accused and compelled to make pleadings.

In the Peel's Act of May 1819, it was stipulated that from the 1<sup>st</sup> May 1821 the price of bullion to be payed would be brought down to its mint price, and that from the 1<sup>st</sup> May 1822, one year after that, the cash payment (conversion in coin) would become possible along with the bullion payment. However, at the opening of the parliamentary session of 1821, in addition to the submission of petitions seen above, came to the surface two other situations urging to abolish the bullion payment to carry earlier the cash payment into execution. The first is that, as Ricardo told about in his speech quoted above, BoE was buying an enormous quantity of gold to mint into coin for expanding its cash reserve. The second is that the forgery of small notes, of 1 pound notes to begin with, was spread, a subject which quite suddenly emerged to the surface only in this period.

As for the first point, the depreciation of banknote had almost disappeared soon after the passage of the Peel's Bill, as seen in the previous subsection. But BoE continued to contract the currency. Because of this, the bullion price fell below the mint price and the foreign exchanges rose. Exportation of cheap commodities from England expanded, and on the contrary a great amount of gold flew in from abroad. BoE bought this gold in large quantities and hoarded it as gold reserve. Indeed, during a year from February 1820 when the Peel's Act came into force, the quantity of

bullion in the coffers of BoE increased more than twice, and its amount attained the highest level since 1790, prior to the suspension of convertibility (Feavearyear (1963), *ibid.*). And, to prepare for the conversion in coin from the 1<sup>st</sup> May 1822, BoE made it cast into coin in the Mint. From the 18<sup>th</sup> century, in England the guinea was minted, worth 1 pound 1 shilling (21 shillings) instead of 1 pound, but following the passage of Lord Liverpool's Act in 1816 specifying gold as the sole standard of value in excluding silver from this place, from 1817, in place of guinea the sovereign coin, worth just 1 pound, came to be issued. The coin BoE thus collected in quantities at the beginning of 1820's was this sovereign. It was probably more convenient than guinea for conversion (exchange for note) since its unit of face value was the same as the 1 pound note. As BoE prepared in this way a reserve of coin of sufficient amount to resume the cash payment as early as toward the beginning of 21, it went so far as to demand to parliament a measure allowing it to advance by one year the resumption of cash payment originally foreseen to begin in May of the following year.

As for the second point, Ricardo says in his letter to Trower of the 2<sup>nd</sup> March 21 as follows: 'I am sorry that no security can be found against the forgery of Bank notes, —the recalling of the one pound notes cannot fail to enhance the value of the currency.' (VIII/350) Here he is claiming the maintenance of 1 pound notes in circulation so as to prevent the price from falling further, but he seems not yet to be worried about the circulation of coin in place of the recovered 1 pound notes. To this passage Sraffa adds a following note: 'On 20 February it was stated in the House of Commons that the Commissioners appointed to inquire into the means of preventing the forgery of Bank Notes had so far failed to discover a process which would produce an inimitable Bank Note. Vansittart [Chancellor of Exchequer] on 19 March pointed to these disappointing results as a circumstance which justified the anticipation of the period in which the Bank should resume the issue of gold coins.' (*ibid.*, note 1) And on the same day the 'Bank Cash Payments Bill' was presented to parliament. The Bill was virtually intended to recover the small notes like 1 pound notes susceptible to forgery and to put into circulation in their place the sovereign (alternative to them with regard to its face value), then sufficiently prepared in BoE. If the forgery put serious obstacles to the circulation of the small notes, an alternative means of small payment was indispensable. The only candidate for this was sovereign.

In the condition of the suspension of convertibility and the depreciation of currency during the bank restriction period, coin (guinea at that time) was no more supplied anew, and at the same time the coin in circulation was melted down to be exported. Originally, the issue of the small notes began from the end of the 18<sup>th</sup> century, to fill in the blank spaces in circulation for the small payments. But subsequently the total amount of the small notes gradually expanded, to drive out almost wholly the



coin and to replace it around 1810. The paper currency is used as 'money' of a value totally independent of the intrinsic value of its material, piece of paper, virtually equal to null, with figures printed on it. Just as Ricardo says, the value of paper currency is entirely made up of 'seignorage (benefit for issue of money)' (cf. I/353, IV/114). But, according as its face value is small, this benefit for issue of money becomes small. In the case of 1 pound notes this benefit per piece of paper is minimal. In addition, since the face value per piece is small, for a certain total amount the number of pieces to be issued is large, which makes the small notes a 'commodity of relatively high cost' for the issuing bank. Moreover, since the small notes are used by many people as a means of every day consumption expense (income circulation), their rapidity of circulation may be generally high and so the interval of their renewal rendered necessary by tear and wear may be generally short. This too becomes an additional factor tending to increase the cost for issue of the small notes. In contrast, the contrary may apply to the notes of high denominations in all these points.

As a result, the issuing bank will reduce to a maximum the cost for the paper as material of the small notes, for their design and printing. In this way, they seem to have been likely to be of 'clumsy' (V/92) make, which may have made easy the forgery of small notes. Furthermore, since they were issued in a huge number to be used frequently by the general public, the forged small notes, once mingled into circulation, would be barely retraceable. On the contrary, this may have been a deterrent to the forgery of notes of high denominations. But on the other side, in view of the tiny benefit to be expected from the forgery and use of small notes for their troubles, the incentive may have been also small. If in spite of this their forgery spread, it may be because no high technical procedure was needed for it and that it was an act of fraud 'relatively easily accessible to anyone'. But in any country and in any time, the fabrication and use of counterfeit currency, considered by the State monopolizing the 'coinage prerogative' to be a violation of this power, to be an act disturbing the monetary (economic) order of a country, are in general very severely punished. It was the same for England at that time. In Ricardo's time, 'the numerous executions for forgery throughout the country' (V/201, see also IV/225-6.) were carried out. If a use of a counterfeit note, even if of only 1 pound, was worthy of death penalty, people would have neither accepted nor used 1 pound notes never knowing when to have a counterfeit note palmed off as true. The circulation of 1 pound notes seems to have fallen stagnant thus. But in spite of this, some means of small payment corresponding to this face value was always indispensable. This was also one of the reasons for which BoE demanded an early resumption of cash payment in order to stop the use of small notes and replace them with coin. Ricardo, as for himself, could not have bluntly refused it.

By the way, as we have said above, the small notes like 1 pound notes were already issued and circulating from more than 20 years before the problem of their forgery became an item on the agenda in parliament. If all through this period the conditions concerning the fabrication, issue and use (and also forgery) of the small notes remained the same, why did the problem of their forgery emerge suddenly to the surface toward the beginning of 1821 (as it appears to have done, at least judging from the materials included in *Works*) when the resumption of convertibility became an urgent subject? Why had not the forgery spread before that time, or, if it was widely spread, why did not that lead to a stoppage of their use? Were they to be used continuously in spite of the evils they implied (while Ricardo noticed only its advantages) for lack of other alternative means of circulation for a while (because of continuation of the bank restriction), even if their forgery never ceased? The answer to these questions could possibly not be obtained from the texts of Ricardo. It is to be left to some future studies as a subject in suspense.

Now let us return from a digression, gone a little too far. The accumulation of reserve in cash by BoE and the demand for an early resumption of cash payment for the reason of the forgery of small notes were evidently contrary to the plan of bullion payment. The emergence of such a countercurrent in the process of execution of the Peel's Act embodying this plan in outline would have given Ricardo a strong shock. One factor of this countercurrent had already become an established fact, and the other factor was difficult to object to even for himself. The parliamentary speech of Ricardo of the 19<sup>th</sup> March 21, on which the 'Bank Cash Payments Bill' was presented, gives an impression that Ricardo was temporarily shaken up in his strong hope and claim for legislation of the plan of bullion payment and its effectual enforcement, and 'weakened' (I/xxxviii) his position (in a sense different from that in which Sraffa used the term). Indeed, while always continuing to analyze the evolution of the situation after the enforcement of the Peel's Bill and to criticize BoE in his parliamentary speeches, he was no more to appeal to carry his plan into execution. In his speech of that day he affirmed that the Peel's Act and himself were not responsible for the fall in price exceeding 5%, in showing that the current fall in price was due not only to the 5% rise in the value of currency foreseen by the Act, but also to the rise in the value of gold caused by the erroneous acts of BoE and to real factors particular to the agricultural sector, and in conclusion he said of the then presented Bill and of the future of the English currency regime as follows: 'it was perfectly clear, that whether the issues consisted altogether of Banknotes, or half in Bank-notes and half in sovereigns, the danger of forgery would be the same. The only effectual remedy against forgery would be, to hasten the period at which the Bank might commence payment in specie. He should be perfectly ready to abandon his own plan, if by so doing that most desirable object could be

effected; and he was quite satisfied that the Bank was at this time in such a state of preparation, that in a very few months they might provide the best and only effectual security against the imitation of their notes, by returning to the system of currency which existed in this country previous to 1797.’ (V/96-7)

Thus he delivered a speech for the ‘Bank Cash Payments Bill’ stipulating a resumption of cash payment to be commenced a little more than one month later and the virtual institutional cessation<sup>43</sup> of bullion payment. The deliberation on this Bill still continued and Ricardo delivered three other speeches. And it passed the House of Commons on the 13<sup>th</sup> April on which he made the last speech on it, to come into force on the 1<sup>st</sup> May. In this Bill too, the cash payment was not obligatory until the 30<sup>th</sup> April 23, before this date the bullion payment was to be included as one of the choices. But, as more than 2000 Ricardoes ‘left unsold’ were sent back to the Mint at the same time as the enforcement of this Bill to be changed into bullion or coin, the bullion payment was also formally abolished. It is because of this that in the economic history the definitive end of the bank restriction and the resumption of convertibility are situated in 1821.

In his speech of the 19<sup>th</sup> March, Ricardo says that to get rid of the forgery there is no way other than to substitute coin for small notes by means of cash payment, and estimates BoE for having prepared a sufficient reserve necessary for it (regardless of whether such was intended or not). And he goes so far as to declare that he is ‘perfectly ready to abandon his own plan’. It was no more possible to return the situation progressed so far to its initial state in order to insist on the execution of his plan. It may certainly be said that he abandoned the plan of bullion payment as a present practical program. But he seems to have kept a sort of ‘conviction’ that it is the best possible monetary regime that can be theoretically thought. In a letter addressed to Trower on the 5<sup>th</sup> March 1822, one year after this speech, he says that, in case of emergency, ‘it might become necessary to adopt the Ingot plan of payment once more.’ (IX/176) After the above speech, Ricardo spoke about the execution of the plan of bullion payment only in this informal and private ‘confidence’ made to his reliable friend in correspondence from oldest times. Of course during the lifetime of Ricardo his plan was never reviewed or restored. Incidentally, since Bonar (1923) the plan of bullion payment of Ricardo has been often called ‘Ingot Plan’, but Ricardo himself used this term only once in the above quotation. Here, ‘ingot’, a common noun, is notated in majuscule ‘Ingot’ as if it were a proper noun, with a possible implication that it designates some particular thing. It may probably mean Ricardoes, prepared for bullion payment till one year earlier. There may not have remained any one at the time

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<sup>43</sup>It had ceased in fact. Or rather it did not work from the outset. If it ever worked, it was only for postponing the cash payment.

when Ricardo wrote the letter. The disappearance of Ingot may have been for Ricardo an event symbolizing that of the plan of bullion payment, but he seems to have kept somewhere a belief in the possibility of his plan to recover again its validity and necessity in some future time.

But, in spite of the fact that the bullion payment disappeared and the cash payment was resumed, in and out of parliament Ricardo was always accused of his ‘responsibility’ for the subsequent situation of currency. Since ‘Bullion Report’ in 1810, he had been regarded as the standard-bearer of the bullionism claiming the resumption of convertibility. Every inconvenient situation occurred after the banknote of BoE became again convertible, whether in coin or in bullion, was always attributed to his responsibility, which obliged him to fight back against such attacks in repeating parliamentary speeches. In addition, he repeats complaints about the attacks against him on currency situation, in particular in his letters to Trower and McCulloch. It was after an organized movement began from the end of 1822 with aggravating ‘agricultural distress’, that the attack on Ricardo became still more stronger. After the opening of the parliament session at the beginning of February of the following year, he made 5 speeches, long and short, on this ‘agricultural distress’ till May. As in the previous year, he was successively nominated a member of ‘Agricultural Committee’ in the House of Commons. And, as soon as the report of the Committee was presented, as a member of dissident minority, he wrote and published a pamphlet mainly aiming at attacking it in a very short time (as usually) to be in time for the deliberation in parliament (*On Protection to Agriculture*).

