tion of a number of influential 'Merchants, Bankers, and Traders of London against the Bank Act'. Wilson denounced the bimetallist doctrine of Ashburton and the London petitioners as 'extraordinary', and 'most inexplicable and unreasonable'. So serious was the bimetallic threat considered that the two stalwarts of the currency school, Loyd and Torrens, collaborated in writing an anonymous pamphlet in a point-by-point rebuttal of the London petition.[42] The telling thrust in the Torrens–Loyd polemic was to show that the logic of the bimetallist position pointed straight to the far more consistent, though far more dangerous, policy of Birmingham fiat money:

> The Birmingham philosophers are consistent reasoners, and have the sagacity to perceive that an arbitrary extension of the paper circulation is incompatible with the maintenance of a metallic standard. The inferior logicians who have signed the London petition, while demanding the establishment of a double metallic standard, are unable to perceive that an extension of paper money through the exercise...of the relaxing power for which they pray would render impracticable the maintenance of any metallic standard.[43]

The high-water mark of the assault on gold came in votes in Parliament in 1848. In the Commons committee, the veteran radical leader Joseph Hume's motion denouncing Peel's Act for aggravating the crisis of 1847 was defeated by a vote of 13 to 11. The 11 supporters included a coalition of free banking remnants like Hume, inflationists and protectionists like the Birmingham Tory Richard Spooner, and bimetallists like Thomas Baring and Lord Bentinck. Furthermore, the report of the House of Lords committee criticized Peel's Act and recommended watering down the restrictive provisions on bank notes. While the committees were deliberating, the veteran anti-bullionist John Charles Herries moved to repeal the limitations on bank notes of the Act of 1844 and all the Acts of 1845. Here was a rallying-point for all soft currency men of whatever stripe – Birmingham men, bimetallists, or soft gold men. Herries's motion lost rather narrowly, by a vote of 163 to 142. The major speeches for the motion came not from the moderates, but from Birmingham men like Richard Spooner. In answer to Spooner, the great Robert Peel rose and pointed out that although Birmingham doctrine was in 'a small minority' within the House of Commons, outside the House 'of those who talk about the currency, and write about the currency, the vast majority', indeed 'nine tenths', agree with Spooner, that is, want 'issues of paper without the check of convertibility'.

Whether Peel was over-reacting to what he considered expressions of evil, or whether his raising the spectre of Birmingham was a ploy to rally the troops, that tactic was successful, and Herries's motion to consider the reports of the Lords and Commons committees, was defeated without even coming to a formal vote. From then on, for a decade, the spectre of Birmingham was enough to win the moderate gold men and the banking school to an all-out defence of the Peel Act *status quo*. During the mid-1850s, Wilson's *Economist* followed this path, and the veteran currency man James Pennington wrote a worried letter to a friend that 'There is just now a widespread clamour calling for repeal of that Act [the Bank Act of 1844] which clamour, if it prevails, will I think, be followed by a clamour, equally loud, for doing away altogether with the obligation of specie payments'.[44]

We may fittingly close our discussion of the aftermath of Peel's Act by focusing on two important contributions, after the passage of the Act, by the wisest of the currency school, Colonel Robert Torrens. In the course of his critique in 1857 of the banking school chapter of Mill's *Principles*, Torrens added another vital point in criticizing the view that banks, being passive, can have no power to increase their liabilities, and hence have no power to raise prices. Torrens trenchantly pointed out that Mill

> excludes from his consideration the important fact, that banks possess in themselves the power of increasing and diminishing the demand for banking accommodation when they raise the rate of discount, the demand for accommodation contracts, and when they lower the rate it expands...and unless he is prepared to disprove the fact that banks can lower the rate of discount, he cannot consistently maintain that their power of increasing the issue is limited...

