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TOOKE VERSUS RICARDO
ON THE RESUMPTION OF CONVERTIBILITY IN 1819-1821

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1. INTRODUCTION

The relationship between Tooke and Ricardo on money is not obvious. The comfortable intuition is that, since Tooke opposed the Currency School, and since the Currency School assumed Ricardo's heritage, Tooke was anti-Ricardian. However, there are at least two reasons not to follow this intuition. One is that the continuity between Ricardo's monetary theory and the Currency School may be seriously questioned (see Deleplace 2023b). The second reason is that Tooke as the main figure of the Banking School in the 1840s was substantially different from the early Tooke who wrote in the 1820s (see Arnon 2011). To avoid misapprehension of the relationship between Tooke and Ricardo on money, it may thus be useful to compare their respective positions on a subject dealt with by both of them: the resumption of convertibility of the Bank of England note in 1819-1821.

After having been suspended since 1797, the convertibility of the Bank of England note was resumed on 1 February 1820, following Peel's bill adopted the preceding year. A major change was introduced by comparison with the pre-1797 system: convertibility was to be into bullion and not into coin. In his 1816 pamphlet *Proposals for an Economical and Secure Currency* this scheme had been advocated by Ricardo as a permanent device, which aimed at eliminating metallic currency. By contrast, Peel's bill made it temporary, for a period of three years. In the end, this experiment was discontinued after a little more than one year: on 1 May 1821 the old system of cash payments was resumed.

Tooke had been examined on 22 March 1819 by the Lords' Committee on Resumption. He supported then Ricardo's plan but only as a temporary measure, until it would be possible to return to cash payments. In 1826 he published a pamphlet which contained a whole section devoted to a critique of convertibility into bullion as a permanent system, and in 1829 he published another pamphlet in which he showed that Peel's bill had had no effect on the deflation and the stagnation of trade which had occurred in the subsequent years – a view consistent with Ricardo's one – and that the Bank of England could not either be considered as responsible for this situation – contrary to what Ricardo

contended. It thus makes sense to reconstruct a *post mortem* dialogue between Ricardo (who had died in 1823) and Tooke on the effects of the resumption of convertibility.

To evaluate Tooke's critique of Ricardo, one should distinguish between the positive level – the diagnosis on the actual effect of Peel's bill on deflation – and the normative level – the plea for a suitable monetary system. This will be done in Sections 2 and 3 respectively. Section 4 concludes.

2. THE EFFECT OF PEEL'S BILL ON DEFLATION

2.1. Peel's bill and Ricardo

On 26 May 1819 the House of Commons adopted the nine resolutions embodied in the report of its secret committee "to consider the State of the Bank of England, with reference to the Expediency of the Resumption of Cash Payments at the period fixed by law, and into such other matters as are connected therewith." Among these resolutions there was one compelling the Bank of England to deliver standard bullion for its notes, instead of coin as before the suspension of convertibility in 1797. This was Ricardo's idea (called the Ingot Plan), which he had suggested in 1811 in the 4th edition of his pamphlet *The High Price of Bullion, A Proof of the Depreciation of Bank Notes*, and developed in 1816 in his book *Proposals for an Economical and Secure Currency*. Another of his ideas was adopted to alleviate the consequences of deflation: a calendar was set to implement a gradual return to convertibility at decreasing rates; it started on 1 February 1820 to end up on 1 May 1821 at the pre-1797 rate of £3.17s.10½d. per ounce of standard gold.

However, Peel's bill (after the name of the chairman of the Commons' committee) also contained a provision for a return to convertibility *into coin* on 1 May 1823. Also an amendment had been introduced according to which, starting on 1 May 1822, the Bank of England would have the choice to pay its notes in coin or bullion. Knowing the hostility of the Bank to convertibility *into bullion*, this implied to shorten the Ingot Plan experiment by one year. When the date of the return to pre-war parity (1 May 1821) came, a new bill decided to anticipate this possibility of choice. Consequently, after twenty-four years, the parenthesis opened on 26 February 1797 by the suspension of cash payments of Bank of England notes was simply closed, and the monetary system existing before this long crisis was restored, the only change being since 1816 the substitution of a legal gold standard for the previous double standard.

The paradox is that after the resumption of cash payments in 1821 Ricardo was repeatedly attacked in Parliament and in public opinion for his alleged responsibility in the deflation observed in the following years. As he wrote to Trower on 11 December 1821:

In the country I find much error prevailing on the subject of the currency, every ill which befalls the country is by some ascribed to Peel's bill, and Peel's bill is as invariably ascribed to me. [...] I proposed a scheme by the adoption of which there would not have been a demand for one ounce of gold, either on the part of the Bank, or of any one else, and another is adopted by which both the Bank and individuals are obliged to demand a great quantity of gold and I am held responsible for the consequences. (Ricardo 1951-1973, vol. IX: 122-123)

Against some critics who contended that because of Peel's bill the currency had increased by 50 per cent in value against commodities – accounting for the same fall in the

money price of corn and other raw produce – Ricardo maintained that it could only have contributed to deflation by 5 per cent – the difference between the market price of gold bullion when the bill was enacted on 26 May 1819 and the legal price of £3.17s.10½d. of coined gold at which Bank of England notes were eventually made convertible on 1 May 1821. At any rate, this responsibility for a very small part of the deflation could not be ascribed to Ricardo’s Ingot Plan since it was simply the consequence of the decision not to devalue – a decision distinct from the adoption of convertibility into bullion, although the latter was intended to facilitate the implementation of the former by requiring a smaller amount of metallic reserves by the Bank than in the case of convertibility into coin.