It is his letter to Trower of the 11<sup>th</sup> December 1821 that indicates the first symptoms of such a movement. In this period, early in winter, just after the harvest time of every year, the transactions of agricultural products are at their peak through the year. And at the same time it may be the transactions in this period that play an important role in forming the annually varying market prices in agriculture. The fact that the attacks on Ricardo became stronger with the ‘agricultural distress’ in this period of the year seems to be in relation with such a seasonality of the production and circulation of agricultural products<sup>44</sup>. He says to Trower as follows: ‘in the country I find much error

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<sup>44</sup>According to the Table of monthly average price of corn at that time by Tooke (Tooke (1838), p. 390), in 1821 the corn price began to fall from November, and in December the price per Winchester quarte (amounting to about 2.27*l*) fell to 49 *s.* by 5*s.* 1*d.* from the previous month. It was for the first time since January 1799 that the corn price had dropped below 50*s.* Moreover, from the beginning of the following year, 22, the price still fell continually to attain in December its minimal level of 38 *s.* 11 *d.* around this time. It was probably with such an evolution in the corn price in the background that the ‘agricultural distress’ became the subject of discussion from the opening of the

prevailing on the subject of the currency, every ill which befalls[sic] the country is by some ascribed to Peel's bill, and Peel's bill is as invariably ascribed to me. The whole fall in the value of corn and cattle is by such persons said to be merely nominal, these things they say have not in fact fallen, it is money which has risen —they will not hear of a variation in the value of money of 10 pc. which I am very willing to allow them, nor will they listen to my defence[sic] of myself against their unjust accusation.' (IX/122-3) In view of the fall in the selling price of their crop, the landed interests sought every cause of this fall outside of their activity (agricultural production) and directed their anger against Ricardo, author of the rise in the value of money, and accused him of its 'responsibility' (it may be also because he had been from the beginning against the Corn Laws emphasizing the importance of cheap crop, that they directed their anger against him on this 'good occasion'.). But the price fall by the monetary factor was not more than 10%, moreover 5% thereof belonged to the responsibility of BoE. Subsequently Ricardo had to repeat many times such a pleading and explanation.

The 'error prevailing on the subject of currency' 'in the country', mentioned at the head of the above letter, hints at what Ricardo saw and heard when he made a speech on economic issues, currency problems among others, in attending a celebration for one of his colleague parliamentary members held a few days before in a small country town not so far from London. A few days after that, another similar meeting was held in other nearby small town, but this time Ricardo was absent. As if to refute his speech at the first celebration party, in the second meeting in his absence 'some of the speakers attacked him for his currency plan to the operation of which they attributed the fall in the prices of agricultural produce.' (V/515) In his letter to McCulloch of the 3<sup>rd</sup> January 22, Ricardo reports on this matter as follows: 'Some of Mr. Cobbett's admirers spoke of my false predictions at Monmouth [where took place the second meeting] —the same men were at Hereford [the first meeting was held there], where I had an opportunity of speaking for myself, for I was present, and then they said nothing' (IX/141) After having known from a newspaper report that he had been tried in absentia in the meeting in Monmouth, he drafted the manuscript of an open letter to contribute to a newspaper for arguing against this publicly. This draft is included in volume V of *Works* as 'Draft of

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parliamentary session of 1822. On the other hand, fall in the corn price during the fourth quarter of the year had been observed successively in 1819, 20 and 21, alluding to the fact that there were good crops in these years. Ricardo too says in his speech of the 11<sup>th</sup> June 23 in the House of Commons that 'the true cause of the greater part of this alteration' is in 'the abundance of the supply' by 'the effect of two or three abundant crops.' (V/315)

a letter to a newspaper on the effects of Peel's Bill' (V.515-21) While the draft is handed down, it is no more known to which newspaper he sent it, whether he did ever send it to somewhere, or whether it was published somehow (cf. V/515). In this manuscript Ricardo makes always a similar counterattack against similar recurrent attacks without bringing forward any new points compared with his precedent statements. He was obliged to conduct infinitely such sterile debates, which he never abandoned in continuing to fight to the end.

William Cobbett, mentioned in the above quoted letter, is one of those who appeared on the scene when the attack against Ricardo gained in force with aggravating agricultural depression. Journalist, he continued to hurl a stream of abuse at Ricardo by means of his influential weekly *Cobbett's Weekly Political Register* with a large circulation. His words once made Ricardo worry about the currency situation (cf. his letter to Trower of the 5<sup>th</sup> March 22 (see supra), IX/176), but he seems to have said nothing of any significance for Ricardo.

Along with Cobbett, it was Charles Callis Western, old-timer member of parliament of the Whigs, who set himself foremost in the attack against Ricardo in parliament in the session from February 22. Belonging to the landowner class, he stood in a severe opposition to Ricardo over the causes and influence of the fall in agricultural price. Every time Wester proposed a motion for accusing the results of the Peel's Bill and claiming its repeal, Ricardo delivered a speech against his motion in defense of the Bill and himself. But, in the debate between them, Ricardo never obtained any positive suggestions from the criticism of Western. And particularly in the speeches against him, he seems to have hardly taken seriously the contentions of Western. However, among the many related parliamentary speeches Ricardo made from the opening of the session in February 22 till its closure in July 23, the most important two (of the 12<sup>th</sup> June 22, of the 11<sup>th</sup> June 23) were both motivated by the motions of Western. In so far as this, he might be said to have contributed to Ricardo's activities in parliament over the currency problem. Along with the section V of *On Protection to Agriculture* published in the mid-April 22, these speeches include comprehensive analyses of Ricardo and explanations on his position about the situation of currency 2 to 3 years after the enforcement of the Peel's Act. We will try to analyze them together in the next subsection.

Now, at the same time as the debates in and out of parliament were going on, from the 1<sup>st</sup> May 21 began the payment of banknotes with coin on the basis of the Bank Cash Payments Bill passed just before, which brought about a wide change in a short time to the state of currency in England. During the whole of this period, Ricardo continued saying that 5% in the fall of prices expressed the rise in the value of currency just foreseen in the Peel's Bill, while the other 5% represented the parallel rise in the value of gold itself as standard of money, so that the price fall caused by the

monetary factors was 10%. If these figures were obtained in relying on meticulous observations on empirical data as confirmed for his previous affirmations, it may be thought that, at least as long as he was adopting the calculation  $5 + 5 = 10$ , the price of bullion was nearly equal to its mint price or did not largely deviate from the latter, hence there was neither international efflux nor influx of gold on an important scale (cf. Tooke (1838), p. 385). This means that the changes in the state of currency during this period were limited to changes in the state of domestic circulation, moreover to those not accompanied with changes in the value of currency (in the sense both of the price of gold and of the value of gold itself). In his letter addressed to Trower on the 9<sup>th</sup> June 1822, about one year after the resumption of cash payment (three days after this date Western was to present a motion and Ricardo was to make a ‘harangue’ against it), in giving concrete figures on the situation of currency he says as follows: ‘the whole amount of circulation, at the present moment, both in London and the country, does not probably much exceed 32 millions[sic] [pounds], of which there are nearly 16 millions of Bank of England notes of 5 pounds and above, 7,500,000 of sovereigns, and nine millions of country Bank notes. If this be true there has been little or no falling off in the amount of Bank of England notes and coin together since 1819, but country Bank notes have diminished to the amount of 7,500,000£ [...]. By a return laid before the H of Commons more than 19 millions of sovereigns have been coined since 1817. During the period that the Bank so foolishly issued coin, when it was advantageous to export it, they got rid of 5 millions of sovereigns, so that if these were all exported more than 14 millions of sovereigns must now be in the country. Besides this quantity of gold it is probable the Bank may have a tolerable supply of bullion, and perhaps also some guineas.’ (IX/201-2)

According to the figures given here, the total quantity in circulation of the notes of high denominations, of sovereign and of the country bank notes is nearly equal to the total amount of currency in circulation. I.e. the other kind of currency (small notes equal under 5 pounds<sup>45</sup>) was not in circulation at that time. This means that the small notes issued from BoE were almost entirely replaced by sovereign during a time only a little more than one year from the beginning of cash payment. I.e. after the resumption of convertibility the state of currency circulation got back in a short time to that observed before 1797.

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<sup>45</sup>In the change of the state of currency in England after May 21 Ricardo analyzes in this letter are naturally included the withdrawal of small notes from circulation (and the spread of forgery as its cause) and the recovery of the great amount of Ricardoes ‘left unsold’. In neglecting these elements, it is impossible to evaluate his analysis, but he does not at all mention them.

And Ricardo says that the actual total amount of circulation made up of the total of the banknotes of BoE of 5 pounds and above and of coin is nearly equal to that of 1819. But hasn't he affirmed since more than one year that the price fell twice as largely as the Peel's Act had foreseen ( $5 + 5 = 10$ ), because BoE contracted largely the quantity of issue of currency and increased its value, induced a massive influx of gold from abroad and raised its value in buying it in great quantities? But he affirms here the constancy of the quantity of currency in circulation in comparing the state of 1819 and that of 21, and says nothing about how the quantity of currency has changed in the meantime. As we will discuss in detail in the next subsection, the quantity of banknotes issued by BoE seems to have largely diminished for a certain time from 1819 and subsequently to have turned to increase and recovered the initial level (but then the small notes were changed into gold coin). Induced by the rise in the value of currency (fall in price) caused by the initial decrease, large quantity of gold flowed in from abroad. BoE was prepared to obtain this gold to prepare for the conversion, and the exporters who had acquired gold from abroad would voluntarily sell it to BoE with profits at the mint price superior to the current market price. The purchase of gold by BoE was at the same time a new issue of banknote, and in proportion to the amount of such a transaction the quantity of currency in circulation expanded again.

Further, the quantity in circulation of the country bank notes too seems to have changed in parallel with the change in the quantity of banknote of BoE. The banknotes issued from the small scale country banks at that time maintained their value as currency by the guarantee of 'conversion' with the banknotes of BoE. Hence the evolution of their issue seems to have had a tendency to follow more or less that of the issue of BoE. In the former phase mentioned above, the quantity of issue of the two kind of banknotes may have equally diminished. But in the latter phase, only BoE turned to an increase of issue to buy gold. Moreover, as the value of gold rose worldwide through the former phase<sup>46</sup>, the quantity of currency necessary for mediating a certain amount of transactions must have diminished. Since Ricardo says in the above quotation that 'country Bank notes have diminished to the amount of 7,500,000£', the total amount of currency contracted from about 40 million to about 32 million i.e. by circa 20% during the three years after 1819, and this contraction was wholly due to the diminution of issue of the country bank notes. The position of BoE with regard to the country banks may have been strengthened as much.

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<sup>46</sup>If any change took place neither in the state of currency in the other countries nor in the scale of world commerce, the contraction of banknote in England, occupying an important place in the world (in fact West-European) economy meant, according to the theory of Ricardo, also a contraction in a lesser proportion of the total amount of money in the whole world composed of gold and banknote (cf. III/54-7). This must have raised the value of gold as much.



As was seen at the beginning of subsection 2 of section V in the present article, with the definitive ending of the Napoleonic War at the end of 1815, BoE, foreseeing the conversion to be resumed before long, began to prepare a reserve of coin. As the conversion was not prohibited under the prolonged Bank Restriction Act, in December 16 when BoE judged its reserve of coin to have attained a level sufficient for responding to a certain extent of demand of conversion, it began to accept newly the demand of conversion limited to the banknotes issued before a certain time in order to avoid a demand going beyond its capacity. But the conversion was hardly demanded, as the price of bullion was below its mint price at that time. But when BoE announced again an equally limited resumption of conversion in September 17 after the issue of sovereign began in place of guinea, this time there was a rush of demand for conversion. Thus the coin accumulated in BoE continuously drained, but it had not to worry about a possible exhaustion of gold reserve, because the conversion was limited to the banknotes issued during a certain time. In this way, the conversion with sovereign continued till the execution of conversion prior to the passage of the Resumption Bill was required to stop in the reports of the Secret Committee presented in April and May 19 for the preparation of the Bill. When he said in his letter to Trower quoted above that ‘the Bank so foolishly issued coin, when it was advantageous to export it, they got rid of 5 millions of sovereigns’, Ricardo meant what was happening then. For nearly two years from September 17, the price of bullion was invariably above the mint price (Tooke (1838), p. 379). The aim of demand for conversion in such a situation was to get profits to be obtained in melting and exporting the coin drawn from BoE. Therefore, the ‘5 millions of sovereigns’ BoE ‘got rid of’ ‘were all exported’. This also may have been a factor of the continuous fall in the price of bullion throughout this period.

However, after such an ‘anticipated’ cash payment was temporarily suspended by the passing of the Peel’s Bill, and instead of it, from February 20 the bullion payment with ‘Ricardoes’ was put into execution (virtually supposing from the outset the bullion used in payment to be exported), no substantial payment in accordance with the Peel’s Bill was made, as the price of payment was always above the market price of bullion however little it might have been. And prior to the cash payment to be carried into execution in advance from May 21, almost all of 2028 ‘Ricardoes’ (corresponding in total to a little less than 0.5 million pounds), ‘left unsold’, were changed into bullion or sovereigns in the Mint and added to ‘a tolerable supply of bullion [and coin]’ of BoE (IX/202). According to the calculation of Ricardo, of the sovereigns amounting to more than 19 million pounds minted since 1817, 5 million were reduced to bullion and exported, 7.5 million remained in domestic circulation, the rest of a little more than 6.5 million were hoarded in the coffers of BoE. In adding to this ‘tolerable supply’ of old guinea and bullion, one can see how much

gold in various forms BoE was hoarding 'in vain'. Ricardo accuses BoE of this in saying that 'how badly has this business been managed!' (ibid.).

One point was common to the several trials of resumption of exchange of banknote for gold from December 1816 to April 21, whether in coin or in bullion: it was only when the bullion price was above the mint price, that the holders of banknote demanded payment to BoE. Otherwise, the public would not want to get gold even if their banknotes could be exchanged for gold. This is precisely the way of behavior of the banknote holders Ricardo theoretically supposed, and on the basis of this supposition he conceived a regime of 'economical and secure' currency. But ironically, such a behavior of them supposed by him drove on the contrary his plan of bullion payment into a temporary dysfunction, due to the intervention of the unexpected act of BoE.