Amidst all the assaults on the Peel's Act system, by Birmingham fiat money men, bimetallists, remnants of free bankers, and banking school adherents, it is remarkable that apparently not a single writer, parliamentarian, or man of affairs called for a tougher policy of plugging up the enormous hole in the currency system by extending the 100 per cent reserve principle to deposits as well as notes. Not a single currency man admitted any flaw in his previous position, nor advocated, like Jacksonians in the United States, pressing on to a full 100 per cent reserve position on all bank demand liabilities, including deposits. The closest that anyone came to this view was Colonel Torrens. In a poignant moment in the history of economic thought, in his last published work at the age of 77, Torrens wrote a review in the January 1858 issue of *Edinburgh Review*, of the collected *Tracts and Other Publications on Metallic and Paper Currency* by his old friend and ally Samuel Loyd, Lord Overstone, edited by John R. McCulloch. After eulogizing the contributions of Lord Overstone, and once again defending Peel's Act, Torrens went on to try to explain the business cycle culminating in the recent crisis of 1857. In sharp contrast to his surrender a decade earlier to the banking school in blaming 'overtrading' for the crisis of 1847, Torrens now strongly affirmed that 'Were there no overbanking, there could not be (except for brief periods) overtrading and excessive speculation'. And the overbanking, since Peel's Act, clearly meant deposits. For Torrens could scarcely ignore the fluctuations that were occurring in the amount of bank deposits. Discussing deposit banking, Torrens emphasized that by creating new demand deposits through loans, the banks exerted 'the same influence upon the markets as an increase in the numerical amount of the circulation [of notes]'. Torrens had always been the only currency man to understand the true monetary importance of deposits; now he pressed on to a vigorous condemnation of the commercial bankers and their expansion of deposits in the recent boom as well as their contraction and bankruptcy during the crisis. Thus, Torrens bitterly inquired:

> Are the scales of justice held even, when a petty thief, or the forger of a five-pound note, is treated as a felon, and when the speculating banker...obtains from the Court of Bankruptcy a full liquidation of his debts, and receives from sympathising friends and half-ruined creditors the means of recommencing his disreputable and mischievous career?

Torrens went on to show how additional loans 'from deposits produce effects upon prices, upon commercial credit and upon the exchanges, results analogous to those produced by additional issues of bank notes'. Virtually conceding that Peel's Act suffered from not being applied to deposits, Robert Torrens now conceded that 'even under a currency exclusively metallic [i.e. coins without notes] overbanking and the insolvency of discount-houses may occasion disasters as formidable as those which can result from an unrestricted use of bank notes and a suspension of cash payments'.

In his conclusion, Torrens expressed strong doubt whether 'the advantages of discount [deposit] banking, even when conducted under a metallic currency, balance the evils it inflicts'. It seems that Torrens was on the brink of advocating the extension of the currency system to deposits, and perhaps if he had lived to write more on money and banking, he would have done so.

7.10 Currency and banking school thought on the Continent

The flowering of the currency and banking school debates in Britain, coupled with the later burgeoning of central banking on the Continent, led to similar controversies in France and Germany in the 1850s and 1860s. Generally, the results were the same: pseudo-currency triumph in the sense that the central bank acquired a monopoly of note issue, and *de facto* banking school victory in elastic, fractional-reserve banking and repeated increases and declines in the supply of money.

In France, *laissez-faire* thought flowered among economists, who proved themselves the true heirs of J.B. Say. Professors, journalists, the long-lasting Société d'Économie Politique, the Société's *Journal des Économistes*, both launched in 1842, and several other scholarly and popular periodicals were dedicated to the free trade and *laissez-faire* cause. In that atmosphere, the French economists naturally plumped for free rather than central banking.

Most of them, unfortunately, felt constrained to adopt banking school doctrine so as to maintain that freely competitive banking, like banks in general, can never issue excessive notes or bring about a business cycle. They were a far more genuine free banking group than the British who, as we have seen, were special pleaders for commercial banking interests rather than consistent advocates of free banking. Indeed, in this as in other areas, the French, in contrast to the hesitant, muddled and pragmatic British, were not afraid to be consistent, rigorous, militant, and therefore 'extremist' advocates of individual liberty and free exchange.

One of the leading, and one of the most interesting, of the French free banking theorists was Jean Gustave Courcelle-Seneuil (1813–92). Courcelle, as one historian writes: 'was in favour of absolute freedom and unlimited competition and was the most uncompromising of all free bankers in France. The sole permissible regulation, in his view, was one aimed simply at the prevention of fraud'.[45]

I. Edward Horn (1825–75) was another notable French free banking theorist. In his *La Liberté des Banques* (1866), Horn went so far as to challenge the idea that the state must have a monopoly on coinage. He pointed out that private investment bankers could easily gain as much public confidence in the circulation of their coins as has the state. Horn noted that the state is far more likely to suspend the obligation of a central bank to redeem in specie than grant such a boon to the smaller, individual banks. In the paraphrase of Vera Smith:

> Horn called attention to the greater possibility that the liability of such a [Central] bank to pay out specie on demand would be revoked with its consequence of pure paper money in place of notes convertible into coin. A bank under State patronage always counted on the Government to relieve of its obligation to pay when nearing insolvency, and its bankruptcy became legalised instead of its having to go into liquidation and suffer the usual penalties of insolvency. This history of privileged banks had undeniably been full of bankruptcies.