There was more. Ricardo acknowledged that another 5 per cent fall in money prices did have a monetary origin. But, as mentioned in his letter to Trower, this was not his fault – just the contrary. Viewing its note as part of the circulation among traders and bankers and not as money for the general public, the Bank of England wished to get rid of the small notes (under £5) which had replaced the coins that had vanished during the past 15 years. This was the reason why it opposed convertibility *into bullion* – which *de facto* prolonged the supremacy of notes over coin – and pressed for accelerating the return to convertibility *into coin*. In this perspective, the Bank had started as early as 1819 to contract its note issues more than it was necessary to prepare for the return to convertibility. As a consequence, the exchange rate of the pound against foreign currencies soon started to rise above par, triggering imports of gold bullion that was then purchased by the Bank. In Ricardo’s eyes, this behaviour was wholly unnecessary since, as mentioned above, one of the merits of convertibility into bullion was to economise on the metallic reserves of the Bank. This demand for gold by the Bank in the world market was thus unnecessary but it had not been harmless: it had pushed the value of gold in terms of all other goods upwards. Consequently, not only – as a consequence of Peel’s bill – the value of the currency had been deliberately enhanced by 5 per cent to make it conform to the value of gold, but – as a consequence of the inappropriate behaviour of the Bank – the value of gold itself had risen by an estimated other 5 per cent, making the deflation produced by the return to the gold standard amount to a total of 10 per cent. This was far from the 50 per cent ascribed to Peel’s bill by its critics, but it meant that half of the deflation having a monetary origin – as opposed to real factors such as imbalances between the supply and the demand for goods – could have been dispensed with, had the Bank of England not torpedoed Ricardo’s contribution to Peel’s bill. Ricardo had good reasons to complain in his above letter to Trower: “I proposed a scheme [...], and another is adopted [...] and I am held responsible for the consequences.”

It may be noticed that for his evaluation of the additional deflation consequent upon the behaviour of the Bank, Ricardo relied on the expertise of Thomas Tooke, who in 1821 had witnessed before the Agricultural Committee where Ricardo had seated. In his pamphlet *On Protection to Agriculture* which he published in April 1822, Ricardo summed up his grievance against the Bank:

Their [the Bank of England] 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 3l. 17s. 10½d. 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. (Ricardo 1822: 225)

Then he mentioned Tooke's evaluation:

From observations, however, on the price of silver, and of various other commodities, making due allowance for the particular causes which may have specially operated on the value of each, Mr. Tooke, one of the most intelligent witnesses examined by the Agricultural Committee, 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. If it be well founded, 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. To that amount, taxation has been increased by the measure for restoring specie payment; to that amount the fall of grain, and with it of all other commodities has taken place as far as this cause alone has operated on them; but all above that amount, all the further depression which the price of corn has sustained, must be accounted for by the supply having exceeded the demand; a depression, which would have equally occurred, if no alteration whatever had been made in the value of the currency. (*ibid*: 228)

And Ricardo concluded:

The cause of the present low price of agricultural produce is partly the alteration in the value of the currency, and mainly an excess of supply above the demand. To Mr. Peel's bill, even in conjunction with the operation of the Bank, no greater effect on the price of corn can, with any fairness, be attributed than 10 per cent. (*ibid*: 262)

Quoting the "Minutes of Evidence" before the Agricultural Committee of 1821, Piero Sraffa observed in a footnote that "Tooke actually said 'About six per cent'" (*ibid*: 228n), instead of five per cent argued by Ricardo. The exact figure is not important: what matters is Ricardo's and Tooke's agreement at the time on the fact that the behaviour of the Bank of England significantly contributed to the deflation generated by the resumption of convertibility, even if this deflation was only a small part of the fall in price of the agricultural products. Tooke would later change his mind, still downplaying the monetary cause of deflation but completely exonerating the Bank from any responsibility.

2.2. Tooke on Peel's bill and deflation

In 1829 Thomas Tooke published two pamphlets (1829a, 1829b) discussing the economic situation in Britain characterized by "a present stagnation of trade and depression of prices" (Tooke 1829b: 91). He criticized the ruling monetary explanation of this situation, which was "ascribed, first to the operation of Mr. Peel's Bill [of 1819] in enforcing a metallic standard, and, secondly, to the withdrawal of the one pound notes." (*ibid*) Contrary to this view, Tooke intended to show "the little influence of the alterations in the system of our currency" (*ibid*) and proposed an alternative explanation, based on the real factors that had influenced the supply of and the demand for goods, hence prices.

