

CHAPTER XXIX.

CURRENCY, POSTAL ARRANGEMENTS, ETC.

§ 1.

So constantly have the ideas currency and government been associated—so universal has been the control exercised by law-givers over monetary systems—and so completely have men come to regard this control as a matter of course, that scarcely any one seems to inquire what would result were it abolished. Perhaps in no case is the necessity of state-superintendence so generally assumed; and in no case will the denial of that necessity cause so much surprise. Yet must the denial be made.

That laws interfering with currency cannot be enacted without a reversal of state-duty is obvious; for to either forbid the issue or enforce the receipt of certain notes or coin in return for other things, is to infringe the right of exchange—is to prevent men making exchanges which they otherwise would have made, or to oblige them to make exchanges which they otherwise would not have made—is, therefore, to break the law of equal freedom in their persons (Chap. XXIII.). If there be truth in our general principle, it must be impolitic as well as wrong to do this. Nor will those who infer as much be deceived; for it may be shown that all such dictation is not only needless, but necessarily injurious.

The monetary arrangements of any community are ultimately dependent, like most of its other arrangements, on the morality of its members. Amongst a people altogether dis-

honest, every mercantile transaction must be effected in coin or goods; for promises to pay cannot circulate at all, where, by the hypothesis, there is no probability that they will be redeemed. Conversely, amongst perfectly honest people paper alone will form the circulating medium; seeing that as no one of such will give promises to pay more than his assets will cover, there can exist no hesitation to receive promises to pay in all cases; and metallic money will be needless, save in nominal amount to supply a measure of value. Manifestly, therefore, during any intermediate state, in which men are neither altogether dishonest nor altogether honest, a mixed currency will exist; and the ratio of paper to coin will vary with the degree of trust individuals can place in each other. There seems no evading this conclusion. The greater the prevalence of fraud, the greater will be the number of transactions in which the seller will part with his goods only for an equivalent of intrinsic value; that is, the greater will be the number of transactions in which coin is required, and the more will the metallic currency preponderate. On the other hand, the more generally men find each other trustworthy, the more frequently will they take payment in notes, bills of exchange, and checks; the fewer will be the cases in which gold and silver are called for, and the smaller will be the quantity of gold and silver in circulation.

Thus, self-regulating as is a currency when let alone, laws cannot improve its arrangements, although they may, and continually do, derange them. That the state should compel every one who has given promises to pay, be he merchant, private banker, or shareholder in a joint-stock bank, duly to discharge the responsibilities he has incurred, is very true. To do this, however, is merely to maintain men's rights—to administer justice; and therefore comes within the state's normal function. But to do more than this—to restrict issues, or forbid notes below a certain denomination, is no less injurious than inequitable. For, limiting the paper in circulation to an amount smaller than it would otherwise reach, inevitably necessitates

a corresponding increase of coin; and as coin is locked-up capital, on which the nation gets no interest, a needless increase of it is equivalent to an additional tax equal to the additional interest lost.

Moreover, even under such restrictions, men must still depend mainly upon each other's good faith and enlightened self-interest; seeing that only by requiring the banker to keep sufficient specie in his coffers to cash all the notes he has issued, can *complete* security be given to the holders of them; and to require as much is to destroy the motive for issuing notes. It should be remembered, too, that even now the greater part of our paper currency is wholly unguaranteed. Over the bills of exchange in circulation^a, which represent liabilities three times as great as are represented by notes, no control is exercised. For the honouring of these there exists no special security, and the multiplication of them is without any limit, save that natural one above mentioned—the credit men find it safe to give each other.

Lastly, we have experience completely to the point. Whilst in England banking has been perpetually controlled, now by privileging the Bank of England, now by limiting banking partnerships, now by prohibiting banks of issue within a specified circle, and now by restricting the amounts issued—whilst “we have never rested for many years together without some new laws, some new regulations, dictated by the fancy and theory fashionable at particular periods”^b—and whilst “by constant interference we have prevented public opinion, and the experience of bankers themselves, adapting and moulding their business to the best and safest course”^c—there has existed in Scotland for nearly two centuries a wholly uncontrolled system, —a complete free-trade in currency. And what have been the comparative results? Scotland has had the advantage, both

^a Though not literally currency, bills of exchange, serving in many cases to effect mercantile transactions which would otherwise be effected in money, to that extent perform its function.