Horn went on to insist that, under free banking, any refusal whatever to pay in specie on demand must mean instant liquidation for the errant bank. Only then could a free banking system work. Horn notes: 'If banks of issue were given to understand, however, that they were positively and irremediably responsible for their acts, and had themselves to bear the consequences, they would be as prudent in their policy as any other business concern'.[46] The problem is how could government be trusted to enforce prompt specie payment on the banks, especially if many or most banks get into trouble at the same time?

Courcelle and Horn were both heavily influenced by James Wilson's circulation into fixed capital analysis of the boom. But both men, while stressing with the banking school that banks cannot over-issue their notes, did admit, in contrast to Wilson, that banks could and did err in fuelling over-investment in fixed capital during the boom. Interestingly enough, Horn, Courcelle, and many of the French free bankers felt they had to deny, by legalistic quibbles, that even bank notes were 'money', since money, in the legalistic though not economic sense, must be strictly confined to the standard specie in which notes were convertible.

But the most fascinating theorists were the tiny intrepid band of Frenchmen who believed in free banking and at the same time were rigorous currency school *ultras*, who despised as fraudulent and inflationary all fiduciary media, all bank liabilities beyond 100 per cent specie reserve. They believed, quite plausibly, that neither a monopoly privileged bank, nor the government that backed it, could be long trusted to maintain 100 per cent gold reserve banking. The leader of this little band was Henri Cernuschi, who, writing two tracts in 1865, declared that the important question was not monopoly note issue *vs* plural or free banking, but whether bank notes should be issued at all. His answer was no, since 'they had the effect of despoiling the holders of metallic money by depreciating its value'. If they were at all useful, they should no more than represent metallic money by 100 per cent; any uncovered notes, any fiduciary media, should be ended totally. Cernuschi favoured free banking because he held that, lacking any special privilege, encouragement, or acceptance by the state, and forced to close the minute banks refused any payment of liabilities, nobody would wish to hold bank notes. As Ludwig von Mises approvingly quoted from Cernuschi: 'I want to give everybody the right to issue banknotes so that nobody should take banknotes any longer'.[47]

A follower of Cernuschi was Victor Modeste, whose policy conclusions were rather different, and brought him close to the hard-core Jacksonians in the United States. Modeste was a dedicated libertarian, who believed that the state is 'the master..., the obstacle, the enemy', and whose announced goal was to replace government by 'self-government'. Modeste agreed with Courcelle and the banking school free bankers that commerce and trade must remain free. He also agreed with them that central monopoly banking was far worse and more damaging than freely competitive banking, and was also opposed to administrative control or regulation of banks. On the other hand, what is to be done about bank notes? In this category, Modeste explicitly included demand deposits, which he saw to be illicit, fraudulent, inflationary, generators of the business cycle, and bearers of 'false money'. His answer was to point out that 'false' demand liabilities which pretend to but cannot be converted into gold, since they go beyond the value of the gold stock, are in reality equivalent to fraud and theft. Modeste concluded that false titles and values are at all times 'equivalent to theft; that theft in all its forms every-where deserves its penalties..., that every bank administrator...must be warned that to pass as value where there is no value,...to subscribe to an engagement that cannot be accomplished...are criminal acts which should be relieved under the criminal law'. The answer, then, is not administrative regulation but prohibition of tort and fraud under general law.[48]

In Germany, there were few writers influenced by the banking school; most were currency men. In the rigorous currency tradition was Philip Joseph Geyer. Writing in his tract *Banken und Krisen* (Banks and Crises) in 1865, and in another book two years later, Geyer declared that ideally the amount of money in circulation should always remain constant. The money supply is not in fact constant largely because continuing issues of bank notes are not covered by specie. At this point, Geyer contributed one of the first outlines of the Austrian theory of the business cycle, as he pointed out that uncovered bank note issues inject an 'artificial capital' (*kunstliches Kapital*) into the economy, and when this artificial capital exceeds the amount of available 'real' (*naturliches*) capital, over-investment and over-production bring about a crisis. However, Geyer then blundered into an inconsistent underconsumption theory while trying to develop his analysis.