When the cash payment was resumed in May 1821, earlier than foreseen at first, the price of bullion was staying stable at about the same level as the mint price. If then the holders of banknote behaved always in the same way as before, the demand for conversion should have been virtually null, but this was not the case. Unlike in the 'Resumption Bill' passed in May 1819, in the Act of the same name passed in April 21, while BoE was free to choose between coin and bullion for the payment of its banknote, the provision stipulating the minimal sum of banknote BoE would be obliged to pay was repealed (cf. Bonar (1923), pp. 303-4). Now, therefore, there was no more such a high hurdle like a bullion payment by 'Ricardoes' as its unit, Ingot of a considerable sum of about 240 pounds applied till April 21, and it was possible for all banknotes of every face value to be exchanged for sovereign. In this way, 'the numerous executions for forgery throughout the country, had made the public clamorous for a metallic circulation so as in a measure to compel the Bank to precipitate the substitution of coin for their one and two pound notes.' (words of a director of BoE quoted by Ricardo in his speech of the 12<sup>th</sup> June 22 against the motion of Western, V/201) Many banknote holders rushed to the window of BoE for their exchange for coin in order to avoid the use of small notes of which the forgery was spread. The great amount of demand for conversion at that time was different in its nature both from the 'run' caused by a panic when people rushes to the bank for conversion, suspicious about the value of paper currency, and from the ordinary act of conversion for the purpose of changing the depreciated paper in the coin of the same face value in compensation for the loss due to the depreciation. At the moment of the resumption of cash payment, any action for one of these motives was not likely to occur. The public wanted only to avoid Draconian punishments for use of counterfeit currency, in changing from banknote to coin the means of small payments currently used by them. In addition, this conversion went on with such a speed and on such a scale as to attain in less than one year 7.5 million pounds, an amount nearly equivalent

to the total amount of the small notes in circulation till May 21. On the other hand, for the holders of banknotes of high denominations for which there was no rumor about the risk of involvement in criminal offense of currency forgery, there would have been no advantage in converting a small number of their notes in a large number of coin not always easy to handle. Almost the whole of the 7.5 million pounds of sovereigns Ricardo mentions in his letter of the 9<sup>th</sup> June 22 may be thought to have been in circulation as a substitute for the small notes replaced with them in a short time a little more than one year from May 21<sup>47</sup>.

### 3. Pleading and analysis of Ricardo (section V of *Protection to Agriculture* and parliamentary speech in June 1822)

We have seen in the previous subsection a large change in the currency circulation in England occurred during 2 to 3 years after the enforcement of the Peel's Bill in February 1820, and how the agricultural distress caused by the large fall in prices taken place at the same time was imputed to the responsibility of Ricardo as the proponent of the Peel's Bill, who bore the brunt of attacks. Of course he refused to be responsible for the evolution of situation as a whole, tried to refute in parliament on every occasion. Such activities of 'defense' so to speak were repeated from toward the beginning of the parliamentary session in 21 to the end of the session in 23, i.e. for more than 2 years virtually till the end of his activities as a member of parliament. During that time, he tried counterattacks to every of the almost stereotyped attacks. After May 21, as there was no substantial change in the legal framework of monetary regime and the situation was gradually evolving nearly in the same direction within the same framework, there were no important changes in the points in contestation. For this reason, the debate was apt to fall into repetitions of similar arguments. But, in such a long-drawn-out war without a clear settlement to be described rather as sterile, Ricardo made a pleading of the position of his own and a certain coherent theoretical analysis on the vicissitude of the situation after the passing of the Peel's Act. In this subsection, we will confirm how he recognized the situation in taking up a part of *On Protection to Agriculture* (published on the 18<sup>th</sup> April 22) and of the two of his parliamentary speeches (delivered respectively on the 12<sup>th</sup> June 22 and on the 11<sup>th</sup> June 23),

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<sup>47</sup>About the situation in which the plan of bullion payment of Ricardo failed thus, Laidler says as follows: 'Counterfeiting of bank notes had been virtually unknown before 1797, but the increased circulation of low denomination Bank of England notes thereafter had offered considerable temptation to forgers. [...] Hence Ricardo's ingot plan was dropped, and when resumption was finally implemented in 1821, gold coin replaced small denomination notes in circulation.' (Laidler (1987), p. 293) Laidler says as if the forgery of small notes began at the same time as their circulation began after 1797, but this explanation leaves open the question why the problem of their forgery became so serious only in 1821 and so suddenly as to put an end to their circulation.

belonging to the 'later' period of his activities during the 4 years after the enactment of the Peel's Bill.

Soon after the opening of the parliamentary session in February 22, an Agricultural Committee was set up as in the previous year to deliberate on the measures to cope with the agricultural distress and to present a report. Ricardo was nominated a member as in the previous year. After the examination of witnesses a report was drafted as usual. Before presenting it to parliament, Lord Londonderry, president of the Committee, read it before the members on the 25<sup>th</sup> March (cf. Ricardo's letter to Trower of the same day, IX/180). The report, to which 'the landlords on the committee had succeeded in adding a number of protectionist recommendations', 'was much more definitely protectionist' ('Note on 'Protection to Agriculture'' by Sraffa, IV/204) in comparison to the report of the previous year (not actually presented because of the expiration of the term). Immediately after that, Ricardo began writing a pamphlet attacking this 'Report'. And the pamphlet was published on the 18<sup>th</sup> April, after the 'Report' had been presented to parliament on the 1<sup>st</sup> April, and before the deliberation on it would begin at the end of the month after the recess of Easter. This is *On Protection to Agriculture* (hereinafter *Protection* for short), which was also a 'counterproposal' of the dissident minority in parliament in opposition to the official 'Report' presented from the Agricultural Committee (cf. IV/203). The subject of *Protection*, drafted in this way, was to analyze the current agricultural distress from the standpoint Ricardo had adopted in opposition to the Corn Laws and to propose measures to protect the English agriculture. The section V 'On the effect produced on the Price of Corn by Mr. Peel's Bill for restoring the ancient standard' aims at proving the unjustifiableness of the attacks against the Act and himself, in elucidating the extent to which the fall in agricultural prices occurred during a little more than two years after the enactment of the Peel's Bill should be imputed to the influence of this Bill. For this purpose, he reveals in this section his fundamental views on the situation as a whole of the change in the currency circulation in England after the enactment of the Peel's Bill, at times remounting even to the preceding periods. What he says on the present state of the currency in this section, seems to be a sort of synthesis of his repeated speeches he delivered in parliament before and after the time of writing this pamphlet and also the source of these speeches.

The attacks against the Peel's Act or himself, against which Ricardo was obliged to repeat counterattacks during about two and a half years from the opening of the parliamentary session in 21, were like the following: 'when it is now said that money has been forcibly raised in value —25 per cent., according to some; 50, and even 60 per cent., according to others, they do not refer to 1819, the period at which that bill passed, but to the period of the greatest depression; and they charge the

whole increase in the value of the currency to Mr. Peel's bill.' (IV/223) In the period from 1813 to 14 when the depreciation of currency attained its peak after the suspension of convertibility in 1797, the price of bullion rose to 5 pounds 10 shillings, hence the depreciation of currency went so far as to about 41% compared to 'the ancient standard'. Even if taking this figure as criterion, the above attack against the Peel's Bill should be said to contain some exaggeration, but the criterion should be the current state of depreciation of currency at the moment of the enactment of the Bill. At that time, the price of bullion was about 4 pounds 2 shillings, i.e. the depreciation of currency was about 5%. 'In choosing to go back to the ancient standard' (ibid.), the Peel's Act foresaw a rise in the value of money hence a general fall in prices by 5%. In showing thus the precondition and the objective of the enactment of the Peel's Bill, Ricardo reminds the reader of the fact that the plan of bullion payment he had proposed was adopted in this Bill. This plan 'would have rendered the employment of any greater quantity of gold than the Bank then possessed wholly unnecessary', and 'if that plan had been adopted, not a particle of gold would have been used in the circulation'. (IV/224) Therefore, if the Peel's Act were implemented according to its provisions, the rise in the value of money should not have exceeded 5%. This is the fundamental position Ricardo persistently stuck to during two and a half years in the debate (which implies at the same time that the price of bullion, once fallen to the 3 pounds 17 shillings 10½ pence, the ancient standard, in May 21, remained nearly stable all through the period in question, i.e. that the value of money measured by the price of bullion underwent virtually no change.).

But in fact, two years after the enactment of the Peel's Bill, the prices had fallen far beyond 5%, the range of fall in the price of bullion. Since the current price of bullion at each moment should have been given as empirical data, incontestable for and easily accessible to anyone, in order to blame the rise in the value of money for this large fall in prices, one could not but affirm that the fall in the price of bullion caused by the Bill should have been equally large. The opponents of the Bill and Ricardo brought forward then a comparison seen above on the criterion of the price of bullion exceeding 5 pounds in a time as far as several years before the passage of the Peel's Bill, but this was evidently unjustifiable (moreover containing exaggerations). It was not so difficult to refute such a claim describable as an obvious demagoguery, but apart from a refutation an answer was always required to the question of how to explain the fall in prices actually exceeding 5%. It is certain that the fall in the price of bullion actually occurred during the two years from May 1819 was 5%. Therefore, the range of rise in the value of currency, calculated as the reciprocal of the market price of bullion, must have been also 5%. If during the same period of time the prices fell more than that,

the cause of such a fall should be sought elsewhere than in the variation (rise) in the value of currency in the sense of its purchasing power over the bullion.

As was seen above, in the Peel's Bill adopting Ricardo's plan there was nothing 'which could cause a rise in the value of gold'. (IV/224) The Bill stipulated that, after the execution of bullion payment as a temporary measure, the cash payment would be resumed in 4 years after its enactment. Therefore, till that time there should have been no need for BoE to hoard coin in its coffers for preparing for the conversion. But BoE, 'being a timid body' (speech of the 8<sup>th</sup> February 21, V/76) 'immediately commenced preparations for specie payments' (IV/225. Cf. V/312), and 'had taken alarm, and had made great and unnecessary purchases of gold'. (V/76) Such an action of BoE, wholly unnecessary according to the program of execution of the Peel's Bill (moreover begun 'immediately' after its enactment) raised the value of gold as standard of money. And with the rise in the value of gold, the quantity of currency necessary for mediating the same scale of commercial transactions would contract. In this case, even if there has been no change in the quantity of currency issue, the currency becomes relatively excessive and the price of bullion rises reflecting the rise in the value of gold, but the prices of commodities with their values unchanged do not change. When the relative depreciation of currency arisen in this way disappears and the quantity of its issue has decreased till the price of bullion conforms to its mint price, the commodity prices will fall as much. While the price of bullion gets back to its initial level, only the commodity prices have fallen. Here, therefore, if the 'value of currency' in the sense of purchasing power over bullion does not change, the commodity prices fall. In contrast, the rise in the value of currency (the dissolution of its depreciation) means a parallel and equal fall in the price of bullion and in the prices of the other commodities in general. If these two processes to be distinguished can be shown to have occurred in parallel and simultaneously, it will become possible to explain the fall in prices exceeding 5%, the rise in the value of currency.

Then, concretely by what means did BoE 'purchase gold in large quantities' and bring about a price fall beyond 5%? On this essential point the explanation of Ricardo seems to be elliptical, not to show step by step each of the actions and of their results BoE took and gave rise to immediately after the passage of the Peel's Bill. To see how the rise in the value of gold Ricardo talks about took place, and what its meaning was, it would be necessary to reconstruct the whole of the process from his fragmentary explanations. While the variations in the value of currency can be confirmed as concrete figures (5% in the present case) by intertemporal comparisons of the domestic market price of bullion easily known empirically, it is not easy to determine the value of gold and the range of its

variations, these variables necessarily involving international relations in Ricardo's theory. We are going to examine equally by what procedures and means Ricardo draws answer on these points.

In section V of *Protection*, the rise in the value of gold is explained as follows: 'their [BoE's] issues were so regulated, that the exchange became extremely favourable to this country, gold flowed into it in a continued stream, and all that came the Bank eagerly purchased at 3*l.* 17*s.* 10½*d.* per ounce. Such a demand for gold could not fail to elevate its value, compared with the value of all commodities. Not only, then, had we to elevate the value of our currency 5 per cent., the amount of the difference between the value of paper and of gold before these operations commenced, but we had still further to elevate it to the new value to which gold itself was raised, by the injudicious purchases which the Bank made of that metal.' (IV/225) Here is quickly described the process beginning with the diminution of the quantity of issue of banknotes by BoE and resulting in the rise in the value of gold itself, but some ambiguous points and gaps in logic seem to be contained in the intermediary steps. In the following, we will try to reconstruct the process, in referring to similar explanations appearing in the parliamentary speeches of Ricardo, and as for the parts which seem to contain logical gaps, in taking into account his other monetary writings we have hitherto referred to in the present article.

