COIN AND CURRENCY:

BEING

AN INQUIRY INTO THE PROBABLE EFFECT OF LEGALISING AS CURRENCY THE

COINAGE OF THE SYDNEY MINT.

BY

VALENTINE HELLICAR.

DEDICATED BY PERMISSION TO

His Excellency Major-General Macarthur,

The Officer Administering the Government of Victoria.

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MELBOURNE, 16TH APRIL, 1856.

SIR,

In availing myself of the permission given me to dedicate the following pages to your Excellency, I venture to express a hope, that the consequences which would ensue upon a recognition, as currency in this Colony, of the coinage of the Sydney Mint, will be deemed sufficiently important to justify the objection to the measure.

I have the honour to subscribe myself,

Your Excellency's obedient Servant,

VAL. HELLICAR.

To His Excellency MAJOR-GENERAL MACARTHUR,

The Officer Administering the Government of Victoria.

COIN AND CURRENCY.

Coined Money supplies what political economists call a circulating medium for a country, whereby the interchange of commodities of different values, different qualities, and different quantities, may be facilitated. Thus, for example, the butcher, the baker, and the brewer, instead of interchanging with each other such part of the commodities in which they respectively deal, as each may require, effect the exchange by means of this circulating medium—money.

It would be visionary, and indeed foreign to the object of these pages, to speculate upon the effect, which the discovery of the great abundance of gold in Australia and California may eventually have upon a gold coinage. We will assume it as granted, that gold, which has for ages been used for the purpose, is better adapted than any other substance yet discovered, for the manufacture of coins of a high value. "The precious metals," it has been well observed, "become universal money, not in consequence of any arbitrary agreement among men, nor by the intervention of any law, but by the nature and force of things."

It is important, if not essential, to that comparative steadiness in value which is indispensable, or at all events extremely desirable, in money, that the value assigned to the coins should assimilate as closely as possible to their intrinsic worth, that is, to the commercial value of the metal of which they are composed. Hence, in some countries, the whole cost of coinage is borne by the government itself. In Great Britain, for instance, the authorities at the Mint give in return for every pound troy of standard gold, $46\frac{89}{125}$ sovereigns, equal to £46 14s. 6d., or £3 17s. $10\frac{1}{2}$d. per ounce. The commercial value of the gold from which these coins are made is, in London, £3 17s. 9d. per ounce; and at that price the Bank of England is compelled by law to purchase all gold of standard fineness, so that the extreme variation in price between bullion and the current gold coin of the realm cannot in Great Britain exceed 1½d. per ounce, and may be even less, for there is no law to prevent bullion being sold for more than the bank price; and when there is a considerable demand for exportation, it has happened, and I believe not unfrequently, that higher than bank price has been given for some of the shipments from Australia. These regulations have the desirable effect of steadying the supply as well as the value of the currency; there is no inducement, by the prospect of a higher price, for the holder of bullion to convert it into coin, nor for the holder of coin to convert it into bullion.

But for the purpose of a circulating medium, a metallic currency labours under some disadvantages. Even gold, although the most valuable of the precious metals, and consequently capable of representing the largest amount of value in the smallest coin, is inconvenient to carry about in large quantities, and for transmission from place to place. It is, moreover, expensive. Adam Smith, in his work on the "Wealth of Nations," says,—

> "That part of his capital which a dealer is obliged to keep by him unemployed, and in ready money, for answering occasional demands, is so much dead stock. . . . . The gold and silver money which circulates in any country, and by means of which the produce of its land and labour is annually circulated and distributed, is, in the same manner as the ready money of the dealer, all dead stock. It is a very valuable part of the capital of the country which produces nothing to the country."

To the extent therefore, to which the precious metals are abstracted from the active operations of commerce and converted into this "Dead Stock," does a metallic currency involve a loss to the community. This loss is represented by the improvement which the precious metals, so converted, would make if they were employed in active commercial transactions: calculated even at the simple interest of money in our colony, the amount is neither trifling nor insignificant.

To obviate these disadvantages, recourse has been had to paper as an inexpensive substitute for the precious metals; and when issued by authority of the law by responsible parties, and under judicious limitations, bank notes, payable in specie to bearer on demand, have well answered the purpose. They admit of large amounts being easily transported from place to place, and the moral certainty that when he requires it, the bearer may receive in coin the amount promised to be paid, ensures them a currency equal, or perhaps, I am justified in saying, exceeding the precious metals themselves.