An academic hard-line currency man in Germany was Johann Louis Tellkampf (1808–76). A young Prussian with a doctorate from the University of Göttingen, Tellkampf emigrated to the United States, where he taught first at Union College in law and political economy, as well as history, German language and literature. Then, in 1843, he moved to Columbia College as professor of German language and literature. Three years later, Tellkampf returned to Prussia and became professor of political economy at the University of Breslau. He was later elected to the Prussian senate, where he took a leading part in bank legislation.

Tellkampf's observations on the problems of decentralized banking in the United States led him to argue for strict 100 per cent specie reserves to bank notes, and for one monopoly central bank to put this plan into effect. Tellkampf aided in disseminating the currency principle by co-translating McCulloch's defence of the principle into German in 1859. On the other hand, failing the adoption of his 100 per cent specie plan, Tellkampf was very willing to consider free banking as a second best.

The free bankers in Germany tended to be smaller in number than in France, and currency school rather than banking school men. A notable writer in this camp was Otto Hübner, a leader of the German Free Trade Party. His multi-volume work, *Die Banken* (1854), was largely an empirical survey of banks throughout the world, and argued that banks were soundest and least in danger where they were freest and least controlled. Privileged central banks tend to be wildly run and are in danger of insolvency, as note the suspension of specie payment of the Austrian national Bank, which had financed large deficits of the Austrian government. Hübner's goal, like Cernuschi's in France and like that of Geyer and Tellkampf in Germany, was 100 per cent specie reserve to bank notes. His ideal preference would have been for a state-run monopoly 100 per cent reserve in the bank, like the old banks of Amsterdam and Hamburg, but he recognized the problem of inherent mistrust of state banking. As Vera Smith paraphrases Hübner:

> If it were true that the State could be trusted always only to issue notes to the amount of its specie holdings, a State-controlled note issue would be the best system, but as things were, a far nearer approach to the ideal system was to be expected from free banks, who for reasons of self-interest would aim at the fulfillment of their obligations.[49]

7.11 Notes

1. Frank W. Fetter, *Development of British Monetary Orthodoxy 1797–1875* (Cambridge, Mass.: Harvard University Press, 1965), p. 122.
2. In 'Currency Juggle', *Tait's Edinburgh Magazine* (Jan. 1833). See Fetter, op. cit., note 1, pp. 140–41.
3. Lionel Robbins, *Robert Torrens and the Evolution of Classical Economics* (London: Macmillan, 1958), pp. 245–6.
4. As we shall see below, the currency school was split on the issue of deposits as money: the simplistic insistence on notes as the only bank money being held by the majority led by George Warde Norman and Samuel J. Loyd (Lord Overstone), while the contrary and correct position was held by Sir William Clay and Colonel Robert Torrens.
5. William Gouge's main work was first published as *A Short History of Paper Money and Banking* (1833) in two separate parts, theoretical and historical. Most of the latter was reprinted in England, under the title *The Curse of Paper Money and Banking*, with an introduction, appropriately enough, by the great anti-bank radical, William Cobbett. Both parts were reprinted, virtually intact, in Gouge's own *Journal of Banking* (1841–42).
6. Henry Drummond was the eldest son of the banker Henry Drummond, and was born in Hampshire. He was raised by his maternal grandfather, Henry Dudas, Viscount Melville, and, during his childhood, became a favourite of William Pitt. Educated at Harrow and at Christ Church, Oxford, Drummond left college to become a partner at his father's bank in London. The aristocratic Drummond was a Member of Parliament from 1810 until he retired for ill health three years later. In the meanwhile, Drummond was able to put through Parliament an act outlawing the embezzlement by bankers of securities kept in their safe-keeping. Drummond founded the chair of political economy as Oxford in 1825, and at about the same time became the main leader, prophet and evangelist of the rising movement of pre-millennial millenarianism in Protestant Christianity. Drummond returned to Parliament from 1847 until the end of his life, there serving as a highly independent Tory, favouring war, government, and the ecclesiastical establishment. Drummond wrote many pamphlets on financial and on evangelical themes.
7. In his *Letters to the Editor of the Times' Journal on the Affairs and Conduct of the Bank of England* (1826), cited in Elmer Wood, *English Theories of Central Banking Control 1819–1858* (Cambridge Mass.: Harvard University Press, 1939), p. 110. Another hard-money writer in 1826 was the pseudonymous 'Benjamin Bullion', *Letters on the Currency Question*.
8. For an excellent discussion of the independent treasury programme and its two crucial parts, as well as of the Van Buren bankruptcy proposal, see Major L. Wilson, *The Presidency of Martin Van Buren* (Lawrence, Kan.: The University Press of Kansas, 1984), p. 73 and passim.