The starting point is the reduction of banknote issue by BoE. It was of course carried out with a view to diminishing the quantity of banknote, debt of the issuer, expanded during the bank restriction period, so as to meet the obligation of convertibility, in preparation for this obligation to be soon imposed on it by virtue of the Peel's Act. With this reduction going on till the price of bullion coincides with the mint price, the demand of conversion must come of itself nearly to null, as the banknote holders lose benefit from the conversion. Therefore, once this point attained, both quantities of gold reserve and a further cut of issue will become unnecessary. This is self-evident for Ricardo, but BoE, 'seldom clinging to the true principles of circulation' (speech of the 8<sup>th</sup> February 21, V/76), further pushed ahead with the reduction of issue. As a result, the price of bullion went down under the mint price and the commodity prices fell as much. With the rise in the value of currency, the foreign exchanges rise above the gold point. In this way the commodity exportation so increases, 'as to cause an unprecedented influx of the precious metals'. (speech of the 11<sup>th</sup> June 23, V/312) Then, however, at the same time 'the currency would be at a very low level, the prices of commodities would fall, and great distress would be suffered. —Something of this kind had, in fact, happened.' (speech of the 12<sup>th</sup> June 22, V/199-200)

These quantities of precious metals were obtained from abroad by English exporters as the prices of exported cheap commodities. If they were originally foreign coins, in the domestic area of

England they would be reduced to bullion or treated as bullion of equal weight and fineness. If the price of bullion was still remaining under the mint price, it would be more profitable to change it into coin in the Mint than to sell it in the market. But for minting, payment of a certain seignorage would be required, so that the price of delivery of bullion would be lower than the mint price by this commission. But, if BoE would buy this bullion at the mint price as in the above quotation, for the seller its sale to BoE would be the most advantageous way of disposing of the gold obtained as the price of exports. Thus it may be thought theoretically that 'all that came' (IV/225) from abroad were purchased by BoE. But at the same time, this purchase of gold is also a new issue of banknote from BoE, and through this process the quantity of currency, once contracted, has expanded again. And Ricardo says that the purchase of gold in large quantities by BoE constitutes so much demand for gold, which caused the rise in the value of gold.

But can such an act of purchase of gold by BoE be considered as being caused by demand for gold likely to jack the value of gold up 'compared with the value of all commodities'? In other places Ricardo repeats this point, for example as 'by their measures they [BoE] occasioned a demand for gold' (V/312). As we have seen, BoE would only buy all of the gold flowed into the country at the mint price, but would not obtain more than that at the cost of a price higher than that. And, did not the traders accept as sellers the sale of their bullion to BoE at the mint price as the most advantageous way of disposing of it? In addition, as BoE bought infinitely the bullion they brought in at an advantageous price, there seems to have been no reason for them to still raise the price or keep the bullion back for this purpose. It may have been an extremely easy and smooth transaction for both parties.

The 'demand for gold' which resulted in a rise in the value of gold can certainly be thought to have been caused by the act of BoE beginning with an excessive contraction of currency, but this demand may not be caused by BoE's purchase of gold in large quantities after its influx. In our view, this 'demand' should be understood as follows.

The starting point of the process was a change in the quantity of banknote in the domestic circulation of England. According to Ricardo's theory of international distribution of money gold probably inherited from Hume (*High Price*), gold is distributed among the countries participating in the international commerce, in proportion to the relative weight the scale of commercial transactions within each of these countries occupies in the total amount of transactions in the world. Then gold has an equal value in every country, i.e. the quantity of commodities exchanged with a certain quantity of gold is equalized in every country. But, when this proportion of international distribution of gold is disturbed for some reasons, the equality in the value of gold between countries is also



disturbed and the value of gold becomes different from country to country. Then gold moves among countries so as to dissolve this difference, various commodities move in the opposite directions. After a certain time a proportional distribution will be restored, and along with this the value of gold functioning as money will be again equalized everywhere in the world. And, the value of gold as a commodity is determined by the difficulty of its production i.e. by the cost of mining it from gold mines (the quantity of labor required for this), just like any other commodities. If the quantity of gold circulating in the world as money is proportionate to its necessary quantity determined by the total amount of commodities in circulation in the world, the value of gold as money conforms with the value of gold as commodity. But, as both the scale of transaction in the whole world and the proportion each country occupies therein never cease to vary, both the total amount of gold to function as money in the whole world and the part of it assigned to each country must also constantly vary. But the production of gold is placed under heavy constraints by the natural conditions of veins of gold as scarce resources, which makes it difficult to regulate the quantity of its supply promptly in response to the need of the economic state like the other industrial products in general. Therefore, the supply of gold does not correspond to the demand for it, in many cases it may be in excessive supply or in insufficient supply. Then, the current relative price at a particular moment (market price) of gold is continuously deviated from its value, upward or downward. Even in the state of proportional distribution of gold to each of the countries in the world, such a deviation persists.

Ricardo introduces then the banknote as a means to regulate the supply of money rapidly and without quantitative limit. In Ricardo, the banknote was originally conceived as a means to really stabilize the value of money through regulation of the quantity of money, impossible with the precious metals. However, unlike gold, the banknote is limited in its domain of circulation to the domestic area. Though within such a limited area, the banknote functions as virtual gold, understood as a part of the gold in the world circulation. If now the half of the commercial transaction in the whole world is being carried out in England, its international commercial relations will recover their balance when the half of the money in the world will be allotted to the domestic circulation in England. And if in England only the banknote circulates as the representative of gold, the quantity of the banknote (in fact the quantity of gold represented by it) at that moment will be determined in the same way. Then the foreign exchanges will be at par. If now BoE, the issuing bank, diminished this quantity of money by half, it would mean that it became half of its former quantity in England and the quantity of money in the world circulation fell to  $\frac{3}{4}$  of the former level. And, the proportion the money then circulating in England occupies in the whole amount of money in the world would have become  $\frac{1}{3}$  ( $=(\frac{1}{2} \div \frac{1}{2}) \div (\frac{1}{2} + \frac{1}{2} \div \frac{1}{2})$ ). In England the prices of commodities fall to  $\frac{1}{2}$ , but in the rest of

the world they do not change for the moment. For this reason the exportation will upsurge and quantities of money (bullion) will flow into England from abroad. This process will continue until the quantity of gold in England will have increased to  $\frac{3}{4}$  of the former domestic level, i.e. to  $\frac{3}{8}$  of the former quantity of money in the whole world (corresponding to  $\frac{1}{2}$  of the new quantity of world money), and then with the recovery of the balance in the international distribution of money as before, this movement (exportation of commodities from England and influx of gold in England) will cease. In this way, though it is certain that gold will flow into England, the quantity of money BoE has brought down to the half will not return back to the former level. While the quantity of money circulating in England will be the half of the total amount of money in the world after the change as before, its quantity now circulating in England will have become  $\frac{3}{8}$  ( $=\frac{3}{4} \times \frac{1}{2}$ ) of the former total amount in the world (i.e. diminished by  $\frac{1}{8}$  compared to  $\frac{1}{2}$  of the former total amount), because the current total amount of money in the world will remain diminished to  $\frac{3}{4}$ . The quantity of money will be diminished in the same degree to  $\frac{3}{4}$  both in the world as a whole and in England. If, in spite of this contraction of money, the total amount of transactions in the world does not undergo any variations, the value of gold as money will rise to  $\frac{4}{3}$  of the former level, reciprocal of the ratio of contraction of money, i.e. it will rise by a little more than 30%<sup>48</sup>. This is what Ricardo calls the rise in the value of gold caused by the erroneous acts of BoE.

We have taken above extreme figures for our example to simplify the calculation, but in taking different figures (to express the place of England in the world economy and the extent of the contraction of banknote by BoE), the same result will be obtained. In other words, after 1821, however large influx of gold in England may have been induced by the contraction of currency, and

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<sup>48</sup>Even if the total quantity of the gold flowed in England circulates in the form of coin or banknote, the increase in the total amount of currency does not go beyond this total quantity. As seen above, the bullion was ‘all’ purchased by BoE at the mint price and its whole value was changed into banknote, equivalent to the bullion. And, to change the purchased bullion in coin and to inject it into circulation, BoE could not but exchange the latter with banknote of the same face value, i.e. convert the banknote. This operation (recovery of small notes and injection of gold coin into circulation, carried out and ended in a short time from May 21) cannot change the quantity of currency in circulation. And it is hardly thinkable that BoE, voluntarily contracting the quantity of issue of banknote for preparing for the cash payment, would issue the note beyond it would be necessary for purchase of bullion and anticipated conversion.

even if the gold thus flowed in were exchanged for banknotes to expand again the quantity of currency in domestic circulation, the quantity of currency would remain somewhat below the initial level, according to the theory of Ricardo. The influx of gold to England means that the 'insufficiency in the supply of money gold' initially occurred in England was diffused worldwide to become an insufficiency in the supply (i.e. excess in demand) of money gold of the world, that a redistribution from this 'insufficient' total amount has been newly brought into effect. Ricardo's affirmation that the value of gold has risen because the demand for it increased should be understood like this (this is based on our interpretation of what Ricardo says about the quantity and value of money in the world market in the first part of *High Price* (III/52-64).). The insufficiency in supply (excess in demand) taking place in such a process is naturally of relative character, so that there is no reason to suppose prior to this process a balance between demand and supply. Rather, considering the difficulties particular to the adjustment between supply and demand of gold, it would be appropriate to think that a similar process has been added to the original situation of excess in supply or in demand. BoE did not raise the value of gold in trying to buy gold in the domestic market as much as possible. This interpretation does of course not change the fact that the rise of the value of gold is finally the result of the act of BoE.

At the same time as saying as if the value of gold was raised by BoE's purchase of it in the domestic market, on the other hand Ricardo points out that the rise in the value of gold is a phenomenon of world economy in saying that BoE raised 'the value of gold in the general market of the world' (V/312). 'This rise in the value of gold it must always be remembered is not confined to this country, it is common to all [where BoE did not buy gold in quantities]'. ('Draft of a letter to a newspaper on the effects of Peel's Bill', V/520) This is a phenomenon brought about by an international redistribution of money (contraction of currency in England → fall in the quantity of money in the world → influx of gold in England), not a phenomenon caused by the purchase of this gold by BoE. Ricardo continued to affirm that the range of rise in the value of gold induced by the improper act of BoE was 5%, i.e. equal to that of the rise in the value of currency after the enforcement of the Peel's Bill. How does he found this affirmation?

On how to calculate the range of rise in the value of gold he says as follows: 'to estimate what the effect of this demand for gold had had upon its value in the general market of the world, he [Ricardo] contended, that we should compare the quantity actually purchased, with the whole quantity used in the different currencies of the world.' (V/312-3) Here the 'quantity actually purchased' means the quantity of gold which flowed in England because of the contraction of currency in this country. For Ricardo, the exchange between gold and the other commodities is in a

symmetrical relation, hence there is no distinction between sale and purchase. To export (sell) commodities is at the same time to import money i.e. to buy money. The quantity of money bought in this way is determined by the position of England in the world economy and by the proportion of contraction of banknote. If in addition to these data 'the whole quantity [of gold] used in different currencies in the world' is given, it will be possible to calculate concretely how much the value of gold has risen. This amounts to the same thing as the way of calculation given above with extreme numerical examples. But as it was practically impossible to procure such numerical data, Ricardo shows only the procedure of calculation as above but does not concretely calculate the figure. Instead of calculating himself in showing empirical data, he adopts as they were the results of calculation by Tooke in saying that: 'Mr. Tooke, one of the most intelligent witnesses examined by the Agricultural Committee [of 1821], came to the conclusion that the eager demand for gold made by the Bank in order to substitute coin for their small notes, had raised the value of currency about five per cent. In this conclusion, I quite concur with Mr. Tooke.' (IV/228) Ricardo himself arrives in this way to the following conclusion: 'the whole increased value of our currency since the passing of Mr. Peel's bill in 1819, may be estimated at about ten per cent.' (ibid.) He maintains this conclusion to the end, but the rise in the value of gold and the rise in the value of currency are two phenomena of different nature. While the latter is easily observable, the former can be obtained only in referring to many numerical data and by means of complicate calculations. For the former, results which can be widely recognized may not be easily obtained.

Indeed, the range of the rise in the value of currency and of gold became readily object of dispute: while Ricardo was 'now ready to admit, that Mr. Peel's bill had raised the value of the currency 10 per cent', 'the hon. member for Essex [Western] estimated it at 30 per cent'. (V/312) And the attacks on Ricardo concentrated on this point. It was not to deny that the corn price had fallen about 30%, far beyond 10%, during the 3 years from May 1819 (Tooke (1838), p.390. cf. note 44 in the present article.). Ricardo would explain this difference in the rate of fall not by the rise in the value of currency but by real factors particular to the agricultural sector. 'The hon. member for Essex said, that the currency had altered 30 per cent in value; but his chief proof rested on the altered price of corn. The true cause of the greater part of this alteration was, not the change in the currency, but the abundance of the supply. The stimulus to agriculture had been great during the war, and we were now suffering from a re-action, operating at the same time with the effect of two or three abundant crops. Could the agricultural interest be ruined by an alteration in the value of money, without its affecting, in the same manner, the manufacturing and commercial interests of the country? If corn fell 30 per cent from an alteration in the value of money, must not all other

commodities fall in something like the same proportion? But, had they so fallen? Was the manufacturing interest so distressed? Quite the contrary. Every thing was flourishing, but agriculture.’ (V/314-5)

‘Many of the landed interest’, headed by Western, who attack Ricardo claim that ‘all the distress in agriculture is to be ascribed’ ‘to one cause alone’, which is ‘alteration’ ‘in the value of the currency’ (IV/228-9). As Tooke’s empirical data show (see supra), it is certain that the corn price did not cease falling during the 3 to 4 years after the passing of the Peel’s Bill, then it would not be strange if, in the eyes of the landed interest thrown into hardship by this price fall, the Bill and Ricardo as its proponent appeared to be the origin of their distress. Both in *Protection* and in his parliamentary speeches, the term ‘remunerative’ or ‘remunerating price’ is often used. Of course it may be because the landed interest used the term in expecting the recovery of price in the current situation, in which the prices of agricultural products, of corn among others, was so low as to be ‘non-remunerative’. Ricardo tries to respond to the attack in showing that the causes of the actual agricultural distress are elsewhere than in the variation in the value of currency, and that the price variation brought about by the change in the value of currency is of a character different from the price variation by other causes.