The first pamphlet took the form of a long letter addressed to Lord Grenville (1759-1834), a British politician who had been Prime Minister in 1806-1807 and was considered as an authority on monetary matters (see Deleplace 2023a). It aimed at showing that neither Peel's bill itself, nor the preparation of Peel's bill, had caused a contraction of the circulation that could have accounted for the depression in prices. The object of this letter was summed-up in the introduction of the second pamphlet as follows:

The object of a former letter which I addressed to your Lordship [Grenville], was to show that Mr. Peel's Bill had been without effect upon prices, inasmuch as it had been without effect on the amount of the circulation. (Tooke 1829b: 1)

The second pamphlet aimed at showing that, in the case of corn taken as an example, even allowing for such an alleged contraction of the circulation, the timing of the fall in price was not consistent with it and consequently this fall should be ascribed to events having occurred in the corn market itself. Its object was summed-up as follows:

Granting for the sake of argument that a contraction of the circulation with a view to the resumption of cash payments did take place to the extent contended for [by the critiques of Peel's bill], it did not occur in such order of time as to justify the assignment of such contraction, as the originating or moving cause of the fall of prices, even supposing that there were no other adequate causes to account for it: but that the fall of prices does admit of being explained by circumstances affecting the supply of commodities relatively to the demand for them, independently of any alteration in the amount of the Bank circulation. (*ibid*: 1-2)

The explanation of the deflation by the supply of and the demand for commodities in their markets was consistent with the view already expressed by Tooke in 1821 and endorsed by Ricardo. The novelty was that the whole deflation was now seen by Tooke as caused by these "real" factors and no longer most of it. This amounted to considering that the resumption of convertibility had had not even a small part in it, contrary to what both he and Ricardo had contended at the time. Tooke's first pamphlet in 1829 thus contained a reevaluation of the diagnosis made eight years before, as well as a critique of Ricardo's position.

This pamphlet started with the following observation:

In the discussion which took place in both Houses of Parliament, at the close of last Session [in 1828], on the Small Note Bill, and in the different pamphlets and articles of the periodical press which have appeared upon the subject of the Currency, it seems to have been implicitly assumed that Mr. Ricardo and all those who with him maintained that the utmost operation of Mr. Peel's Bill on the value of the Currency could not exceed three or four per cent., have been manifestly wrong, for that the notorious effect of that Bill has been to depress prices to an extent computed by the most moderate at not less than twenty-five per cent., but by the generality of persons at a much higher rate. (Tooke 1829a: 1-2)

Tooke then intended to criticize these assertions and to defend Peel's Bill against any charge of being responsible for the observed fall in prices:

It is with a view, therefore, as well to guard the public against all projects founded upon those doctrines for depreciating the value of the Currency, as to vindicate the opinions delivered in 1819, by the promoters of Mr. Peel's Bill, that I am induced to take up my pen. (*ibid*: 3)

Thus Tooke sided with these "promoters of Mr. Peel's Bill" against its critiques. However, his position was singular: not only he absolved Peel's bill of any responsibility in the fall of prices, but he also denied it any responsibility in the welcomed monetary stabilization. For him, "Mr. Peel's Bill was wholly inoperative in the restoration of the value of the Currency" (*ibid*) which would have occurred in the same way in its absence, as a consequence of the routinely and passive behaviour of the Bank of England in issuing notes. He wanted to show

that a contraction of the Currency was not a necessary consequence of, nor, in point of fact, produced by, Mr. Peel's Bill, or by any anterior preparation on the part of the Bank, with a view to cash payments: for that, according to the rules by which the Bank regulated its issues, there is every reason to believe that, without any reference whatever to that Bill, or to any anterior preparation, the circulation of the Bank of England notes and coin together, would have been neither more nor less than it actually has been. (*ibid*: 4)

For Tooke the merit of Peel's bill was twofold: to enunciate an issuing rule and to introduce clauses imposed by the circumstances of the time (mostly the prospect of a bad harvest in 1820) but which had disappeared later, making these clauses ineffective:

That merit consisted in the sanction it afforded to the principle, that the Bank has the power, by the regulation of its issues, to preserve the value of its paper on a level with that of gold: and the importance attached to the Bill by its promoters, is fully justified by the consideration that, at the time when it was under discussion, there was fair ground for contemplating circumstances under which the compulsory clauses of the Act would come into operation." (*ibid*: 23)

But for the way the resumption actually took place, it was for Tooke independent of Peel's bill and of any active behaviour of the Bank of England. If there was any contraction of the circulation of Bank of England notes, it was the consequence of the stagnation of trade caused by real factors, which had diminished the demand for notes, not of a discretionary reduction of their supply. He thus criticized Ricardo for having contended that a contraction of the circulation (albeit very small) was necessary to restore the value of the currency to its pre-war level, and that the Bank of England had deliberately organized a greater contraction to prepare for the resumption of cash payments, instead of giving convertibility into bullion a fair try:

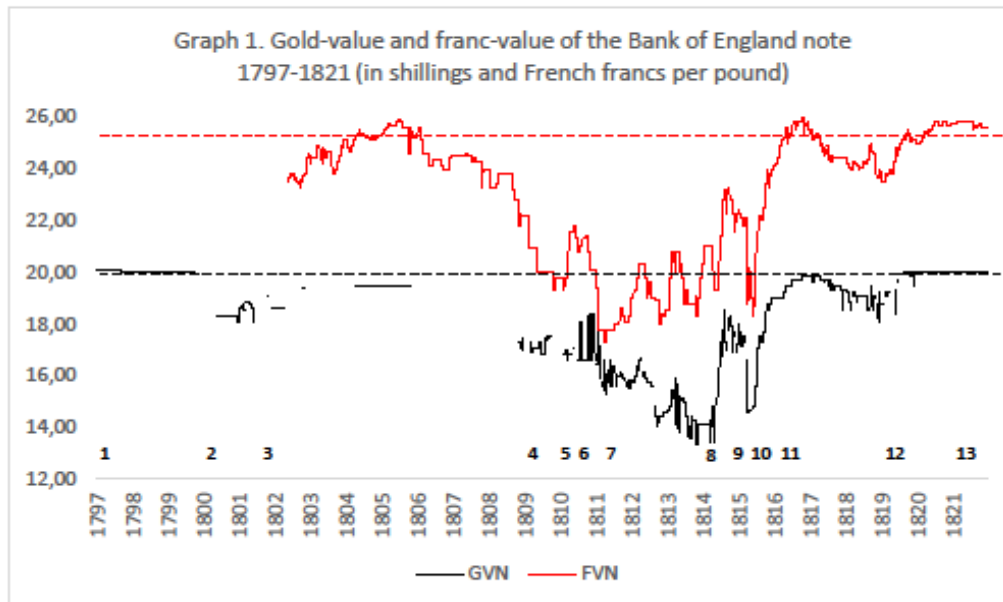
The state of the exchanges in August, 1819, and the influx of gold which they insured, proved that no reduction of circulation was required for the eventual resumption of cash payments. The reduction, therefore, can only be accounted for on one of two suppositions: either that the Directors designedly and forcibly contracted the circulation to prepare for paying in gold; in which case, as for the reasons stated, such contraction was unnecessary, and would involve the charge of mismanagement which Mr. Ricardo makes against them* on that specific ground; or the Directors were simply passive in the regulation of their issues, following the routine by which they were guided previously to 1819. The latter was the fact. (*ibid*: 10)

Footnote * referred to "Mr. Ricardo's speech on Mr. Western's motion concerning the Resumption of Cash Payments, 12th June 1822", where Ricardo restated the arguments published in April in his pamphlet *On Protection to Agriculture*. After summing-up these arguments Tooke concluded:

But if the resumption of cash payments was, as I have endeavoured to show, the necessary result of the system by which the Directors of the Bank regulated, and, according to their ordinary routine, would, under the circumstances as they occurred, have continued to regulate their issues, if Mr. Peel's Bill had not passed, there seems to be no reason to allow the effect upon the value of the currency to even the extent which Mr. Ricardo was disposed to admit. (*ibid*: 113)

As proof of his conclusions Tooke observed that, even before Peel's bill of 1819, "this restoration of the value of the paper had already taken place in 1816 and 1817, and the subsequent deviation had lasted only a few months" (*ibid*: 6), with an "influx of gold" starting in August 1819 (see the quotation above from *ibid*: 10). However, this does not agree with the

state of the exchange to be found in the periodical *The Course of the Exchange*, as illustrated by Graph 1 showing the exchange rate of the pound against the French franc:



Source: Deleplace (2023b), after the quotations published twice a week by the periodical *The Course of the Exchange*.

As seen on the graph, the exchange rate (in red ink) did rise above the par of 25.225 francs to the pound (the red dotted line) during 10 months from 23 April 1816 to 14 January 1817. But later it remained continuously below par during 29 months (and not “only a few months” as indicated by Tooke) from 25 March 1817 to 7 September 1819, remaining more than 1.5 per cent below par during 26 months (from 29 April 1817 to 25 June 1819, with a lowest of 6.8 per cent in December 1818), thus triggering continuous *exports* of gold. After having returned to par during one month (from 10 September to 19 October 1819), the exchange fell again slightly below par during 4 months and a half from 22 October 1819 to 10 March 1820, contradicting Tooke’s contention that imports of gold started in August 1819. It was only from 14 March 1820 that the exchange rose again above par, and after 30 May 1820 that it remained so by 1.5 to 2.5 per cent, allowing for continuous *imports* of gold.

If one confronts these factual observations with the chronology of the resumption (Peel’s bill: 26 May 1819; convertibility into bullion: 1 February 1820; convertibility into coin at pre-war parity: 1 May 1821), it is hard to believe, as retrospectively contended by Tooke in 1829, that the improvement of the exchange *preceded* the adoption of Peel’s bill – making it ineffectual – and that the Bank of England was purely passive after this adoption. On the contrary, in the absence of any public disclosure of the behaviour of the Bank, only two explanations are consistent with the observed evolution of the exchange: either its improvement from March 1820 resulted from the positive effect on bullion traders’ expectations of the implementation of convertibility into bullion on 1 February 1820, or it was

the outcome of the Bank's deliberate policy of building up its metallic reserve, or both. The actual path followed by the exchange in 1819-1821 does not exclude any impact of Peel's bill, nor does it exonerate the Bank of England from any responsibility in a monetary deflation that could have been avoided – the very charge levelled against it by Ricardo in 1822 on the basis of Tooke's evaluation at the time.

3. CONVERTIBILITY AND THE MONETARY SYSTEM

3.1. Ricardo and the security of a system exclusively composed of paper money convertible into bullion

Ricardo did not take credit for his idea of convertibility into bullion. Already in the 1811 Appendix to the 4th edition of *High Price*, he underlined that it had been implemented for long by the Bank of Amsterdam and the Bank of Hamburg. However, the novelty was to apply it to banknotes issued by discounting commercial bills, as the Bank of England did (neither the Bank of Amsterdam nor the Bank of Hamburg issued notes or discounted bills): “The plan here proposed appears to me to unite all the advantages of every system of banking which has been hitherto adopted in Europe.” (Ricardo 1811: 126) As summed-up in the title of Ricardo's 1816 pamphlet, *Proposals for an Economical and Secure Currency*, this plan had two advantages. First it was “economical”, not only in comparison with the pre-1797 mixed system of coins and notes convertible into coins – since it eliminated the cost of metallic money – but also in comparison with the examples of Amsterdam and Hamburg – where coins were indeed eliminated thanks to book transfers but at the cost of a 100 per cent reserve in bullion, that is, as he had said in 1811, “an inactive capital as great as the whole amount of the commercial circulation.” (*ibid*) With a small reserve in bullion – in 1819 Ricardo would contend before the Lords' Committee on Resumption that, “under good management”, a £3 million reserve would be “amply sufficient” to secure £24 million of Bank of England notes in circulation (Ricardo 1951-1973, vol. V: 424) – the plan could provide as much security as in Amsterdam and Hamburg, and far more than in the pre-1797 mixed system. This was its second advantage: paper money would become a “secure currency”.