9. For Mushet, see Lawrence H. White, *Free Banking in Britain: Theory, Experience, and Debate, 1800–1845* (Cambridge: Cambridge University Press, 1984), p. 62.
10. On Parnell, who has ben neglected by most historians, see ibid., pp. 62–3, and Jacob Viner, *Studies in the Theory of International Trade* (New York: Harper & Bros., 1937), pp. 24–241.
11. George Poulett Scrope, *An Examination of the Bank Charter Question* (1833), p. 456. Also see Scrope, *The Currency Question Freed from Money* (1830), *On Credit Currency* (1830). The other articles in 1830 in the *Quarterly Review* were by Edward Edwards and H.A. Nilan. On Scrope, see Fetter, op. cit., note 1, pp. 137–8. White characteristically neglects the vital difference between Scrope's inflationism and hard-money writers in the free banking camp. White, op. cit., note 9, passim.
12. John Charles Spencer, Viscount Althorp (1782–1845), was born in London to an aristocratic family, the son of Earl Spencer. After studying at Harrow and Trinity College, Cambridge, Althorp received an MA from Trinity in 1802. Althorp was an MP for 30 years after 1804. First a supporter of Pitt, Althorp took a generally radical position in Parliament, battling against the leather tax and in favour of Catholic emancipation, and took his stand with the Whig opposition after 1815 in favour of reform, lower taxation, and cutting the budget. In 1830, Althorp refused the prime ministership, and took his place in the Grey ministry as chancellor of the Exchequer and leader of the House of Commons.

    After his father's death in 1833, Althorp succeeded to his father's earldom as Lord Spencer, and withdrew from direct politics in the House of Commons. He continued to be influential, however, in favour of peace with France and repeal of the Corn Laws in the 1840s.

    A Yorkshire landowner and cattleman, Althorp loved agriculture and hunting. He founded or helped to found the Yorkshire Agriculture Society, and the English Agricultural Society (1828), which later became the Royal Agricultural Society.
13. In Alexander Mundell, *The Danger of the Resolutions Relative to the Bank Charter...* (London, 1833). Cited in White, op. cit., note 9, pp. 67–8.
14. Robert Torrens, *A Letter to the Right Honourable Lord Viscount Melbourne on the Causes of the Recent Derangement in the Money Market and on Bank Reform* (London, 1837).
15. Cited in Lionel Robbins, *Robert Torrens and the Evolution of Classical Economics* (London: Macmillan, 1958), p. 89. Robbins, Torrens's biographer, admits his inability to explain Torrens's complete about-face on money and inflationism. Ibid., pp. 73–4.
16. *The Causes and Consequences of the Pressure upon the Money-Market* (London, 1837). Palmer (1779–1858), was the son of William Palmer of Essex, a London merchant, and mayor and high sheriff of Essex. An East India merchant and shipowner, John Horsley Palmer went into partnership with his brother in 1802. He was a director of the Bank of England from 1811 on.
17. In his *Reflections Suggested by a Perusal of Mr. J. Horsley Palmer's Pamphlet* (London, 1837). Loyd (1796–1883), later the first Baron Overstone, was the only son of a dissenting Welsh minister, the Rev. Lewis Loyd. Loyd's mother was a daughter of a Manchester banker, John Jones. Educated at Eton, and then receiving a BA at Trinity College, Cambridge, at the top of the list, in 1818, Loyd gained an MA from Trinity in 1822. By this time, the Rev. Loyd had left the ministry to become a partner in his father-in-law's bank, and then proceeded to found the London branch of Jones, Loyd & Co. In 1834, the bank merged into the new London & Westminster Bank. A successful banker, Samuel Loyd succeeded to his father's leadership in London & Westminster in 1844. Loyd died one of the richest men in England. He was made Lord Overstone in 1850.
18. Fetter, op. cit., note 1, p. 171.
19. Norman, *Remarks Upon Some Prevalent Errors with Respect to Currency and Banking* (London, 1838). Norman (1793–1882) was born in Kent; his father, George Norman, was a merchant in the Norway timber trade, and a sheriff of Kent. George Warde was educated at Eton, and joined his father in the Norway trade, spending many years in Norway. After his father's retirement in 1824, George Warde became sole owner of the business, until it was merged with another mercantile firm in 1830. George Warde Norman was a director

of the Bank of England from 1821 until 1872, and was a member of the bank's treasury committee during the 1840s. Norman was founding member of the Political Economy Club, and was its last surviving original member.