To face the difficulty of importing corn (more generally of procuring food) during the period of the Napoleonic War, the agricultural production in England was promoted by extending the arable land etc., but with the end of the War such obstacles disappeared and the importation of agricultural products increased. And, as equally shown by the empirical studies of Tooke, the English agriculture enjoyed a succession of good crops for three years from 1819, just overlapping the time of passage and enforcement of the Peel’s Bill. These circumstances caused a chronic oversupply of agricultural products. But, since the agriculture too is a sector of capital investment, a reallocation of capital will take place, if it is not possible to sell the commodity (agricultural product) at a ‘remunerative price’ and so to yield profits equal to those in the other sectors. And, since good or bad crops depend mainly on the climatic conditions, good crops cannot continue infinitely even if it can continue for some time. In this way, Ricardo explains that the current distress will be soon mitigated or dissolved because it is brought about by real factors particular to the agricultural sector, which are all of temporary character. ‘The peculiar hardships which the landed interest are suffering, are of a temporary character, and will continue only while the supply of produce exceeds the demand. A remunerative price is impossible while this cause of low value continues; but the situation of things which we now witness cannot have any permanence.’ (IV/230)

And the variation in the price of commodities caused by variation in the value of currency is nominal, arising uniformly to every commodity irrespective of the variation in the value of commodities themselves, and it does not influence the relative value of the commodities each other (expressed as ratio of their prices). The large fall of price going as far as 30%, occurred after the enactment of the Peel's Bill, is particular to one industrial sector, the agriculture. This is evident if one compares the price of agricultural products with the price of other commodities. The large price fall of the former includes elements of real variations simultaneously accompanied with a fall in their relative price. 'If the real efficient cause of the distress of the landed gentlemen was the increased value of money, it ought to have produced similar distress in other quarters; —it has not done so' (IV/231) The situation in the agriculture was rather exceptional, the other industries being in prosperity, says Ricardo.

As a result of these analyses Ricardo concludes as follows: 'agriculture has been depressed by causes of which the currency forms only a little part.' (IV/230) If the price has fallen 30%, the part to be attributed to the monetary cause is 10% and the rest of 20% is due to the real causes particular to the agricultural sector. In addition, of the 10% of fall caused by the monetary factor the part to be attributed the 'responsibility' of the Peel's Bill hence of Ricardo is 5%, a half of it, and the rest of 5% belongs to the responsibility of the erroneous acts of BoE. And, the real causes, the largest, consist in the natural conditions or the transition from war to peace, the responsibility of which cannot be imputed to particular individuals or institutions. In this way, Ricardo divides the large price fall into three parts with different provenance and nature, and in affirming that only a minor part of it was caused by his plan, he tries to show the unjustifiableness of those who attack him in mixing up everything together.

But, although its proponent continued such a pleading in the debates during more than 2 years, the plan of bullion payment of Ricardo cannot be said to have been carried into execution even as a temporary measure as foreseen. In insisting to the end on its adoption as a permanent measure (cf. IV/225), Ricardo was obliged to recognize that the execution of the Peel's Bill, 'experiment'<sup>49</sup>, of his plan, finally ended in a failure. He aimed at unifying the domestic circulation to a paper circulation in expelling from there the precious metal money. But he could not attain this aim for two reasons: difficulty in maintaining the circulation of small notes, and BoE's act contrary to the provisions of

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<sup>49</sup>'That bill he had always considered as an experiment, to try whether a bank could not be carried on with advantage to the general interests of the country, upon the principle of not being called upon to pay their notes in coin, but in bullion'. (V/200)

the Peel's Bill rendering possible both the withdrawal of small notes and the reinjection of precious metal coin into circulation. As for the latter of these two reasons, hitherto we have seen in detail that Ricardo repeatedly stated his position on the basis of economic analyses and would not stop attacking BoE. But as for the former, though he made a parliamentary speech on the 19<sup>th</sup> March 1821 as if to accept it voluntarily (cf. V/96-7), or, a little earlier than this, in his letter to Trower of the 2<sup>nd</sup> March 21 he said 'I am sorry' (VIII/350) when any measures against the forgery of small notes turned out to be virtually impossible to take, he never made clear his view and position in parliament about the cessation of circulation of the small notes because of the problem of forgery followed by a resumption of circulation of the great amount of gold coin. But, in section V of *Protection*, he exceptionally mentions this issue. This seems to be the only one place where he stated his view on this issue after the metallic circulation was really resumed. In the end of this subsection we will try to introduce and examine this place.

While recognizing the change in the circulation of currency after May 1821 as unavoidable, Ricardo accuses BoE of the inappropriateness of the measures it had taken up to that time. He expresses his fundamental position as follows: 'the Bank Directors urge in defence of the measures which they have pursued, the complaints which were made against them, on account of the frequent executions for forgery, which rendered it indispensable that they should withdraw the one-pound notes from circulation, for the purpose of replacing them with coin. If they could not substitute a note better calculated to prevent forgery, than the one which they have hitherto used, this plea is a valid one; for the sacrifice of a small pecuniary interest could not be thought too great, if it took away the temptation to the crime of forgery, for which so many unfortunate persons were annually executed' (IV/225-6) The small notes, represented by 1 pound notes, had been issued since the time of suspension of convertibility more than 20 years before, afterwards replaced gradually the gold coin to almost drive it out from circulation toward 1810. After that they were circulating in quantities till the resumption of convertibility in May 21. Why then, in spite of this, did their forgery suddenly emerge to the surface as a problem so serious as to be the cause of so many executions, only toward the beginning of this year when the resumption of cash payment was going to be an item on the agenda? As far as in referring to the materials included in *Works* concerning Ricardo, such an impression and doubt seems to be unavoidable.

However, it might be possible to infer as follows. During almost all the bank restriction period before May 1821, the banknote was in depreciation due to its over-issue and the gold reserve in BoE was generally at a low level. Even if there existed serious problems about 1 pound notes, it would have been neither possible to recover by means of conversion, nor BoE had any such intention. For a

time from 1817, with a certain recovery of the gold reserve a limited conversion into coin was carried out, but then the price of bullion was always above the mint price, so the coin obtained from conversion was melted and flowed out as bullion (cf. letter to Trower of the 9<sup>th</sup> July 22 (see supra), IX/202). In such a situation, it was impossible to recover 1 pound notes, to put coin into circulation in their place, because, if coin did not remain in the country and circulate as currency, some other substitutive means of small payments was indispensable. If so, although the forgery of 1 pound notes was spread for a long time before 21 and was so serious a problem as to cause many executions, it was left as it was for lack of any effective measures. Ricardo suggests that the problem of forgery had been known to many including himself and also its seriousness recognized since many years before, in saying in the above quotation that for ‘the crime of forgery’ ‘so many unfortunate persons were annually executed’. If so, with the note printing technology and the accounting consideration applied at that time, the circulation of small notes may have had to contain originally such serious problems. Around the year 1820, with the appearance of a new situation, in which a law stipulating the resumption of convertibility was approved and BoE accumulated an amount of coin sufficient to render possible the cash payment, a problem laid hidden for a long time may have suddenly appeared to the surface.

In any case, ‘on 20 February it was stated in the House of Commons that the Commissioners appointed to inquire into the means of preventing the forgery of Bank Notes had so far failed to discover a process which would produce an inimitable Bank Note’. (VIII/350, editor’s note 1) Ricardo recognized that there was no measure against this problem, in saying that ‘I am sorry that no security can be found against the forgery of Bank notes’ (ibid.), in his letter to Trower of the 2<sup>nd</sup> March, immediately after that statement. In such a situation he seems to have had to choose between the following two: 1. to insist on the continuation of circulation of 1 pound notes with their unresolved serious problem in opposition to the cash payment, or 2. to agree all the same with the circulation of coin in the current situation where, in addition to the accumulation of sovereigns in BoE, the price of bullion had fallen almost to the mint price so that there were no more possibility for the coin to flow out as during the time from 17 to 19. The above quotation from *Protection* was written a year after that. Here Ricardo recognizes finally the measure BoE took as ‘valid’ knowing that there was no means to prevent forgery, while saying that BoE pleaded for the recovery of small notes (i.e. conversion with coin) as if taking advantage of the problem of forgery.

In spite of this, he still claims that BoE, in preparing a great amount of coin committing an erroneous act, advanced the convertibility in coin at its convenience, in saying that BoE, ‘who did not discover the importance of preventing forgery by the issue of coin till 1821’, ‘after they had



made such large purchases of gold', 'were under the necessity of applying to Parliament for a bill [Bank Cash Payments Bill, proposed on the 19<sup>th</sup> March, approved on the 13<sup>th</sup> April 21], to enable them to issue coin in payment of their notes, which, by Mr. Peel's bill, they were prevented from doing till 1823.' (IV/226) While recognizing as unavoidable the anticipated cash payment from May 21, Ricardo nevertheless continues to ridicule BoE in this way. It may be because of his persistent commitment to the plan of bullion payment and of the regret for its halfway failure. But, as seen above, it was not solely due to the 'ignorance and cowardice' of BoE that his plan had to end in such a result. After all, the deadlock in such a situation was not brought to an end till the last moment in his activities as a member of parliament (his second speech against the motion of Western on the 11<sup>th</sup> June, at the end of the session of 23).

Probably in aiming at breaking such a deadlock, retired to Gatcombe after the end of session, Ricardo wrote a new manuscript for his reform of monetary regime with a simple title 'Plan, &c.'. This was to be the last related document he left to posterity. In the next and last section of the present article, we will examine the content of this new plan to reflect on its relation with the plan of bullion payment hitherto examined from various points of view.

## VII. Conception of the establishment of a national bank in the manuscript 'Plan, &c.' and the whither of the bullion payment

### 1. 'Renewal of Charter' of the Bank of England

The 'Report' of the Agricultural Committee of 1822, presented before the Easter recess, was to be submitted to the deliberation after the recess. In view of the opening of the deliberation, during this recess Ricardo published *Protection*, to be described as virtually 'a manner of minority report' (Hollander (1910), p. 54) of the Committee, to attack the 'Report'. But, in his first speech after the recess delivered on the 29<sup>th</sup> April, he had to discuss, along with the agricultural distress, a problem newly arisen on the renewal of the charter of BoE. This was because 'the Government proposed to extend the charter, which was due to expire in 1833, in order to induce the Bank of England to consent to a relaxation of its provisions'. (V/156, editor's note 3) Since its foundation in 1694, BoE had been allowed its business as issuing bank by virtue of the Bank Charter granted from the Government, and in return for this BoE extended loans to the Government. The Charter had to be renewed at a certain interval. 'The charter of the Bank was renewed in 1800 for twenty-one years, from its expiration in 1812; consequently it will not now terminate till 1833'. (*Proposals*, IV/88) The renewal was proposed at that time, still more than ten years before the term, as a return for relaxing

the conditions of business management of small joint stock banks in amending the provisions stipulating de facto monopoly of BoE in prohibiting the establishment of every bank with more than 6 partners in London and in its surrounding areas. From the beginning critical to the management of BoE, in hearing of this proposal Ricardo firmly opposed it. 'He solemnly protested against prolonging the charter of the Bank. [...] He had hoped never to have heard of their charter being renewed. The benefit of the paper currency ought to belong to the public. No advantage could ever be derived from the Bank lending money to the public' (V/156)

As if to follow suit with the speech of Ricardo, Grenfell, who, like him, had criticized the huge profits of BoE since long time, 'presented a petition against the proposed renewal of the Bank of England charter' (V/193) on the 31<sup>st</sup> May. Ricardo delivered subsequently two 'harangues' against the motion of Western on the 11<sup>th</sup> June and on the 10<sup>th</sup> July, and two days after that he left London to a continental tour he had planned with family and was absent from England for about 5 months. But this problem of renewal of the Charter went on smoldering up to the following year. On the 18<sup>th</sup> February, just after the opening of the session of 23, Grenfell demanded the disclosure of information in proposing again a motion 'for a return of the balances of public money in the hands of the Bank of England'. This time, as if in response to this motion, Ricardo stated that 'the chancellor of the exchequer [Robinson, who succeeded to Vansittart in this month] would be particularly careful that they did not overreach him. Before any such bargain should be made, it would be the duty of the right hon. gentleman to consult the House as to the terms of it' (V/247), warning the Government and BoE in their negotiations for the renewal of the Charter. Ricardo did not further speak about the matter till the end of this parliamentary session. The problem of extension of authorization of the business of BoE, arisen coupled with that of new small banking business, was left in suspense for the time being. However, for Ricardo and Grenfell who opposed the extension, this meant that there would be no knowing when the matter would come back on the agenda again and the renewal of the Charter would be definitely decided<sup>50</sup>. The cooperation between them in the action against BoE began from 1815 and continued till their activities in parliament in 23 concerning the problem of renewal of the Charter.