According to Ricardo (for details see Deleplace 2017, Chapter 9), two conditions were necessary and sufficient to achieve a “sound” (that is, “secure”) state of the currency: convertibility of banknotes into bullion (ingot principle) and regulation of their issue so as to maintain the market price of bullion equal to its legal price (management principle). The first principle prevented an internal drain of the gold reserves of the issuing bank (except in the case of a panic, which no monetary system could guard from), and the second principle prevented an external drain. These two principles ensured that the currency conformed to the standard (to prevent monetary causes of instability in its value), although it was not issued through the monetisation of the standard but of circulating capital (to ensure the fulfilment of the needs of trade).

Tooke did not share Ricardo's belief in the security of a monetary system exclusively composed of paper money convertible into gold bullion and adjusted in quantity according to the observed market price of this standard.

3.2. Tooke and the security of a high proportion of coins relatively to notes convertible into coins

Tooke and Ricardo's 1819 plan

On 22 March 1819 Tooke was examined by the Lords' Committee on Resumption. He clearly supported the two measures advocated by Ricardo, that is, convertibility into bullion and a gradual scale to eventually reach the pre-1797 mint price of £3.17s.10½d.:

I have heard of no measure better adapted, than one which has been suggested, of obliging the Bank by an Act of the Legislature to sell gold bullion at certain stated prices progressively downwards, till it shall have reached the Mint price. (quoted in Sraffa 1952: 361)

However, he emphasised that convertibility into bullion should be adopted as a temporary measure only, aimed at facilitating the return to convertibility into coin. Contrary to Ricardo, he opposed this plan as a permanent system, and to be sure he would be well understood, he delivered his opinion in written form:

The plan of a circulation of paper, convertible into gold bullion only at the Mint price, is admirable for its ingenuity and simplicity, and there can be no doubt of its convenience and cheapness. It is particularly well calculated to serve as an intermediate measure for limiting and regulating the paper circulation, till arrangements can be made for establishing the whole currency on a permanent footing. But if proposed in itself as a permanent system, I cannot but consider it as objectionable. (*ibid*: 362)

Tooke raised three objections to such “a permanent system” of an exclusive paper money: it would imply partial convertibility only, more liable to the risk of excess issuing than full convertibility into coin; it would exclusively rest on confidence, and thus be exposed to the risk of annihilation of this credit money; and it would induce forgery:

A circulation so saturated with paper would be liable to abuse, and to a suspension of the check of partial convertibility, on lighter grounds than if the currency consisted of coin and of strictly convertible paper. And, taken in a general point of view, it must be admitted, that a basis of so frail a material, resting so exclusively on credit and confidence, is exposed to the danger of frequent derangement, and in some conceivable cases to total destruction. But, above all, is the objection arising from the extended inducement to forgery. [...] Upon the whole, therefore, in as far as I might be permitted to give an opinion, it would be in favour of a return to payments in coin. (*ibid*)

The rest of the paper testified to a theoretical disagreement between Ricardo and Tooke about the role of bullion. For Ricardo, contrary to convertibility into coin which was the exchange at a fixed price between a circulating medium – the Bank of England note – and the legal currency – the coin –, convertibility into bullion stipulated an exchange at a fixed price between the currency – the Bank of England note – and a special commodity – gold bullion – which was the standard of money but not money itself. For Tooke, although it was not used in actual payments, bullion had to be considered as a metallic money in which the note was convertible until it would again be convertible into the actual circulating money – coin. This is why Tooke suggested as an improvement on Ricardo's proposal that the gold bars should be issued by the Mint as were coins, rather than by the Bank:

Independently of other advantages, the high prerogative of the Crown, as the source from whence every thing like metallic money should emanate, would be preserved, as in fact the bar gold thus stamped, and thereby acquiring additional value, would be the simplest and cheapest form of metallic money. (*ibid*: 362-3)

This suggestion was clearly not an improvement but a break with Ricardo's view. The two reservations made by Tooke on Ricardo's plan of convertibility into bullion – its adoption as a temporary device rather than a permanent system, and the stamping of the gold bars by the Mint rather than by the Bank – would precisely be the two regrets expressed by Ricardo concerning the deviation of the Commons' Committee's report from his own plan. As he wrote to McCulloch on 8 May 1819:

The Committee have deviated in two points from the plan as originally suggested – they think that the bars of bullion delivered by the Bank, in exchange for notes, should be assayed, and stamped, at the Mint; and they have advised that after 1823, at the latest, we should revert to the old system of specie payments. (Ricardo 1951-1973, vol. VIII: 26)

However, Ricardo did not worry about these limitations to his Ingot Plan, which he considered as political expedients to calm down the Bank's opposition with the first and public prejudice with the second. They might be later removed when the usefulness of this plan would be better understood. The letter to McCulloch went on:

Perhaps, in both instances, they [the Committee] have done right, for the Bank persisting in the most determined opposition to them, they were under the necessity of having the bullion stamped that it might be legally called money of a large denomination, and that the Bank might not raise a clamour against them for having imposed upon that corporation the obligation of paying in Bullion, from which they said their charter protected them. In the second place they had to contend with public prejudice, and perhaps too with prepossessions which they themselves felt in favour of coin. If no inconvenience is suffered from the working of this plan for the next 5 years, the Bank will be amongst the foremost in contending that it should be adopted as a permanent system. (*ibid*: 26-27)

The instability generated by bank issues

In 1826 Tooke published a pamphlet entitled *Considerations on the State of the Currency*.¹ Two months before, in a letter to Lord Grenville dated 19 November 1825, he had attached the “outlines of conclusions” of this pamphlet in three pages. This summing-up started with a diagnosis on “the great fluctuations of prices observable in the period under consideration”, that is, between 1823 and 1825. Contrary to what had happened in the years having immediately followed Peel's bill, the explanation was now to be found on the side of money, not of commodities:²

It is demonstrable from reasoning that there having been no corresponding alteration in the quantities of commodities, the great difference observable in general prices could not have occurred without an alternation of enlargement & contraction of the amount of the currency. (Tooke 1825: f 113r)

Tooke thus discarded any explanation of the great fluctuations in the price level by the state of the markets for commodities and pointed to the responsibility of “an excessive circulation of paper” (both Bank of England's and country banks' one) followed by its

¹ The first edition was published on 28 January 1826, and a second less than one month later, on 22 February.

² In 1823 Tooke had published his first pamphlet, *Thoughts and Details on the High and Low Prices of the Last Thirty Years* (2nd ed.: 1824), where the survey of prices stopped in 1822.

contraction as “the necessary reaction (by eventually being brought to the test of the value of gold in other countries).” (*ibid*: f 113v) Indeed the initial overissue had been stimulated by “a spirit of speculation”; however, although having allowed it “forms a ground of charge against the Bank Directors,” the cause of the disease was more profound: it “is in some degree attributable to the system of the currency in this country.” (*ibid*) As the pamphlet which it summed up, Tooke’s paper had thus a larger scope than a simple diagnosis on the current situation. In fact monetary instability had already been observed before the suspension of convertibility in 1797:

Prior to 1797 when the paper was convertible & the gold coin perfect, the quantity of the circulating medium & the value of it relatively to the currencies of other countries was liable to great variation accompanied with great fluctuations in the amount of bullion in the coffers of the Bank, in general prices, & in the rate of interest, & marked by alternations between a general spirit of speculation & a state of stagnation & discredit. (*ibid*: f 113v-114r)

Convertibility was not thus a sufficient condition to prevent the amount of circulation from being unstable. The reason was that the international adjustment through the export and import of gold (which brought the circulation “to the test of the value of gold in other countries”) did not operate as quickly as was commonly believed, so that there could be a prolonged interval during which the circulation was excessive or deficient, generating speculation or depression in the overall economy. In his 1826 and 1829 pamphlets, Tooke would be more explicit about international adjustment. He interpreted it in the usual terms of the price-specie flow mechanism: the international flows of gold changed the amounts of currency circulating in the trading countries, hence the respective price levels and consequently the exports and imports of commodities, until the equilibrium was re-established. His knowledge of the business of international trade (including the way it was financed) made him think that this adjustment could be quite slow.

In this context, even a reversal in the issuing behaviour of the Bank of England had only delayed effects and could not produce a correction quick enough to dampen the evil consequences of an inappropriate amount of the currency:

When an excess of paper has once taken place, the tendency to an efflux of the metals may be of much longer duration than has commonly been imagined to be possible in a convertible state of the currency, & the consequent drain on the coffers of the Bank, to such a degree as to place them in danger of a complete exhaustion & a consequent suspension of payment, cannot always be immediately stopped by a contraction of an amount of paper equal to the original enlargement. (*ibid*: f 114r)

This defect was symmetrical and also applied to a situation where the amount of the currency was deficient.

In the absence of a quick *international* adjustment supplemented with an appropriate issuing behaviour of the Bank of England, the ultimate cause of monetary instability was to be found in the inability of the currency system itself to proportionate the *domestic* quantity of currency to the needs of the economy. It was so because, in addition to the note issue being extended or contracted against gold brought to the Bank or taken from it, a variation of the issue also occurred through “loans to the state or to individuals”, and

there is always more or less of disturbance of the value of the currency attending every issue of paper as an addition to the circulating medium by loan or discount: the demand for capital by way of loan or discount being

no criterion of the want of so much addition to the circulating medium, of which when so unnecessarily augmented the subsequent inevitable contraction is a further evil. (*ibid*: f 115v)

A necessary consequence followed: the danger of the system lied in a too great proportion of notes in respect to coin:

The range of extension & contraction of the amount of the circulating medium requisite to keep it on an average at a level in value with the metallic currencies of other countries is wider according as the proportion of paper & credit compared with the amount of coin in circulation or of treasure in the Bank which serves as the basis of the currency is larger. Consequently the larger the proportion of paper the greater will be the liability to violent fluctuations in the rate of interest as well as in the prices of commodities. (*ibid*: f 114v-115r)

Tooke was thus adverse to an exclusive circulation of Bank of England notes convertible into bullion:

Any attempt at regulating the issues of paper by reference to a uniform & low amount of treasure in the Bank upon the principle of a circulation consisting of paper only convertible into bullion is calculated greatly to increase the frequency & violence of the variations in prices & in the rate of interest. (*ibid*: f 115r)

This convertibility into bullion had been enacted in 1819 by Peel's bill on the suggestion of Ricardo. Coming after the above rejection of any possibility of quickly correcting an inappropriate amount of notes, Tooke's conclusions sounded as an obvious critique of Ricardo.