^b *Capital, Currency, and Banking*. By James Wilson, Esq., M.P. ^c *Ibid*.

in security and economy. The gain in security is proved by the fact that the proportion of bank failures in Scotland has been far less than in England. Though "by *law* there has never been any restriction against *any* one issuing notes in Scotland; yet, in *practice*, it has ever been impossible for any unsound or unsafe paper to obtain currency."^a And thus the natural guarantee in the one case has been more efficient than the legislative one in the other. The gain in economy is proved by the fact that Scotland has carried on its business with a circulation of £3,500,000, whilst in England the circulation is from £50,000,000 to £60,000,000; or, allowing for difference of population, England has required a currency three times greater than Scotland.

When, therefore, we find *à priori* reason for concluding that in any given community the due balance between paper and coin will be spontaneously maintained—when we also find that three-fourths of our own paper circulation is self-regulated—that the restrictions on the other fourth entail a useless sinking of capital—and further, that facts prove a self-regulated system to be both safer and cheaper, we may fairly say, as above, that legislative interference is not only needless, but injurious.

If evil arises when the state takes upon itself to regulate currency, so also does evil arise when it turns banker. True, no direct breach of duty is committed in issuing notes; for the mere transfer of promises to pay to those who will take them, necessitates neither infringement of men's rights nor the raising of taxes for illegitimate purposes. And did the state confine itself to this, no harm would result; but when, as in practice, it makes its notes, or, rather, those of its proxy, legal tender, it both violates the law of equal freedom and opens the door to abuses that were else impossible. Having enacted that its agent's promises to pay shall be taken in discharge of all claims between man and man, there readily

^a *Capital, Currency, and Banking.* By James Wilson, Esq., M.P.

follows, when occasion calls, the further step of enacting that these promises to pay shall be taken in discharge of all claims on its agent. This done, further liabilities are incurred without difficulty, for they can be liquidated in paper. Paper continues to be issued without limit, and then comes depreciation; which depreciation is virtually an additional taxation, imposed without the popular consent—a taxation which, if directly imposed, would make men realize the extravagance of their national expenditure, and condemn the war necessitating it. Seeing, then, that there could never occur depreciation, and its concomitant evils, were there no notes made inconvertible by act of parliament—and seeing that there could never exist any motive to make notes legally inconvertible, save for purposes of state-banking—there is good reason to consider state-banking injurious. Should it be urged that, for the occasional evils it entails, state-banking more than compensates by the habitual supply of many millions' worth of notes, whose place could not be supplied by other notes of equal credit, it is replied that had the Bank of England no alliance with the state^a, its notes would still circulate as extensively as now, provided its proprietors continued their solicitude (so constantly shown at the half-yearly meetings) to keep their assets more than three millions above their liabilities.

There is a third capacity in which a government usually stands related to the currency, viz., as a manufacturer of coins. That in theory a government may carry on the trade of stamping bullion without necessarily reversing its proper function is admitted. Practically, however, it never does so without collaterally transgressing. For the same causes which prevent it from profitably competing with private individuals in other trades, must prevent it from profitably competing

^a The alliance consists in this, that on the credit of a standing debt of £14,000,000, due from the Government to the Bank, the Bank is allowed to issue notes to that amount (besides further notes on other security), and hence to the extent of this debt the notes have practically a Government guarantee.

with them in this—a truth which inquiry into the management of the mint will sufficiently enforce. And if so, a government can manufacture coins without loss, only by forbidding every one else to manufacture them. By doing this, however, it diminishes men's liberty of action in the same way as by any other trade restriction—in short, does wrong. And, ultimately, the breach of the law of equal freedom thus committed results in society having to pay more for its metallic currency than would otherwise be necessary.