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<sup>50</sup>The matter was actually settled in 1833, 10 years after the death of Ricardo, i.e. when the term determined in 1812 matured. By the Bank Charter Act passed in this year the charter of BoE was prolonged to 1855, at the same time the establishment of joint stock banks with more than 6 partners was authorized in London and its surrounding areas (Andréadès, A. (1966), p.261-2), But this should be distinguished from the influence the situation up to the end of parliamentary session of 23 exercised on the circumstantial judgement Ricardo entertain during the subsequent short period of two months.

As seen in subsection 3 of section IV, Ricardo had conceived a fairly clear idea of placing the currency issue under the competence of the State in abolishing BoE since the time when he began writing *Proposals* in autumn of 1815. First expressed in his letter to Malthus of the 10<sup>th</sup> September, this idea is shown in the last paragraph of *Proposals* (IV/114) and in chapter 27 of *Principles* (I/361-3, text of the first edition), which makes us know that it was not a simple passing idea. And the related passage in *Principles* comes just after the long quotation from *Proposals*, drawn from the core part of the plan of bullion payment, which shows that Ricardo considered the plan of bullion payment and the nationalization of currency issue not as two separate subjects but rather as one set to be understood in continuity. The direct motive which pushed Ricardo at that time to conceive an issuer alternative to BoE was that he came to know concretely the reality of management of BoE from various sources of information offered by Grenfell (earning of an enormous unjust profits, non-disclosure of information, monopolization of benefits, above all inappropriate policy of their distribution). But at the same time he said that ‘my views respecting the Bank are entirely prospective’ (the letter to Malthus of the 17<sup>th</sup> October 15, VI/306), considering it impossible to bring into question the subsistence of BoE before 1833, the term of the Charter granted to it. Probably because of this, in the bitter blame and attack to BoE during about two and a half years, from the beginning of the parliament session of 21 when Ricardo got aware of the ‘erroneous’ acts of BoE and of their influence after the enactment of the Resumption Act in 1819 to the end of the session of 23, Ricardo never said a word claiming the abolition of BoE. But when the question whether or not to let subsist BoE after the next term to come in ten years appeared before his eyes as an imminent matter to be settled, he could no more think about an issuing bank alternative to BoE simply as something ‘entirely prospective’. He may have thought it indispensable to block the renewal of the Charter at any cost. And, the parliamentary session of 23 already closed, for him the next target would be the following session to begin in February 24. Soon after the closure of the session of 23 on the 19<sup>th</sup> July, he retired to Gatcombe to begin the work for this purpose ‘with a view to publication<sup>51</sup>’ (IV/275).

The manuscript with a simple title ‘Plan, &s.’ written in this way seems to have been completed as early as at the beginning of August. Of this work Ricardo made report to Malthus, Mill and McCulloch one after another (respectively on the 3<sup>rd</sup>, 7<sup>th</sup> and 8<sup>th</sup> August). But this time, unlike when he wrote similar manuscripts before, he did not show the manuscript to anyone of them to ask

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<sup>51</sup>Words employed by Moses, one of the younger brothers, in his ‘Preface’ to the pamphlet, published by him after the death of Ricardo in February 1824 under the title *Plan for the establishment of a national bank* from Murray. In his ‘Note’, Sraffa says that Ricardo showed on his deathbed the manuscript to this younger brother. Probably Ricardo said to him then that the manuscript was written ‘with a view to publication’.

comments or whether or not to publish it. Only McCulloch said in his response of the 11<sup>th</sup> August that ‘I am extremely glad to learn that you have written your Essay on a National Bank, and I shall be most anxious to see it.’ (IX/345), but this seems not to have been realized. Ricardo may have thought it necessary to review and rewrite the manuscript drafted in a hurry before he could show it to others and ask their opinions. But in the summer of that year he had not time for this. Over Malthus’ *The measure of value stated and illustrated etc.*, published in April 23, the debate in correspondence was continuing between them. And just from the time toward which Ricardo finished writing ‘Essay on a National Bank’, began a severe debate in correspondence with McCulloch himself on some fundamental theoretical problems of the theory of value. On the debate with these two correspondents (and also with Torrens though Ricardo was not in correspondence with him), Ricardo continued to write a manuscript from the beginning of August till the appearance of symptoms of the fatal disease at the beginning of September, in order to give an organized form to his thinking (originally untitled, published for the first time entitled [*Absolute Value and Exchangeable Value*] [*A Rough Draft*] in the volume IV of *Works*)<sup>52</sup>. In this way, ‘Plan, &c’ was left in the initial state of its rough draft, discovered after the death of the author and edited and published by one of his younger brothers, who made considerable revisions to some parts of the manuscript for preparing it for publication. Given the state of manuscript as a rough draft, such measures may have been unavoidable for publication, but in some places revisions seem to have been mingled with editor’s interpretations on the text of the manuscript. In *Works*, the original manuscript is judged as agreeing ‘with the text of the posthumous edition’ ‘to a large extent’, and the posthumous edition of 1824 is reproduced. But, as ‘the chief variants are given in footnotes’ (IV/274), in the following we will consider the plan for establishing a national bank of Ricardo according to this original text.

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<sup>52</sup>While making report of the manuscript of ‘Plan, &c’ during and immediately after its writing to his three friends one after another in a short time (as if every eager to spread it about), to the end he never spoke to anyone (probably including his family members) of the writing of the manuscript on ‘absolute value and exchangeable value’. Ricardo may have refrained from speaking about this manuscript, a sort of prolongation of the ongoing debates in correspondence with Malthus and McCulloch, to its parties involved before its completion. For this reason, the two manuscripts Ricardo wrote in this summer holiday, the last in his lifetime, were subsequently to follow very different destinies. The one, already known in his surroundings, was soon discovered and published. But the other, which ‘must have been sent to Mill’, was regarded by him ‘as not suitable for publication’ (‘Note’ by Sraffa, IV/359) and kept by him as it was. Even its existence was left unknown for a long time, till it was accidentally discovered as a part of ‘Mill-Ricardo papers’ just after the Second World War. On the other hand, these two manuscripts symbolized the fact that Ricardo continued to think simultaneously about both the abstract theoretical problems relating to ‘value and distribution’ and the current and concrete issues concerning ‘money and finance’. The relation between these two manuscripts are similar to that between *Proposals* and *Principles*.

## 2. 'Plan for the establishment of a national bank' and 'Economical and secure currency'

Since Ricardo had presented since many years his conception on the establishment of a national bank in various forms, some of the elements in the idea brought forward in 'Plan, &c' have been already seen hitherto in the present article. In examining the 'Plan, &c' in the following, we will focus on the points newly added in 23, in particular on the points related to the plan of bullion payment Ricardo had conceived since 1811.

The point presented at the outset has never been advanced before and is in this sense very innovative. It is well known as one of the most important influences of Ricardo on Peel's Bank Charter Act 1844. 'Plan, &c.' opens with the following words: 'BoE performs two operations of banking, which are quite distinct, and have no necessary connection with each other: it issues a paper currency as a substitute for a metallic one; and it advances money in the way of loan, to merchants and others. These two operations of banking [...] might be carried on by two separate bodies' (IV/276) And in the Peel's Act 1844 BoE was actually separated into the issuing department and the banking department. But Ricardo claimed to separate the issuing department from BoE and concentrated the following arguments mainly on banknote issue. The issuing organ, placed in this way under the State, would carry out its business on the same principles as the current BoE except that it would be no more a private company. Ricardo did not conceive an issuing organ of a wholly new type.

'Suppose the privilege of issuing paper money were taken away from the Bank, and were in future to be exercised by the State only, subject to the same regulation to which the Bank is now liable, of paying its notes, on demand, in specie; in what way would the national wealth be in the least impaired? We should then, as now, carry on all the traffic and commerce of the country, with the cheap medium, paper money, instead of the dear medium, metallic money'. (ibid.)

This is the fundamental idea of Ricardo's 'Plan, &c', in which there is no change except that the interest actually obtained by BoE as a private company in lending money to the State will belong to the State and become a public benefit. 'All other classes in the community would be exactly in the same position in which they now stand. It is evident too, that there would be just as much money in circulation'. (IV/277, cf. IV/279-81) But, in what he says at the outset of the 'Plan, &c' seem to be intermingled the current state of currency after the enforcement of the Bank Cash Payments Bill approved in April 21 (cf. subsection 2 of section VI in the present article) and the plan of bullion payment he has affirmed for a long time. I.e., on the one hand he says that the future issuing organ placed under the State will pay 'its notes, on demand, in specie'. But on the other, according to him, it will 'as now, carry on all the traffic and commerce of the country, with the cheap medium, paper

money, instead of the dear medium, metallic money'. Therefore, on the one hand, he approves as it is the fact that the circulation of gold coin (sovereigns) in place of small notes has been established as a result of the execution of convertibility in coin after a lapse of time of more than two years, and he does neither criticize nor negate the conversion in coin. But in the face of such a reality it would be difficult to regard as feasible the latter point Ricardo affirms on the other hand. For this to be actually carried out, it will be necessary to reproduce beforehand the state of currency not 'as now' in recovering 'the dear medium, metallic money' and restoring in its place the circulation of 'the cheap medium, paper money' (i.e. of small notes). The latter part of the above quotation seems to show Ricardo still sticking to his plan of bullion payment in the situation where there was neither bullion payment nor exclusive circulation of paper currency. It seems to be because of such a position of Ricardo (conscious or unconscious), that there arose certain ambiguities and self-contradictions in the details of working of the new issuing organ (its installation, start of its business, liquidation of the ancient organ i.e. BoE, treatment of the country circulation and regulation of paper issue by the new issuing organ), stipulated in the provisions of the 14 'regulations' appearing in the latter part of 'Plan, &c.'<sup>53</sup>. We will examine this point afterwards.

After having shown as above that BoE as it is now is getting unjust profits from the public in engaging itself in the business of paper issue not to be entrusted to a private company, and that this business can be transferred to the State without problem, Ricardo argues against the renewal of its charter: 'Let it not then be said that the Bank Charter ought to be renewed, for this reason — that if it be not, the merchants will suffer inconvenience, from being deprived of the usual facilities of borrowing'. (IV/278) And, as if to rub the directors of BoE up the wrong way on purpose, Ricardo calmly tells even about how to dispose of the material and human resources it actually possesses, when the charter will not be renewed and the BoE will not be able to subsist as issuing bank (cf. IV/290).

If the power of issuing money belongs not a private organ placed under the control of the Government but to the Government itself, this power may be abused because of the absence of an entity placed above the Government and endowed with the competence of control and punishment. Such a worry was once entertained by Ricardo, who was hence negative to the State issuing money

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<sup>53</sup>In the latter part of 'Plan, &c.', a style like a text of law is adopted. It may be for the purpose of preparing for the possible parliamentary discussion on the renewal of the charter of BoE, in publishing this manuscript in time for the following session of 1824. But it may also be because Ricardo intended to propose himself a Bill of establishing a 'National Bank' in abolishing BoE at the expiration of its current charter in 1833. He may have been familiar with documents of similar style, but has never drafted in such a style. As a polemist out of office or a dissident in minority, he used to take a firm stand for or against in his own free style.

(cf. his letter to Say of the 24<sup>th</sup> December 1814). But afterwards he changed mind when he had serious doubts about the issuing business of BoE and thought up a device to prevent such a risk. In this 'Plan, &c.' a similar idea is repeated. 'If Government wanted money, it should be obliged to raise it by the issue and sale of exchequer bills, by public loans, or by borrowing from any of the numerous banks which might exist in the country; It should be a part of the constitution of the board which I propose to establish that they should at no time and under no circumstances lend money to Govern.t , but that if their funds were so ample as to permit them to dispose of money they should purchase govern.t securities in open market, and if on the contrary they had occasion to reduce their floating securities they should in like manner sell them in open market'. (IV/283-4, including variants in the original manuscript given in editor's note 6.) The issuing organ, competent to increase or decrease the quantity of currency in domestic circulation, cannot make direct transactions with the Government (loan to it or direct purchase of public securities). For this purpose, the Commissioners must be independent of the Government, out of its control and only responsible to the parliament. But, in open market, the transactions of Government securities are recognized as a means to regulate the quantity of money. Ricardo advances an idea which would be today 'open market operation' for the first time in 'Plan, &c.' of 23.

The National Bank can regulate the quantity of money by selling and purchasing Government securities in open market, in addition to the way he has mentioned in his preceding writings: payment of notes in gold and purchase of gold. 'In London the circulation can always be increased either by means of the sale of gold bullion to the commissioners for paper money to be issued on the demand of the seller of the bullion or by the issue of notes by the commissioners in payment of gov.t securities which they are authorized to purchase in the market'. (IV/297, variants in the original manuscript given in editor's note 1.) Here is mentioned the regulation of quantity of issue only in the sense of its increase, but with the operation in the opposite sense the currency can be contracted equally in two ways.