Now, in Victoria, we enjoy the advantage of a metallic combined with a paper currency of undoubted character, and, in the most ample sufficiency. Before, therefore, we are asked to submit to the heavy additional annual loss which a large increase to our metallic currency will entail upon the community, it behoves the advocates for the proclamation of the Sydney-made sovereigns as legal tender, to shew us that we need them. This they have not yet attempted, nor do I think they will succeed if they do attempt it.

It is impossible to define with exactness what amount of circulating medium any country requires. It would appear to be governed generally by the population, and the amount of its internal trade; but what proportion it bears to these has never yet been satisfactorily shewn. Without attempting then to speculate upon the precise amount of gold currency wanted for this colony, I will venture, upon the data we have access to, to assert, that it is and has been not only abundantly but excessively supplied. From the published quarterly returns of the several banks in this colony I have extracted the following as the average amount of "Notes in Circulation" and "Stock of Specie on hand" during the last four years:—

	Notes.	Specie.
1852	£ 892,547	£1,029,184.
1853	£1,646,205	£3,157,077.
1854	£2,240,089	£2,802,594.
1855	£1,967,675	£2,470,660.

These figures denote a state of things unexampled in the history of banking. The proportion that "Specie on hand" bore to "Notes in circulation" was, in the years

1852	£115·3	to £100.
1853	£191·8	to £100.
1854	£125·1	to £100.
1855	£125.5	to £100.

Upon the average of the four years the proportion has been 139.4 to £100.

Have we, in these figures, any indication of a want of specie? To my mind they bring the conviction that we have, and have had a plethoric abundance. Do the bankers ask for any addition to their "dead stock?" It would be difficult to persuade me that they have willingly retained within their coffers what they already hold; indeed, the fact, patent to every one, that whenever the state of the exchange admits of the operation a large exportation of sovereigns takes place, must, I think, be held as satisfactory evidence of the wishes of the bankers. That the public do not require it may be even more satisfactorily deduced from these returns. Had they any desire for more coin, the bankers could not have retained in their coffers, with such an issue of notes, so large an amount of coin. I take these figures then as conclusive evidence that we do not require any addition to our present stock of metallic currency.

I proceed to consider what effect, under these circumstances, an unlimited addition to our metallic currency would have upon the general interests of the colony. That it would entail upon us a serious annual loss has been already shewn, by adding to our already abundant "dead stock" gold, which would otherwise be profitably employed in the ordinary transactions of foreign trade. It would, however, I submit, have the far more serious effect of deranging our present standard of value, by causing, what all writers on the subject concur in saying, it is so important should be avoided, fluctuations in the value of the currency. Were I treating of goods it would require no argument to support the assertion, that an excessive supply, far beyond the wants of the market, invariably reduces the price. And as like causes produce like effects, I see no reason for doubting that the same result would be produced upon money as upon goods. In money, indeed, this depreciation may exhibit itself in two ways—either the value of the coin itself may be directly depreciated, or the quantity of commodities which will be given in exchange for it will be lessened—the effect in either case being the same. The latter alternative would perhaps be attended with the less inconvenience; but my impression is, that in our case we should find the result to be a direct derangement in the currency.

Although, as we have seen, the value of the sovereign in Great Britain is as nearly as possible identical with the value of the metal of which it is composed, it is not so here. Like every other commodity gold must be cheaper at the place of production than at the market of consumption, inasmuch as it has to bear the cost of transport thither. The value of gold therefore in Australia is less than in Great Britain by about three per cent., the cost of transport. Our imported sovereign, however, still passes current with us, at the same value as in London, and as it did here long before the existence of gold was even suspected. This disparity has hitherto been maintained solely in consequence of the limit naturally placed upon the supply of coin, by our currency being confined to the produce of the Royal Mint. This state of things is far from being disadvantageous, as under ordinary circumstances it prevents the exportation or importation of coin, and thus tends to maintain for it a steadiness of value which could not be hoped for under circumstances that would have admitted at one time of an excessive abundance, and at others of extreme scarcity, which, it is evident to my mind, would be the effect of legalising the currency of the Sydney coin, by removing all restraint upon the supply.

