

The GrEco Project

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Grenville's Economics

Lord William Wyndham Grenville

Correspondence with William Huskisson

[1826]

Transcription: Christophe Depoortère

## Lord Grenville to Huskisson<sup>1</sup>

[f125r]

(Copy)

Charles Street Feb<sup>y</sup>. 17: 1826

My dear Sir,

I beg you will accept my best thanks for your obliging communication of the memorandum which I now return. I believe you are too well apprized of my cordial approbation, and delight in those measures, in which you have borne so honourable and useful a part, to doubt of the extreme satisfaction which it would give me if any suggestion of mine could in the smallest degree contribute to the maintenance and advancement of that policy.

In this light I regard the plan detailed in your very able paper. That statement has removed the greatest part of the difficulties which I before felt on the subject. When the question between the adoption of gold or silver as a standard for our currency was under [f. 125v] discussion, I felt a strong preference in favour of the former. This preference was almost wholly grounded on a belief, that the altered state of South America is likely to produce much less powerful changes in the cost of production of gold, than of silver. It seems probable that in the course of time<sup>2</sup> both will fall, but silver more rapidly than gold, because (if I am rightly informed,) all the improvements of science, machinery, and capital, are much more applicable to silver as raised from mines, than to gold as collected from stream works. Perfect immutability would be the perfection of a standard; and therefore that standard is the best which partakes most of the quality.

Baring's plan of a mixed circulation of gold and silver, following the French mode, but adopting the English proportions, was in effect nothing else than a plan for depreciating our currency, to the exact amount [f. 126r] of the difference, whatever it is or may become between the market price of silver, and its price as valued in our silver coinage.

The principle of some depreciation he had, if I mistake not, recommended in other forms, in which it had been successfully resisted. And to all such plans any one who was,<sup>3</sup> like myself, a decided advocate for restoring our currency to its former value, could not but be a decided opponent.

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<sup>1</sup> MS in British Library Add. MS. 59405 ff. 125-129.

<sup>2</sup> "in the course of time" is inserted.

<sup>3</sup> "was," is inserted.

But from any such objection your proposal is wholly free; at least it is so in present, and will continue so as long as the relative prices of gold and silver in the market of Europe shall remain such as they now are.

How long that may be it is not easy to conjecture. I believe there is now a general, and well founded, opinion that the supply of metals from South America [f. 126v] has been for many years past much deficient, in comparison with former averages. If this be so, there is little ground to apprehend that within any short time we shall experience the inconveniences of a superabundant supply of either metal.

Still this is a possible contingency, and one therefore not wholly to be overlooked. The unexpected discovery of any very abundant mine of silver, worked much more cheaply than those now in operation, would rapidly disturb our whole system, and send away our gold, even under the well considered safeguards of your plan, if they were still made applicable to the present (french) proportions of gold and silver.

What means could then best be provided for such changes as these altered circumstances might require? The leading features of your plan must of course be established permanently, if at all. A great part of its success would depend on its permanence. [f. 127r] But might not this particular proportion of gold and silver be established only for a limited period. My notion would be, to declare in the act itself, that this proportion is now adopted only as being consonant to the actual market prices. Its continuance might be limited therefore to (ten) years, at the expiration of which and of every subsequent period of (five) years, the actual market par in Europe of the two metals in exchange with each other, for the average of the preceding period, might be determined by a jury of Merchants and Goldsmiths in the Exchequer Chamber, under the direction of the Lord President, Chancellor of the Exchequer, the master of the Mint, and others of the King's privy council, in some such form as is now adopted for the trial of the Pyx. And their verdict of this fact might be taken as the proportion at which silver shall thenceforward be received in deposit, for the next ensuing period of (five) years, and so on from time to time.

[f. 127v] You will readily perceive my object in this suggestion. These variations might it is true be made by Parliament, as often as occasion shall require it. But every such discussion might, and probably would, be influenced by the casual preponderance of the contending interests, who might, (as now), expect some profit from the depreciation or maintenance of the currency. Whereas in this way you would now establish the correct, and as I conceive the only honest, principle, which

is, that the two metals shall respectively pass current for that which they are really worth, in exchange with each other, and for neither more, nor less. And you would leave the application of that principle to be governed by the actual facts, in the course of events, which no man can foresee.

In the duration of the periods to be chosen for this purpose is a mere question of detail [?]. I have proposed them very short, because the mode of trial which I [f. 128r] suggest is one so very little troublesome, and the time for which any error or even fraud could operate would thus be made so very limited. But if there should be any apprehension of inconvenience from too frequent fluctuation on this subject, I see little danger in somewhat extending the periods. Of course it is meant that any change which such trial may produce, shall be prospective only, and shall leave unaltered all receipts previously issued from the Mint. You will best judge whether any thing of practical utility can be grounded on these suggestions: and I will no longer detain you on this subject.