As a dealer in securities, Ricardo had once experiences of transactions of Government securities along with stock exchange and currency dealing, and he is said to have gotten huge benefits from these transactions. The principle of these transactions is extremely simple: buy cheap, sell dear, and the sole aim of the transaction is the positive difference between buying and selling price. The securities are traded in this way in the general (open) market. The open market operation means an intervention of the issuing bank in such a market. But the purchase and sale of Government securities by the issuing bank as Ricardo mentions above aim at a quantitative regulation of currency in circulation but not at benefits. The transaction of securities carried out with a criterion different

from the current prices of securities may be made at a loss (if not necessarily), or on the contrary it may not be made even if missing opportunities of benefit. Thus Ricardo says following the above quotation: ‘by this regulation a very trifling sacrifice would be made, amounting to the turn of the market, which may be supposed to be gained by those whose business it is to employ their capital and skill in dealing in these securities [like Ricardo in past times]; but in a question of this importance [of currency issue] such a sacrifice is not worth considering.’ (IV/284) The open market operation no doubt entails a certain ‘sacrifice’, but if it plays only a secondary role in the regulation of the quantity of currency issue by the issuing bank, this ‘sacrifice’ may be even more trifling. On this point he says as follow: ‘it must be recollected that these transactions would be few in amount, as the circulation would be kept at its just level by being exchanged for coin and bullion when it exceeded its proper proportion, and by the sale of gold bullion or of coin to the commissioners when the amount of paper money was below that proportion.’ (IV/284, variants in the original manuscript given in editor’s note 2.) If the cash payment and purchase of gold is executed without fail, the quantity of currency will never deviate from the proper level. If so, there will be hardly any turn of open market operation. Why then is it discussed here?

From a time before 1797 BoE had always held various sorts of securities, public and private, made of the transaction of securities one of the pillars of its business for profits along with the issue of currency. The amount of various sorts of securities it held as an item of its assets could sometimes exceed even the total amount of the banknotes it issued at the same time (Feavearyear (1963), p. 227-9). Ricardo too says at the beginning of ‘Plan, &c.’ that the Government lends ‘many more millions, which are advanced on Exchequer bills, on half-pay and pension annuities, and on other securities’ (IV/277). The transactions of securities BoE was carrying out on a large scale for profits may have destabilized the value of currency, about which it may have not worried. A new issuing bank to succeed to BoE will equally succeed to the transaction of securities the latter is now making, but at the same time it will become ‘a part of its regulations’ of the new organ in charge of this transaction to change fundamentally its aim, from obtaining benefits, to secure the stability of the value of currency as its most important task as issuing bank. But, in this case, since this essential task is fundamentally accomplished by the operations of cash payment and purchase of gold, the open market operation will be limited both in its scale and frequency, and even if it is at a loss, the loss will be negligibly trifling. But on the other hand, as the cash payment and purchase of gold are both done by the issuing bank responding passively to the demand from banknote holders or holders of gold, they may not be sufficiently responsive to need at times. In contrast, the open market operation is executed on the judgement and initiative of the issuing bank itself to regulate actively the quantity



of currency. In this sense, the open market operation can have its *raison d'être* as a supplementary means for regulating the quantity of issue. Since the quantity of currency to be injected in circulation from the issuing bank varies incessantly, to respond quickly and promptly to such a need, will be required a means of active quantitative regulation on the part of the issuer. 'It would be only when, from the increasing wealth and prosperity of the country, the country required a permanently increased amount of circulation, that it would be expedient to invest money in the purchase of securities paying interest, and only in a contrary case, that a part of such securities would be required to be sold'. (IV/284, words in the edition of 1824 changed from the original manuscript by Moses, the editor.)

The above is a summary introduction of the former part of 'Plan, &c.', at the end of which Ricardo says that 'I would propose, then, some such plan as the following, for the establishment of a National Bank' (IV/285), to pass to the latter part, where he enumerates the 14 'regulations' and explains them one by one. The title given to the manuscript by the brother when he published it in 1824 *Plan for the Establishment of a National Bank* may come from this sentence. Incidentally, the term 'National Bank' is employed in the original manuscript of 'Plan, &c.' only twice other than in this place: in 'regulation 14.' (IV/289) and its explanation (IV/294). All the other examples of use of this term are included in the parts added or rewritten by the editor.

In the latter part of 'Plan, &c.', Ricardo determines the establishment of a National Bank 'on [the date, left blank] the 1833, the day on which the Bank charter expires' (IV/285, variant of the regulation 2. in the original manuscript.) and fixes minutely every one of the measures necessary for the new bank to issue a new currency to commence its working in place of BoE. Ricardo would determine from then on what was to be carried into execution ten years later in order to start up a fictional bank existing still only in his idea. In so doing, he wanted to take measures to block at any cost the renewal of the Bank Charter which had already become an item on the agenda at that time. The Commissioners 'appointed for the management of the paper circulation of the country' issue the necessary amount of new paper at the expiration of the Charter, pay with it the debt of the Government to BoE, and with the rest 'purchase gold and silver bullion', 'pay the Bank for as many Exchequer bills as they may think proper to take'. (IV/285-6, from the variant in the original manuscript shown in editor's notes.) All of these measures will have to be executed in one day. In this way, on the day of the establishment of a National Bank, every credit relation between the Government and BoE will be completely liquidated, and the new currency replacing the banknote of BoE will be delivered to BoE as redemption of the debt. And 'for the substitution of the new paper money for the old' (IV/292), 'the Bank shall be obliged to use its best effort, within 6 months of the

expiration of its charter, to redeem all its notes in circulation, by the payment of them in the new notes issued by government.’ (IV/286) ‘The notes of the Bank of England shall be current for six months after the expiration of the Bank charter, after which they shall no longer be received by government in payment of the revenue.’ (IV/287) In this way, on [the date, left blank] 1833(4), both BoE as issuing bank and its banknote will completely disappear.

This is a summary of the first 5 regulations. Though the question is about what will take place in ten years, the details described here seem to be based on the state of management of BoE and of currency in 1823, at the time of drafting of ‘Plan, &c.’ at that time the small notes did no more circulate and the conversion was in coin. Probably small notes like 1 pound notes were not included in the new notes of a National Bank to be issued as substitution for the banknote of BoE. The composition of face values of the new notes may have been conceived after that of the notes of BoE in 1823. And nothing is said about the then widely diffused circulation of coin, there is no clear mention of the recovery of coin. The circulation of coin was probably to be left intact. Further, for the stability of the value of currency, like BoE at that time, a National Bank to be newly established should naturally respond to the demand for payment in gold from the banknote holders. But it is not clear whether the payment should be made in cash or in bullion, since it is always indicated in two forms at the same time like ‘cash and bullion’ (IV/279) or ‘coin and bullion’ (IV/284). In ‘Plan, &c.’ Ricardo is very ambiguous about how he thought of the way of payment of banknote after the liquidation of BoE<sup>54</sup>. While on the one hand recognizing as it is the ongoing cash payment, on the other Ricardo seems to still remain committed to the already disappeared bullion payment. Without sweeping out the precious metal circulation by means of bullion payment, it is not possible ‘to dispense with the use of a great quantity of a very valuable metal which as money produces nothing<sup>55</sup>’. (IV/298) In order to carry this out, the issue and circulation of small notes to be

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<sup>54</sup>As the explanation about the regulation 3. containing the above quoted phrase ‘purchase gold and silver bullion’, Ricardo says as follows: ‘the third regulation provides for a store of gold coin and bullion without which the new establishment could not act.’ (IV/291, variant in the original manuscript shown in editor’s note 1.) Here also Ricardo writes ‘gold coin and bullion’ as if a new National Bank would make bullion payment along with cash payment, but it is not at all clear in what relation these two ways of payment stand, whether they can ever be compatible.

<sup>55</sup>From a fragment of the manuscript. From the letter of the text, this appears to be a part of the first draft of ‘Plan, &c.’ in which is expressed the fundamental idea of Ricardo. Equally in the first part of this fragment, he emphasizes ‘the advantages of a paper money provided security be taken to fix its

substituted for gold coin are indispensable. But, as seen above, the bank notes to be issued from a new National Bank seem not to include small notes. Ricardo speaks about the 1 pound notes, representative of small notes, only in 'regulation 14' and in its explanation, i.e. in the latter of the last two regulations (13 and 14) inserted behindhand after he had once ended the first manuscript with 'regulation 12' (IV/288, editor's note 1). We will examine this point afterwards.

The next 6 regulations (from 7 to 12, regulation 6 lacking) determine in detail the relation between the circulation in London and that in country. The domain of circulation of the banknote issued from BoE was limited to London and its surrounding area, and in country a number of small country banks issued their proper notes. The value of these country banknotes was linked to that of the banknote of BoE through 'conversion' of the former into the latter, and the issue of the former varied according to that of the latter. With the abolition of BoE and the establishment of a new National Bank, a restructuring of the current relation of note circulation between London and country would be required. The above 6 'regulations' stipulate in detail the procedures to be taken for this purpose (still ten years later!). Through these 6 'regulations', Ricardo seems to have intended to construct a system concentrating in London the decision making on currency circulation all over the England with a subordinate country system. For our purpose that is all to be said on these 'regulations'.

As seen above, in the original manuscript of 'Plan, &c' the 'regulations' on the establishment of a National Bank terminated with 'regulation 12.' But afterwards, as if recalling something important, Ricardo inserted additional two regulations, 13. and 14. These last two regulations are somewhat different in their character from the preceding twelve. They seem to stipulate the provisions relating to the essential of his plan for the reform of monetary regime: how should the new National Bank supply an 'economical and secure currency' after the completion of all the necessary procedures during the transitional period just after its establishment?<sup>56</sup>

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value on a basis as permanent as the metals themselves' (ibid.) His conception of an 'economical and secure currency' had to be applied as it was to a new National Bank.

<sup>56</sup>In the edition of 1824, the 'regulation 12.' in the original manuscript of Ricardo was moved to the end of the 'regulation 11.' by the editor. At the same time, the 'regulation 13.' in the original manuscript was divided into two parts, of which the first was inserted into the empty space of the former 'regulation 12.' and the 'regulation 13.' came to be made up only of the initial latter part. Moreover, the editor revised both parts. He also rewritten the subsequent explanations of these regulations in consequence to the former revisions. In *Works* the edition of 1824 is reprinted, but at the same time all the differences from the original manuscript are indicated in editor's notes with the corresponding original texts. In principle, our following examination is based on the original manuscript of Ricardo.

The text of the ‘regulation 13.’ is as follows: ‘The Commissioners in London shall be obliged to buy any quantity of gold of standard fineness, and exceeding one hundred ounces in weight, that may be offered them at £3. 17. 6—they shall be at liberty to give a price as high as £3. 17. 10½ if they think proper to do so. The Commissioners shall be obliged to give gold coin of the standard weight on demand for any notes issued in London or for any bill drawn from the country’ (IV/288-9, including variants in the original manuscripts shown in editor’s note 6) Here is determined simultaneously the obligation to be assumed by the issuing bank of purchasing gold and selling gold (conversion). The buying price can be discretionarily fixed within the range of 4½ pence of difference between the mint price and 3 pounds 17 shillings 6 pence slightly inferior to the former, on the other hand, the purchasing price is fixed at the mint price. Through both transactions the quantity of currency issue is regulated toward both directions of increase and decrease, its value being confined within a narrow range between the purchasing price as upper limit and the selling price as lower limit. And, as the price of gold cannot largely deviate from the mint price, the issuing bank will not be faced with the necessity to make any gold transactions on a large scale, hence to prepare a large amount of gold as reserve. About the ‘regulation 13.’ the following explanation is given. ‘If the commissioners regulate their issues by the comparative value of gold and paper they cannot err and they might carry on the whole business of currency with a very small quantity of gold by merely increasing or diminishing the quantity of paper according as its value was high or low compared with gold’ (IV/294, variant in the original manuscript shown in editor’s note 1.) Such an idea is familiar to Ricardo since the time when he presented the plan of bullion payment for the first time in ‘Appendix’ to the 4<sup>th</sup> edition of *High Price*. In ‘Plan, &c’, Ricardo added to this idea the open market operation as a means for ‘merely increasing or decreasing the quantity of paper’ without involving any transactions of gold, but the ‘regulations’ in the latter part of ‘Plan, &c’ contain no mention of the open market operation. Maybe for Ricardo the quantitative adjustment of currency should be carried out mainly by minor gold transactions.

Equally since 1811 a certain minimal limit has been imposed on the gold transactions the issuing bank implements for regulating the quantity of currency. In ‘Appendix’ of 1811, the minimal sum for the payment in bullion was fixed at 20 pounds. Subsequently this sum was modified several times (cf. note 21 in the present article), but it was always imposed on the payment in bullion the issuing bank makes in response to the demand from banknote holders. However, in the ‘regulation 13.’ quoted above, this minimal limit for the gold transaction is fixed, on the contrary, for the purchase of gold by the issuing bank. The limit is 100 ounces (a little more than 3kg), expressed in terms of weight of bullion (amounting to the sum of a little less than 400 pounds). Why does such a

change suddenly happen here? And Whence comes this figure of 100 ounces (in the bullion payment with Ricardoes tentatively carried out till April 21 this minimal limit was 60 ounces.)? Such a question naturally arises, but the explanation on the 'regulation 13.' gives no answer. If Ricardo had fixed with some clear intention an unprecedented high hurdle to the purchase of bullion, he should have given a due explanation. The reason for which such a provision is included in the 'regulation 13.' may be inferred as follows.