A supply far beyond our wants for currency will be felt to be so intolerable a burthen, that it cannot for any length of time be allowed to remain idle and unproductive, and the only channel open for it, is exportation in exchange with other countries for the commodities we require from them. It must, in point of fact, be redirected into the same channel from which at great cost the gold itself was originally diverted; it will be divested of its character as currency and re-assume that of gold, refined indeed, and assayed, still it will be gold coin, as distinguished from currency. As coin its value will be determined by the precise rules which we have seen govern the price of gold. Assuming it to have the Imperial privilege, and that it passes current in Great Britain for twenty shillings, its worth here, under ordinary circumstances, and with exchange at par,* will be twenty shillings, less the cost

* I use the term "par of exchange" in its ordinary acceptation amongst us, but the real par of exchange between any two countries is the equivalency of their respective currency, subject to the cost of conveying bullion from one to the other. Thus, for example, France and Mexico both use silver for a standard, but silver being largely produced in Mexico is always cheaper than in France, and is extensively imported into the latter. Taking the cost of this importation at two or three per cent., it is plain that the exchange would be really at par when it appeared two or three per cent. against Mexico.—*M'Culloch's Dictionary of Commerce—article* EXCHANGE, *and note thereon.*

of transport, three per cent.; say $\frac{97}{100}$ parts of twenty shillings, or about 19s. 5d. Like gold, however, the price of the coin would vary according to the variations in the rates of exchange, and in proportion as it would be more or less advantageous to persons having payments to make in Great Britain to remit in coin, or by bankers' drafts, only reaching, however, the value assigned to it as currency when exchange ruled at three per cent. premium.

It is impossible that two prices can co-exist in the same market for sovereigns. No distinction could be drawn between those for currency and those for export. If one was affected by the causes to which I have alluded so must also the other, hence we should find our standard, instead of having a fixed value, continually fluctuating.* If some plan were proposed for legislative sanction, whereby the pound weight, the yard, or the gallon, would be subjected to variation, at one time being five per cent. less, at another five per cent. more, than the standards by which at present we ascertain the quantities of commodities agreed to be exchanged for money, a unanimous verdict would, methinks, consign the promoter to a lengthened residence at the Yarra Bend Asylum; And what different judgment, I would ask, should be formed of a plan which would cause similar fluctuation in the present standard by which we measure the quantity of the money to be given in exchange for the commodities? The one proposition seems to me to be as impolitic, not to say as absurd, as the other; and it is in order that we may avoid the serious inconvenience which would arise from this disturbance in the steadiness of value, so

* That coined gold does fluctuate in value, under the influence of extra abundance or extreme scarcity, and is an article of commerce, we have experienced in our own mother country. During the period of the last war, such was the demand for gold, that, in May 1809, it commanded £4 11s. per ounce. A committee of the House of Commons was appointed to inquire into the cause of the high price of bullion, but their labours appear to have proved futile, as it continued to advance, until, on the 18th of September, the price rose to £5 11s. per ounce, the Mint price remaining at £3 17s. 10½d. On 24th July an act was passed, enacting that the current coin of the realm should not be received or paid for more than the lawful value; and a few years after, it was put in force against a person of the name of De Yonge, who was tried at the Old Bailey for selling guineas of standard weight at 24s. 6d. each. At this period, guineas, worth by law no more than 21s. each, were saleable on the continent at 29s.

essential to money, that I deprecate the proposal for an unlimited addition to our currency.

But if our internal trade does not require this conversion of raw gold into coin, far less necessary is it for our export trade. Had the Sydney-made sovereigns all the privileges of Imperial money, there can be no doubt that raw gold would have an advantage over the coin as an article of export. Admitting their full equality of value in Great Britain, a larger number of sovereigns would be received from the British Mint from a given quantity of gold, than from the Colonial Mint, to the extent of the difference in the cost of coinage between the two establishments. In other words, the cost of coinage is cheaper in London than in Sydney. For the purpose, therefore, even of British currency, it would be more advantageous to export gold than coin. But we must not limit our views to Great Britain. Our gold shipments, indeed, are chiefly directed to the mother country,—but their ultimate destination is the whole continent of Europe, if not, indeed, the whole world. That the gold does not remain in Great Britain, is shewn by the fact, that notwithstanding the large arrivals from this country and America, the stock of bullion in the coffers of the Bank of England decreases so rapidly, as to cause serious alarm in the monetary and mercantile circles. But we have also some positive evidence upon this point, which at the same time gives us a pretty strong indication of the fearful cost at which the war now devastating Europe is carried on, and what an important aid Australian gold is, to its prosecution. In Hunt's "Merchant's Magazine," No. 192, June 1855, pages 742-3-4, under the head of "Statistics of Coinage and Currency," we have an account of the import, export, and coinage of the precious metals in France for several years. It appears that the quantity of gold imported into that country in the year 1854 was 480 millions of francs, equal to 19,200,000 pounds sterling! the coinage for the same year being equal to 19,600,000 pounds! These amounts are perfectly startling, but as they are given upon the authority of the Count d'Argout, the Governor of the Bank of France, they cannot be doubted; they shew clearly enough what becomes of our gold, and what, moreover, is more to our present purpose, they shew that the coin manufactured in Sydney is not that required by our customers, and that the heavy expense incurred by our neighbours to produce it is all money thrown away, inasmuch as it no sooner reaches Paris than it is remelted and converted into French 20-franc pieces.