Another defect of a currency system exclusively composed of notes convertible into bullion was consequent upon the violent fluctuations in the rate of interest associated with it: "a positive & great national waste & loss by the misdirection of capital and industry", which would outweigh the cost saved by the substitution of paper for coined precious metals. The conclusion was clear-cut:

A currency consisting exclusively of paper convertible only into Bullion would be likely to be more expensive as well as less secure than one consisting of a large proportion of coins. (*ibid*: f 115r-115v)

This sentence was the exact opposite of the title of Ricardo's famous 1816 pamphlet: *Proposals for an Economical and Secure Currency*.

The "outlines of my conclusions" ended with a remark on the country banks' circulation:

The part of the currency which is liable in the greatest degree to all the objections that have been stated is that of the £1 country bank notes, & consequently the first step towards an improvement in our monetary system will be the suppression of that part of the circulation & the substitution of coin in its place. (*ibid*: f 115v)

This question of the low-denomination notes (under £5), whether issued by the country banks or the Bank of England to make up for the disappearance of the coin during the suspension of cash payments was highly controversial in the debates of the time. The advocates (like Tooke) of the suppression of these notes blamed them for being a factor of monetary instability. The opponents to this suppression feared that it would generate a scarcity of money, hurtful to overall activity.

The critique of Ricardo's monetary system

In Tooke's 1826 pamphlet there was a complete section devoted to an exposition of "the disadvantages of a circulation in which paper is in large proportion compared with the metals", with an explicit reference to Ricardo:

As these opinions [by Tooke] are at variance with the plan which was first suggested by Mr. Ricardo, and has since been recommended by Mr. McCulloch, to maintain an exclusive paper currency convertible into bullion only, and as every suggestion proceeding from those distinguished writers is entitled to respectful attention, I deem it incumbent upon me to examine, somewhat in detail, the merits of that plan. (Tooke 1826: 101)

Tooke then quoted Ricardo's *Proposals for an Economical and Secure Currency*:

"Amongst the advantages of a paper over a metallic circulation, may be reckoned, as not the least, the facility with which it may be altered in quantity, as the wants of commerce and temporary circumstances may require: enabling the desirable object of keeping money at an uniform value to be, as far as it is otherwise practicable, securely and cheaply attained." (*ibid*: 101-102; quoted from Ricardo 1816: 55)

As mentioned above, Ricardo had contended before the Lords' Committee on Resumption in 1819 that a reserve of £3 million in bullion kept by the Bank of England would be "amply sufficient" to secure a circulation of £24 million of its notes, provided the Bank exercised a "good management" of their issue, that is, varied them inversely with the observed market price of bullion. According to Tooke, this contention was ill-founded even if the reserve was increased to £5 million: there might often be circumstances, such as abnormal imports of corn following a bad harvest, overtrading of any sort, or financial transfers in periods of war as of peace, in which extra payments abroad (above their usual level) would be required within six or twelve months for £10 million or upwards. In this case a falling exchange triggering exports of gold could not be corrected quickly enough by a contraction of the note issue to prevent the metallic reserve from being soon exhausted, forcing a suspension of convertibility:

I am ready to admit to the fullest extent that can be desired, that the reduced prices in this country consequent upon the contraction of the paper, will eventually diminish the importation and increase the exportation. There is, in fact, no difference between the advocates of a paper currency and myself, as to the principles by which international exchanges are ultimately balanced. The only question between us is as to the extent of the disturbing causes, for which they make little or no allowance, while it is my opinion that these may occasionally be of considerable extent and duration. (*ibid*: 105)

Even supposing that the contraction of the note issue quickly depressed domestic prices, there would be a long interval of time before this could generate additional payments from exports or reduced payments of imports so as to counterbalance the circumstantial extra payments abroad and stabilise the exchange. Import contracts previously made had to be executed, and new export contracts would only have delayed effects on inflow payments because they usually implied a credit granted to the foreign purchasers – something that as a merchant in the Russian trade Tooke was aware of:

Taking the time occupied in the shipment, the transmission, the interval between arrival and sale, and again between the sale and the expiration of the credit, a period of a year and a half, or two years, may elapse before the funds arising from such shipments can be made applicable to foreign payments. (*ibid*: 106-107)

Other consequences of the contraction of the note issue concurred in slowing down the adjustment in the goods markets: the downward trend in prices was not favourable to

speculative demand, and the restriction of credit at home propagated to foreign financial centres linked to London, depressing there the markets for British goods.