Perhaps to many it will seem that by a national mint alone can the extensive diffusion of spurious coinage be prevented. But those who suppose this, forget that under a natural system there would exist the same safeguards against such an evil as at present. The ease with which bad money is distinguished from good, is the ultimate guarantee for genuineness; and this guarantee would be as efficient then as now. Moreover, whatever additional security arises from the punishment of "smashers" would still be afforded; seeing that to bring to justice those who by paying in base coin obtain goods "under false pretences," comes within the state's duty. Should it be urged that in the absence of legislative regulations there would be nothing to prevent makers from issuing new mintages of various denominations and degrees of fineness, the reply is that only when some obvious public advantage was to be obtained by it, could a coin differing from current ones get into circulation. Were private mints now permitted, the proprietors of them would be obliged to make their sovereigns like existing ones, because no others would be taken. For the size and weight—they would be tested by gauge and balance, as now (and for a while with great caution). For the fineness—it would be guaranteed by the scrutiny of other makers. Competing firms would assay each other's issues whenever there appeared the least reason to think them below the established standard, and should their suspicions prove correct, would quickly find some mode of diffusing the information. Probably a single case of exposure and the consequent

ruin would ever after prevent attempts to circulate coins of inferior fineness.*

It is not unlikely that many readers, though unprepared with definite replies to these reasonings, will still doubt their correctness. That the existing monetary system—an actual working system, seemingly kept going by the state—would be benefited by the withdrawal of state-control, is a belief which the strongest arguments will in most cases fail to instil. Custom will bias men in this case, much as in another case it does the vine-growers of France, who, having long been instructed by state-commissioned authorities when to commence the vintage, believe that such dictation is beneficial. So much more does a realized fact influence us than an imagined one, that had the baking and sale of bread been hitherto carried on by government-agents, probably the supply of bread by private enterprise would scarcely be conceived possible, much less advantageous. The philosophical free-trader, however, remembering this effect of habit over the convictions—remembering how innumerable have been the instances in which legislative control was erroneously thought necessary—remembering that in this very matter of currency men once considered it requisite “to use the most ferocious measures to bring as much foreign bullion as possible into the country, and to prevent any going out”—remembering how *that* interference, like others, proved not only needless but injurious—remembering thus much, the philosophical free-trader will infer that in the present instance also, legislative control is undesirable. Reasons for considering trade in money an exception to the general rule, will weigh but little with him; for he will recollect that similar reasons have been assigned for restricting various

* Whilst these sheets are passing through the press, facts, which he is not now at liberty to quote, have been communicated to the writer, conclusively proving the superior economy of a coin-manufacture conducted by private individuals; together with other facts suggesting the obvious truth that the debasement of coinage, from which our forefathers suffered so much, was made possible only by legal compulsion—would never have been possible had the currency been left to itself.

trades, and disproved by the results. Rather will he conclude that as, in spite of all prophecies and appearances to the contrary, entire freedom of exchange has been beneficial in other cases, so, despite similar prophecies and adverse appearances, will it be beneficial in this case.

§ 2.

What was lately said respecting the stamping of bullion may here be repeated respecting the carrying of letters, viz., that it is not intrinsically at variance with state-duty; for it does not in the abstract necessitate any infringement of men's rights, either directly, or by taxes raised for non-protective purposes. Nevertheless, just as we found reason to think that government could not continue to manufacture coin unless by preventing private individuals from doing the same, we shall also find reason to think that it would cease to carry letters did it not forbid competition. And if so, a government cannot undertake postal functions without reversing its essential function.

Evidence that private enterprise *would* supersede state-agency in this matter, were it allowed the opportunity, is deducible not only from our general experience of the inferiority of government in the capacity of manufacturer, trader, or manager of business, but from facts immediately bearing upon the question. Thus we must remember that the efficiency to which our postal system has actually attained is not due to its being under public administration, but is due to pressure from without. Changes have been forced upon the authorities, not introduced by them. The mail-coach system was established, and for a length of time managed, by a private individual, and lived down official opposition. The reform originated by Mr. Rowland Hill was strenuously resisted; and it is generally reported that even now, official perversity prevents his plans from being fully carried out. Whereas, seeing that the speculative spirit of trade is not only ready, but eager to satisfy social