With respect to the concluding part of your paper, your statement of the inconveniencies which must result in time of war, or preparation for war, from the present large amount of our unfunded debt is undeniable. But on the other hand, there is [f. 128v] an obvious and striking inconvenience in attempting to fund any part of it, at a moment when stocks have fallen so much below the average of many past years, and so much below what we may hope, if peace continues, will be the average of many succeeding years. And this view of the subject presents a balance of evil between which it is not easy to decide. The impression of my own mind would be, to operate in this case somewhat differently, and rather more slowly than you propose. I have for many years entirely ceased to approve of that once favourite object of pursuit to M<sup>r</sup> Pitt and to myself, a sinking fund for the redemption of our funded debt. The reason for this change of opinion it would be tedious to detail, and the decision, whether for good or evil, has been finally made and acted upon.

But admitting that it is desirable in time of peace to raise five millions of additional taxation for the purpose of reducing debt, the [f. 129r] considerations which you have so forcibly stated prone undeniably the inconvenience of applying that sum preferably to the discharge of undemandable, rather than of demandable debt. There would be no inconsistency of principle, scarcely any difference of practice, in adopting the opposite course. The sinking fund, if first applied in discharge of the unfunded debt, would be equally, and with unquestionable good faith, made available to the annual diminution of the public incumbrances. And the benefits, once so highly extolled, of the principle of compound

interest, might as easily be obtained in this case as in the other. The sinking fund might be annually increased by the interests of the Exchequer Bills extinguished. A considerable loss must attend any attempt to fund Exchequer bills in any state of the money market at all resembling the present. But by applying the whole sinking fund to the four next year, as fast as it arises, to their extinction, you might accomplish, without any such risk, the same benefit which your more adventurous [f. 129v] proposal proffers to us in two years. That this difference of time might in some events be immeasurably important, I readily admit. But in all political decision there are conflicting dangers, between which your navigation must be steered.

The anomaly of keeping up a sinking fund to reduce the debt in time of war, by annual additions to that debt, is now I believe very generally condemned by all who understand the subject. That of upholding a sinking fund in time of peace, by omitting to discharge, or at least to reduce within some manageable limits, your unfunded debt, seems to be very obviously liable to the same objection.

Believe me & &c

(signed) Grenville

The R<sup>t</sup> Hon<sup>ble</sup>  
M<sup>r</sup> Huskisson  
&c &c &c

#### Lord Grenville to Huskisson<sup>4</sup>

[f. 130r]

(Copy)

Charles Street Feb<sup>y</sup> 18. 1826.

My dear Sir,

I perceive on reconsideration, that I committed an error in my letter of yesterday, when I proposed that all receipts, already in circulation, should continue to pass current at the value first marked upon them, notwithstanding any subsequent variations in the declared proportions of gold and silver. This would incur the very same risk against which I was endeavouring to guard. The receipts would thus eventually be made to pass for a greater value than could be realized by the sale of the deposits; And if we suppose a fall of 10 P<sup>r</sup> cent in the price of silver; a man would be compelled to receive in payment for fifty pounds what was really worth

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<sup>4</sup> MS in British Library Add. MS. 59405 ff. 130-131.

no more than forty five. A manifest injustice, and liable to all the same evils which belong to a depreciated currency in any other form.

The correct provision on the subject, would [f. 130v] I conceive be this; viz that during the whole continuance of the period within which the receipt was first issued, it should continue to pass current for the sum then marked upon it. But that after the expiration of that period, its value in legal tender, in subsequent periods should be proportioned to any changes which should take place in the declared value of silver on the result of such trials as I have proposed.

As these periods would be very short, the danger of rapid or sudden variations in consequence of this provision would be extremely small. And this is what is principally to be guarded against. To avoid disputes, these variations should be notified by proclamation at the commencement of each period, and a power should be given, both in these cases and in the general trial and declaration of value, to disregard very small differences such for instance as should not exceed 9 in the £1 st9.

This proceeding sounds more implicated than it would in practice be found [f. 131r] to be. And I confess I do not see how, without some provision on this nature, you can avoid the fatal objection, of establishing a currency consisting of two metals, whose future value in exchange with each other must inevitably become different from what it now is; But which must yet continue to be receivable according to their present proportions.

Believe me &c &c

(S<sup>g</sup>) Grenville

R<sup>t</sup>. Hon<sup>ble</sup>  
M<sup>f</sup> Huskisson  
&c. &c &c