Tooke acknowledged that this sluggishness in the trade-balance adjustment was independent of the monetary system and also existed in the case of a mixed system of specie and notes convertible into coins. However, in such a case, the domestic circulation of specie, in addition to the metallic reserve of the Bank, could make up for the gold exports required by the extra payments during the long interval of the adjustment. This provided a security against the exhaustion of the Bank's reserve and the correlative risk of suspension of convertibility:

It may, therefore, fairly be inferred, that in the case of a circulation consisting of so large a proportion of paper, the contraction requisite to keep up the exchanges, (even if this were possible,) and to preserve the convertibility of the paper, would be nearly twice as great as in the case of one, in which the bullion in the coffers of the bank, and the coin in circulation, were of such an amount as to admit of the greatest part, if not of the whole of the extra payment being made in specie. (*ibid*: 109)

According to Tooke, an additional factor made Ricardo's system of an exclusive circulation of notes convertible into bullion more insecure than the system advocated by him of a mixed circulation with a high proportion of specie: the shrinking of the Bank's metallic reserve when extra payments abroad were required triggered a run which aggravated the crisis:

But before the contraction could be pushed any thing like the extent requisite for this purpose [the extra payments], the notoriety of the drain upon the bank, and of the smallness of its reserve, would create a run, from fears among the holders of paper for its eventual convertibility; and the suspension of cash payments would be inevitable. It is in vain to call this a *panic*, and to say that no system of banking can be proof against a *panic*. A *panic* is an apprehension beyond the occasion; but in the case supposed, there would be just ground for apprehension. The only rational foundation for confidence, on the part of the public, in a bank, is a knowledge, that the reserve is ordinarily of sufficient magnitude to serve as a security against casualties and emergencies. Now a reserve of one-tenth, or even one-fifth, would present no such security, and would naturally lead to the recurrence of frequent alarm and periodical suspension. (*ibid*: 109-110; Tooke's emphasis)

Tooke's emphasis on the word panic obviously referred to Ricardo's well-known contention that against panics no monetary system, whichever it was, could provide any security.³ For Tooke, this contention might apply to an irrational panic (such as one which had been caused in 1797 by the fear of a French invasion); but here the run of the public on the metallic reserve of the Bank had a "rational foundation", because it was consequent upon the insufficient size of this reserve in proportion to what was required by "casualties and emergencies".

The conclusion of this critique of Ricardo's monetary system was straightforward:

Viewed therefore in every light in which the subject can be placed, the conclusion strikes me to be irresistible, that the liability of a currency to fluctuation in value, will be the greater, as the basis of the metals in proportion to the circulation of paper is smaller. (*ibid*: 120)

³ "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. Should every man withdraw his balance from his banker on the same day, many times the quantity of Bank notes now in circulation would be insufficient to answer such a demand." (Ricardo 1816: 68; Ricardo's emphasis)

4. CONCLUDING REMARKS

As mentioned above in the introduction, Tooke's position in the 1820s on the resumption of convertibility not only informs about his attitude then towards Ricardo but also about his anticipation – or not – of what his approach to money and banking would be in the 1840s.

Concerning the former aspect, the man whom Ricardo praised as “one of the most intelligent witnesses examined by the Agricultural Committee” of 1821 appeared in the 1820s very anti-Ricardian, at two levels which did not only imply a circumstantial disagreement but also a theoretical divergence. On the one hand, although he discarded the responsibility of Peel's bill – inspired by Ricardo – in the deflation that had followed, Tooke also discarded any responsibility of the Bank of England – contrary to Ricardo. He interpreted the actual path of the British economy in 1819-1821 in terms of a real post-war adjustment process that had started as early as 1816-1817 and had been unaffected by monetary factors, whether institutional (Peel's bill) or behavioural (the alleged activism of the Bank of England). However, we saw that this interpretation does not match the observed evolution of the exchange rate of the pound – something quite unexpected on behalf of someone so aware of the factual movements in prices.

On the other hand, although in 1819 Tooke had supported Ricardo's Ingot Plan, he did it as a temporary measure facilitating the eventual return to convertibility into coin, not as a permanent monetary system. His later critique of Ricardo's monetary system as being unstable was based on the belief that, when extra payments abroad became necessary under short notice, the international adjustment of the trade balance was too slow to be consistent with a small metallic reserve of the Bank of England and called for the mobilisation of exportable gold extracted from domestic circulation – something incompatible with the elimination of metallic currency wished by Ricardo. Tooke thus envisaged a foreign drain caused by an external shock – contrary to Ricardo for whom it could only be caused by a domestic excess note issue – and his interpretation of the adjustment also contrasted with that of Ricardo, who considered that the well-organized international market for bullion as commodity was sufficient to do the job of equilibrating the foreign balance. The crucial point was thus the influence of the amount of currency on the market price of bullion, not on the general price level. In the 1820s it was Tooke who advocated the Quantity Theory of Money associated with the price-specie flow mechanism, not Ricardo.

This paradox raises the other question of the relationship between Tooke's approaches to money and banking in the 1820s and in the 1840s. Here also two points may be noticed. First, in the 1820s Tooke's interpretation of the international adjustment based on the trade balance responding slowly to the monetary effects of an external shock contrasted with what his views would be in the 1840s, which focused on international flows of capital (including gold bullion), reacting quickly to interest-rate differentials. Second, although Tooke would consistently advocate a big metallic reserve as safeguarding convertibility, he would no longer in the 1840s rely on the domestic circulation of coins to provide it but on the discretionary behaviour of the issuing bank in its handling of the discount rate. Giving up the distrust of paper money that he previously held, he would no longer consider the monetisation of capital

as an obstacle to a stable monetary system but as a suitable way of money creation, under the condition that it were properly managed. Of course, this does not mean that Tooke became Ricardian, but this is another story.

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