wants, it is probable that under a natural state of things modern postal improvements would have been willingly adopted, if not forestalled. Should it be alleged that private enterprize would not be competent to so gigantic an undertaking, it is replied that already there are extensive organizations of analogous character which work well. The establishments of our large carriers ramify throughout the whole kingdom; whilst we have a Parcels' Delivery Company, co-extensive in its sphere with the London District Post, and quite as efficient. Private agencies for communicating information beat public ones even now, wherever they are permitted to compete with them. The foreign expresses of our daily papers are uniformly before the government expresses. Copies of a royal speech, or statements of an important vote, are diffused throughout the country by the press, with a rapidity exceeding that even achieved by the Post Office; and if expedition is shown in the stamping and sorting of letters, it is far surpassed by the expedition of parliamentary reporting. Moreover, much of the postal service itself is already performed by private agency. Not only are our internal mails carried by contract, but nearly all our external ones also; and where they are carried by government they are carried at a great loss. In proof of which assertion it needs but to quote the fact that the Peninsular and Oriental Steam Navigation Company offers to secure for us a direct monthly communication with Australia; two communications, monthly, from Southampton to Alexandria; two communications, monthly, from Suez to Ceylon, Singapore, and China; and two communications, monthly, from Calcutta to Singapore and China; besides performing the service twice a month between Suez and Bombay, and all for the same sum of money which the latter service alone (Suez to Bombay) now costs the governments of India and Great Britain.

If, then, public letter-carrying has been brought to its existing efficiency by the thought, enterprize, and urgency of private persons, in spite of official resistance—if organizations similar to our postal ones already exist and work well—if, as

conveyers of intelligence by other modes than the mail, trading bodies uniformly excel the state—if much of the mail service itself is performed by such trading bodies, and that, too, on the largest scale, with incomparably greater economy than the state can perform it with—there is nothing unreasonable in the conclusion that, were it permitted, commercial enterprise would generate a letter-carrying system as efficient as, if not more efficient than, our present one. It is true that many obstacles stand in the way of such a result. But because it is now scarcely possible to see our way over these, it does not at all follow that they may not be surmounted. There are moral inventions, as well as physical ones. And it frequently happens that the instrumentalities which ultimately accomplish certain social desiderata, are as little foreseen as are the mechanical appliances of one generation by the previous one. Take the Railway Clearing House for an example. Hence it is not too much to expect that under the pressure of social necessity, and the stimulus of self-interest, satisfactory modes of meeting all such difficulties would be discovered.

However, any doubts which may still be entertained on the point do not militate against our general principle. It is clear that the restriction put upon the liberty of trade, by forbidding private letter-carrying establishments, is a breach of state-duty. It is also clear that were that restriction abolished, a natural postal system would eventually grow up, could it surpass in efficiency our existing one. And it is further clear that if it could not surpass it, the existing system might rightly continue; for, as at first said, the fulfilment of postal functions by the state is not *intrinsically* at variance with the fulfilment of its essential function.

§ 3.

The execution by government of what are commonly called public works, as lighthouses, harbours of refuge, &c., implying, as it does, the imposition of taxes for other purposes than

maintaining men's rights, is as much forbidden by our definition of state-duty as is a system of national education, or a religious establishment. Nor is this unavoidable inference really an inconvenient one; however much it may at first seem so. The agency by which these minor wants of society are now satisfied, is not the only agency competent to satisfy them. Wherever there exists a want, there will also exist an impulse to get it fulfilled, and this impulse is sure, eventually, to produce action. In the present case, as in others, that which is beneficial to the community as a whole, it will become the private interest of some part of the community to accomplish. And as this private interest has been so efficient a provider of roads, canals, and railways, there is no reason why it should not be an equally efficient provider of harbours of refuge, lighthouses, and all analogous appliances. Even were there no classes whose private interests would be obviously subserved by executing such works, this inference might still be defended. But there are such classes. Ship-owners and merchants have a direct and ever-waking motive to diminish the dangers of navigation; and were they not taught by custom to look for state-aid, would themselves quickly unite to establish safeguards. Or, possibly, they would be anticipated by a combination of Marine Insurance Offices (themselves protective institutions, originated by self-interest). But inevitably, in some way or other, the numerousness of the parties concerned, and the largeness of the capital at stake, would guarantee the taking of all requisite precautions. That enterprise which built the docks of London, Liverpool, and Birkenhead—which is enclosing the Wash—which so lately bridged the Atlantic by steam—and which is now laying down the electric telegraph across the Channel—might safely be trusted to provide against the contingencies of coast navigation.