If, then, an extended coinage is not required for circulation, and not adapted for exportation, what are the grounds upon which its advocates so importunately urge its infliction upon us? The chief, if not the only reason I have heard adduced, is that the miners do not get the full value for their gold, and that its conversion into coin would give it to them. In the first place, I do not believe in the justice of the complaint. The surest way of getting the full value for any article is to take it to a market where there are many eager and anxious buyers competing with each other for it; and this is the case with gold at present. When we hear of bank managers instructing their agents to buy "gold at any price," to "give threepence per ounce more than any other buyer," it is difficult to persuade oneself that the extreme value is not obtained. My own impression is, that the miner more frequently than not, gets a larger return for his gold by selling it on the spot, than if he were to consign it to London for sale on his own account.* But were it not so, is it possible that the conversion of gold dust into coin can effect the object proposed? The mere coinage cannot in any way add the smallest fraction, to the intrinsic value of the metal. It ascertains and defines with precision its weight and purity, but it does nothing more. The intrinsic value of a given quantity of gold is exactly the same as the coins that can be made from it. True, rejoin the advocates of the measure, but give us what we ask for, currency for our coin at the value of twenty shillings each, and, according to your own shewing, the pound of gold which is coined into 46 $\frac{89}{129}$ sovereigns, will be worth £46 14s. 6d., and the ounce, 22 carats fine, £3 17s. 10½d., the exact value that it is in London.

Admitting, for the sake of argument, that these reasons were as sound as they are really unsound, let me pause for a moment to ask what school of political economy it is that teaches, that the value of an article at the place of production is, or ought to be, the same as at the market of consumption? If this theory be sound, how is it that we have not applied it to Wool, Tallow, and

* I attempted lately to procure some reliable data, which would have enabled me to test the value of this opinion by calculation. I was not successful, however, in obtaining the information I desired.

Hides? Why should not an agitation be got up to proclaim the value of these articles the same in Melbourne as in London, and the colony be asked to bear, by direct taxation, the burthen of their transport to the markets of Europe? The cases are precisely similar, and until we are prepared to consent to the one, I trust we shall not look with favour on the other.

But this argument is based upon the fallacious assumption that the coins will be intrinsically worth the value assigned them as money. I have, however, already shewn that this will not be the case; the large addition to our currency must inevitably reduce the artificial or assigned value of the coin to the real and natural value of the gold, and cannot raise that of the gold to the value of the coin. There is a very general misapprehension on the minds of many people as to the object and effect of a proclamation ordering any particular coin as legal currency. It seems to be assumed, that the value of the coin is governed and defined by the proclamation, and that this, under all circumstances, will be maintained. Now, this doctrine savours much of "Assignâts" and Base Currency, and without denying the fact of attempts having been made, to give, by force of law, a value to currency, unwarranted by the real value of the medium, it is enough to point to the utter failure of all such attempts, to be satisfied, that no proclamation could issue in these days, from our own government, with such an intention.

It seems to me that the object of a proclamation is, to ordain that a debtor having paid, or tendered payment of his debt in the proclaimed coin, should be discharged. If this be so, it is evident that, upon the principle of common honesty, the government, before issuing such a proclamation, would ascertain that the coin they purpose obliging the creditor to take in discharge of his debt is truly, and *bonâ fide*, of the value assigned to it—and that he will experience no difficulty in finding other persons willing to receive it from him.

The Sydney sovereigns it is said, and I do not doubt it, pass current in London at 20s., whilst we know that in Melbourne they are only taken at 19s. To what then are we to attribute this difference? Is this not the true test of their value in the two markets, under precisely similar circumstances, of the want of privilege of legal currency in both? They are worth in London 20s. each, and therefore they pass current at it, want of imperial privileges, notwithstanding—they are *not* worth more than 19s. in Melbourne, and no imperial privileges will enhance their value.

As to the effect of a proclamation, let me direct attention to what Adam Smith says on this subject:—

"A positive law may render a shilling a legal tender for a guinea, because it may direct the courts of justice (injustice should have been written), to discharge the debtor who has made that tender. But no positive law can oblige a person who sells goods, and who is at liberty to sell or not to sell, as he pleases, to accept of a shilling as equivalent to a guinea in the price of them."