Purchase of gold will be demanded to the issuing bank when the currency issue is insufficient, the price of bullion falls, exportation of commodities (importation of gold) expands, and the exchange of gold flowed in from abroad for domestic currency is profitable. Those who want to sell gold (bullion or foreign currency) not in the market but advantageously to the issuing bank are merchants engaged in foreign trade, whose transactions may be generally above a certain scale. Ricardo may have estimated 'a certain scale' at 100 ounces of gold. And if such an international transfer of gold induced by insufficiency in the quantity of domestic currency is absorbed by the issue of banknote, i.e. if the issuing bank purchases gold of not less than 100 ounces of weight, the insufficiency of currency can be dissolved without falling into excessive issue. Of course there may exist those who possess gold of less than 100 ounces of weight for various reasons. But, while not responding to every demand for purchase of gold from such persons, in accepting its purchase only above a certain amount demanded from a small number of them, the issuing bank will soon be able to calm down the demand for purchase of gold itself without bothering itself with many small deals. Probably such may have been the idea of Ricardo. And, though these transactions would be limited in both frequency and scale, the issuing bank would obtain from them some profits since it purchases gold at a price under the mint price. And, as seen above in subsection 3 of section VI, the quantity of gold flowing in from abroad because of insufficiency of currency will be theoretically a little inferior to the quantity to make up for the insufficiency, hence the state of insufficiency of currency will subsist even if the banknote corresponding to this quantity is issued. But, since the National Bank will always try to maintain the proper level of quantity of currency, there can be neither large contraction of currency nor influx of large quantities of gold, so that the remaining insufficiency will be trifling. Furthermore, the new Bank can also avail itself of open market operation (in this case purchase of securities) as a supplementary means for making up for insufficiency of currency.

In contrast to the purchase of gold, no limit is set for the payment of banknote with gold. Demand for purchase of banknote is made to the issuing bank when the currency is in excess and the price of bullion is above the market price. Then, though the banknote and the coin of the same face value remain equivalents in law, the latter is substantially higher in value than the former. Because,

in melting coin and reducing it to bullion, it can be exchanged for the banknote of higher face value. In assuming the obligation of convertibility in such a situation, the issuing bank would incur potential loss ('potential', because the bank may not make of itself the above operation.). But, just like the purchase of gold, the deals in this case will also be very limited both in scale and frequency and the loss incurred will be compensated with the equally trifling benefit obtained by the purchase of gold seen above. The melting of coin and export of bullion being no more prohibited under the Peel's Act 1819, it will be more advantageous to melt coin and sell in the market or export it than to use it as currency when the currency depreciates and the price of bullion rises. A legal act like this is possible even with one piece of coin, without collecting certain number of it. As an official organ, the issuing bank cannot treat discriminately coin and banknote but must regard them as a currency both nominally and substantially equal (hence it must pay banknote with coin of the same face value even at a substantial loss). This may be the reason why no minimal limit is set for the amount of banknote to be paid in cash. What is essentially more important than this is, however, the provision that the payment of banknote must be necessarily implemented with 'gold coin of the standard weight'. Prior to this 'regulation 13.', Ricardo always mentioned the bullion payment in addition to cash payment, but here he mentions only the cash payment as if abandoning the bullion payment. From his position this may be called a major concession. Probably 'in exchange for' this 'concession', he discusses the issue and use of the small notes (1 pound notes) in the following 'regulation 14.'. In 'Plan, &c.', the small notes appear only in this 'regulation 14.' and its explanation.

The text of the last 'regulation 14.' is as follows: 'notes of one pound shall be issued at the first establishment of the National Bank, and shall be given to any one requiring them in exchange for notes of a larger amount, if the person presenting them prefer such notes to coin.' (IV/289) The issue of 1 pound notes will be made not on the first day of the establishment of the National Bank but after that as early as possible. Therefore, among the new banknotes to be issued at the same time as its establishment the small notes will not be included as was actually the case at the time of drafting of 'Plan, &c.'. If 1 pound notes are issued soon after the establishment of the National Bank and they are enrooted in circulation, the coin in circulation will diminish or disappear. And when the banknote will depreciate in such a situation, the payment of banknote will be made in bullion but no more in cash. But, in the 'regulation 14.', it is not clear whether 1 pound notes will soon begin to circulate in place of coin supposed to circulate for a certain time just after the establishment of the National Bank. The choice between coin and paper for use as currency is entrusted to the users of money. And 1 pound notes too will be injected into circulation via the right of choice the banknote holders are to

exercise when converting the notes of high denominations. Each particular money user will not prefer paper to coin, like Ricardo, because the former is economical from the standpoint of national economy. They may choose mainly in considering the facility of use of each of them as currency. Ricardo explains this 'facility' with concrete examples in saying that 'another advantage attending the use of paper money is the extreme facility with which payments are made by its means'. (IV/298, from fragment of the manuscript of 'Plan, &c.')

An argument of this kind may be far more effective for persuading the public. But in this case the question is limited to the choice of the means of small payments as a part of currency (though an important part to be daily used for many people) in supposing the use of notes of high denominations.

Ricardo could do nothing but expect the notes to be widely accepted in place of coin by the public recognizing its conveniences, who would hopefully demand the exchange of coin for paper. But the choice between paper and coin depends not only on the comparative conveniences of each of them, but also on the attachment of the public for coin as a means of circulation which had been used for a far longer time in history than paper. Ricardo was well aware of this. After the deliberation in the Secret Committee on the Resumption Bill in spring of 1819, he made a following comment on it: 'they [members of the Committee] had to contend with public prejudice, and perhaps too with prepossessions which they themselves felt in favour of coin'. (his letter to McCulloch of the 8<sup>th</sup> May 19, VIII/27) And, for 'the English people in the mass' to 'prove to have been really weaned from their fondness for gold coins' (Bonar (1923), p. 300), still a lapse of time of 100 years was necessary. Indeed, the sovereign, issued from 1817, continued to circulate as the sole unlimited legal tendency for 100 years till the time of the First World War, 1917. Apart from this result, there seems to have been a serious lack in the 'regulation 14.'. 1 pound notes had been withdrawn after having circulated actually for a long time during the bank restriction period because of the widely spread forgery of them raising serious social problems. To try to issue and inject into circulation the same kind of paper again after such a hard experience, it is indispensable to think about sufficient measures to prevent the recurrence of similar problems. But in the 'regulation 14.' not any consideration of the kind can be found. In the explanation of the 'regulation 14.', Ricardo writes that 'the fourteenth regulation provides for a supply of onepound[sic] notes for the country circulation' (IV/294), but the text of the 'regulation 14.', containing no mention of the country circulation, can be taken as stipulating the issue of 1 pound notes in London. And in the explanation on this regulation, in determining minutely the way for supplying 1 pound notes to the country, he says that 'the security for the detection of fraud is nearly perfect' (IV/295), as if no problem of forgery existed for the use of 1 pound notes in London. Could Ricardo think of any preventive measures to be taken by the

National Bank itself? But, in any case, the last two ‘regulations’ in ‘Plan, &c.’ may have been the results of his final ‘concession and resistance’ he tried in expecting to put into practice once again his plan of bullion payment while recognizing the reality of restored circulation of coin.

#### VIII. Post-face

Ricardo continued thinking about money and finance both as abstract theoretical and actual current problems during the whole of his lifetime as economist. But except for *High Price* belonging to the earliest period in his career, his writings about these topics were left in the form of a set of minor works not to be described as systematic, like pamphlets on current issues, manuscripts or letters. For this, the economics of Ricardo has been regarded mainly as ‘theory of value and distribution’ embodied in the first several chapters of *Principles*, has made lasting mark as such on the following history of political economy and is actually discussed from various points of view. But his theory of money is ordinarily (mis-)understood in an extremely simplified form as a ‘quantity theory of money’. In addition, a group of the minor works he wrote as an intervention in the debates over current issues on the currency appear today to be almost forgotten, apart from the fact that they have been taken up sporadically in the studies on ‘bullion controversy’ involving a number of economists including Ricardo. The same can be said of *Proposals*, published just 200 years ago from now. In spite of its importance, almost decisive for understanding the monetary thought of Ricardo, this work seems to be taken up less and less with time, because of its close entanglement with the concrete situation (including political) of the time on money and finance, rendering it less and less easily accessible with increasing distance from the time of its writing.

The author of the present article has once tried to discuss Ricardo’s theory of money as a part of his Ricardo studies (Takenaga (2000), Takenaga (2013)), with the aim of searching for a relation between his ‘theory of value and distribution’ and his ‘theory of money’, considered for the most part as two separate theories or theories contradictory to each other. For this purpose, aiming at ‘abstracting’ his ‘general and abstract’ theory of money, comparable to the first theoretical chapters in *Principles*, from the historical context in which was embedded almost all of his writings on money, I tried to remove the ‘impurities’ of the past time. Such a way of studying the monetary writings of Ricardo may of course not be meaningless for some particular object, but in evidence this is not to comprehend sufficiently his theory of money (part of his economic theory in a wide sense) he advanced in struggling with the problems of money of the time. For the purpose of supplementing the study made in the previous articles in considering the theory of money of Ricardo from a wider



point of view, I have tried to concentrate on the aspects intentionally put aside in my former articles. This however does not mean that the present article stands in parallel with the points previously confirmed or negates the previous results. Rather the points in the present article presuppose the interpretation on the fundamental issues in the theory of money of Ricardo brought forward in the previous articles and are founded on it. This is why references to the previous articles have been made several times in the present article.

To approach such an objective, we have tried to trace and analyze in detail how Ricardo came to conceive his proper plan for the reform of monetary regime from the actual situation on money of the time, what was the destiny that plan had to follow in his lifetime. For this reason, I had to enter into the concrete situation of currency of the time, when necessary. In particular, the discussion was extended to the problems concerning the interrelation between the paper circulation and the circulation of coin, to the problems particular to the latter circulation, which have hardly been taken up in the studies on the theory of money in Ricardo. And mentions were made of minor debates and personal relations at that time which exercised some influence on his arguments about money. These mentions are mainly based on the materials included in *Works*, but also the related minor literature of the time was referred to as far as possible. In searching and acquiring such minor literature, the recent progress in the digitalization particularly of ancient rare books with their copyright expired has proved to be most helpful. Believing to be writing very probably once for all an article on such a subject, we have taken up the whole of the related writings of Ricardo as objects of our analysis. From all of this, the present article has exceeded by far the extent of space initially foreseen, with a result that it has turned out to be an article of exceptional dimension I have ever written as an independent one. I only hope it to have the fortune to find some readers, even if very few, who would be interested in the theme, method and contents of it.

Ricardo's plan for the reform of monetary regime has used to be called 'Ingot Plan' in the small number of related literature since the time when Bonar published Bonar (1923) two years before England returned to the gold standard at old par. But Ricardo himself used this term only once in his letter addressed to one of his friends in a particular historical context. In addition, he used the word in attributing to it a particular meaning (expressing a common noun in majuscule 'Ingot'). It is one of the main points in the present article, to bring into question the usage of this term, likely to give some fixed image to the whole of the conception of the reform of monetary regime Ricardo kept, extended or at times modified during a long time. Ricardo himself continued to call simply 'plan' the proposals on the reform of monetary regime he made from 1811 to 1823, and also his friends like Mill understood the 'plan' as Ricardo did. Therefore, in the present article, we have adopted a

general wording 'plan for the reform of monetary regime', vaguer hence apt to contain various interpretations. Ricardo himself called both 'plan of bullion payment' and 'plan of the establishment of a National Bank' equally and simply plan. These two were seen by him as only two different aspects or phases of his plan. There were not two different plans, and he did not, in abandoning (or resigning) the one, 'pass' to the other for some reasons. Also the fact that the manuscript he had drafted just before his death was posthumously published by one of his brothers under the title *Plan for the establishment of a National Bank* contributed to give rise to the impression as if Ricardo got the idea of the establishment of a national bank only in the last months of his life in place of the plan of bullion payment he had affirmed before. On the contrary, in the present article, we emphasized that the establishment of a national bank was conceived by Ricardo from earlier times in continuity with the plan of bullion payment.

Though the plan of bullion payment failed by two difficulties simultaneously arisen of abolishing the gold coin and of maintaining the small notes in circulation to replace the former, Ricardo did never cease to the end thinking about the measures for realizing these two objectives indispensable to an 'economical and secure currency'. As a result, his plan was never carried into execution as he had thought, but his conception continued to exercise great influence on the Currency Controversy and the planning of banking system in later years. And, as a small number of researchers like Boner affirmed, the Gold-Exchange Standard adopted in India at the end of the 19<sup>th</sup> century, the monetary thought of Keynes who estimated it highly, and further the International Monetary Fund (IMF) after the Second World War, a sort of its modification, all these could neither be understood nor estimated without the monetary thought Ricardo brought forward in his plan. The money in the contemporary world after Nixon shock has been repeating unstable evolutions without a clear anchor in the past 40 years. Can the monetary thought of Ricardo still give any suggestions to such an actual state of money?

the 24<sup>th</sup> April 2016 (translation from the Japanese original)

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