Such a law would be nothing less than a legalised robbery of creditors, and it would be small consolation to its victims to know, that the heaviest sufferer of all would be the government itself that passed it. As creditors of the public, for duties, rates, and taxes, the government must discharge their debtor for a guinea, on payment of the shilling; but when they came to expend that shilling in exchange for commodities or labour, they would find the force of the assertion, that no law can oblige a person to accept of a shilling for what he values at a guinea.

I have indeed heard it asserted, even by bank managers, that the current value of the sovereign will be maintained at twenty shillings, by the premium on bills being permanently kept at a rate that will pay the cost of transmitting coins to Great Britain, and the gallant Master of the Sydney Mint, adopting this view, has further propounded the extraordinary doctrine, that this permanent premium on bills would be "an advantage most important to the community." I am at a loss to conceive in what school such a doctrine could have been learned. The premium that merchants have to pay for the bills they remit in payment for goods forms part of the cost of the goods, and of the price at which they can be sold. How, then, an addition of £300,000 per annum to the price we have to pay for our imports can be called "an advantage most important to the community," passes my comprehension.

But all persons conversant with exchange operations must be well aware, that it is out of the power of bankers or any other men to attempt to regulate the exchanges in opposition to the natural causes by which they are determined. The rate of exchange or the price at which bills are bought and sold, must be regulated like every other commodity, by the supply and the demand; and of all attempts at monopoly, none would, perhaps, more signally fail than an attempt by agreement amongst all the bankers to maintain exchange at three per cent., or indeed at any fixed rate. They would, in the first place, have to purchase all the gold that was offered, and at a price fully equal to their price for bills, to keep other persons out of the market; and they must, secondly, find buyers for all the bills they require to draw against it. If, however, the imports to be paid for are less than the exports to be drawn against, it is clear they will not be able to sell as many bills as they require, and will, consequently, be in the unpleasant position of finding their capital remitted to London without the means of withdrawing it. As the agricultural capabilities of the colony become year by year more developed, it is evident that we shall require much smaller imports of food than we have hitherto had; there is every reason on the other hand to believe that our exports will be fully sustained. In such case, the demand for bills will not be equal to the supply, so that, in all probability, so far from exchange ruling at a premium, we shall have it at a considerable discount.

I see by the reports in the public prints, that the Mint has already coined a very considerable amount of sovereigns. Although this fact will doubtless be hailed with satisfaction by its promoters, it must not be taken as any evidence of our want of coin: so long as individuals find it a profitable operation, so long will they take gold to be coined, without any reference to what the colonies require. It has been reported, and I believe correctly, that a bank in Sydney, having branches in Melbourne, and at the several diggings, agreed some time since to advance the Sydney Government £900,000 against one million worth of debentures, to be sent to London for sale on Government account. A very legitimate banking operation, and moreover very profitable,—to the bank. I remember at the time I heard of the operation, calculating that at the then price of gold, these £900,000 could have been paid in sovereigns, coined at the Sydney Mint, at about 19s. 6d. each, thus leaving a profit to the bank, on the payment of the advance alone, of twenty or twenty-five thousand pounds. Under these and similar circumstances, no surprise should be caused, that large quantities of sovereigns have been coined. But when the market is fully supplied with currency, and coin for export must be sold at its value as gold only, I am disposed to think, that the Mint will not be found self-supporting. A market in Victoria for the currency would, beyond doubt, postpone this event for a time, in precisely the same manner as when one barrel is full of water, a pipe connecting it with another empty barrel will delay its overflow. But eventually with the same stream continuously flowing into it, both will be filled; and the expedient will be found not to have prevented, but only to have delayed the waste.

One object I have in view in thus giving publicity to my opinions upon this most important subject is, to defend myself and my fellow-colonists from the charge our neighbours in Sydney bring against us on all occasions, not excepting even the dinner given to their "eleven," to celebrate their late victory over the Victorians at cricket, that we are actuated by jealousy or other unworthy motives in objecting to the recognition of their coin as legal currency in Victoria. I am persuaded that no such feeling actuates any one of my neighbours, and for myself, I entirely disclaim it. I have, in the foregoing pages, given my reasons for the opinions I have formed on the subject. They are as applicable to New South Wales as to Victoria, and a perusal of them will, I think, convince any candid man, that be they right or wrong, my fears of the effect of the deluge would be equally great were the fountain from which the stream issued the Royal Mint itself, and the coin the "veritable" coin of the realm.

Walker, May and Co., Printers, 19 Little Collins Street West, Melbourne.