Norman was a liberal devoted to free trade, and a close friend of the great philosophical radical, banker, and classicist George Grote. Norman was widely read in English, continental, Latin, and Norwegian literature.

20. The first two volumes were published in 1838, the third in 1840, and the fourth in 1848. Two later volumes appeared in 1857, near the end of Tooke's life, but they were largely written by his co-author William Newmarch.
21. John Fullarton, *On the Regulation of Currencies* (1844). Fullarton (1780–1849), son of a physician, went to India as a medical officer for the East India Company, and rose to become an assistant surgeon in Bengal for over a decade. While in India, he became a partner in the Calcutta banking house of Alexander and Co., and amassed a huge fortune, returning to London in the early 1820s. A founder of the Carlton Club, and author of several pro-Tory articles in the early 1830s, Fullarton, retired, now entered the fray on behalf of the banking school.
22. For Torrens's role in this and other economic discussions, including a full annotation of each one of his writings, see the delightful work by Lionel Robbins, *Robert Torrens and the Evolution of Classical Economics* (London: Macmillan, 1958), esp. Chapters IV, V, and the bibliographical appendix.
23. Oddly, Professor White chides Marion Daugherty for putting Smith in the ranks of the currency school rather than of the free bankers, even though White himself concedes four pages later that 'The testimony of Manchesterites J.B. Smith and Richard Cobden [1840] revealed the developing tendency for adherents of laissez-faire, who wished to free the currency school from discretionary management, to look not to free banking but to restricting the right of issue to a rigidly rule-bound state bank as the solution'. White, op. cit., note 9, pp. 71, 75. See Marion R. Daugherty, 'The Currency–Banking Controversy, Part I', *Southern Economic Journal*, 9 (October 1942), p. 147. In particular, see Fetter, op. cit., note 1, pp. 175–6.
24. Years later, S.J. Loyd, the leader of the currency school, testified that he had never had any personal or political connection with Robert Peel. 'I knew nothing whatever of the provisions of the Act until they were laid before the public. The Act is entirely so far as I know the Act of Sir Robert Peel.' Torrens had no contact with Peel either, and indeed Peel turned down Torrens's request for office based on his leadership in the currency school. Only after Peel's death did Torrens receive a government pension 'in consideration of his valuable contributions to the Science of Political Economy'. As for the veteran adviser James Pennington, his advice was only sought for technical details after the main provisions of Peel's Act had already been determined. Fetter, op. cit., note 1, p. 182n.
25. Boyd Hilton, 'Peel: A Reappraisal', *Historical Journal*, 22 (Sept. 1979), p. 614. Not that Hilton is sympathetic to Peel's determined role on the behalf of *laissez-faire* and hard money. On the contrary, he is appalled at Peel's 'doctrinaire' stance, an assessment unfortunately echoed by Professor White in his reference to Peel's 'little-recognized dogmatism'. White, op. cit., note 9, p. 77n.
26. J.K. Horsefield, 'The Origins of the Bank Charter Act, 1844', in T.S. Ashton and R.S. Sayers (eds.), *Papers in English Monetary History* (Oxford: The Clarendon Press, 1953), pp. 110–11.
27. William Cotton (1786–1866) was the son of a naval captain, merchant, and director of the East India Company. At the age of 15, young William entered the counting house of his father's friend. By 1807, he had become partner in a London mercantile firm, and become general manager in that firm's cordage manufacturing plant. Cotton was a director of the Bank of England for 45 years, from 1821 until his death, and eventually became known as 'the father of the Bank of England'. Cotton was governor of the bank from 1843 to 1845, and was succeeded by Heath. Cotton also invented a successful automatic machine for weighing gold sovereigns, and was a distinguished philanthropist in the Church of England. Cotton was born, and lived most of his life, in the county of Essex, where he became justice of the peace, judge and sheriff.

28. Morris Perlman has pointed out that James Mill, in a book review in 1808, developed an extreme version of the real bills banking school doctrine. In that case, James Mill was never a Ricardian in this area, and John Stuart may have been exercising his filio-pietism in bringing back his father's monetary views, as well as Ricardianism in the rest of economics. Morris Perlman, 'Adam Smith and the Paternity of the Real Bills Doctrine', *History of Political Economy*, 21 (Spring 1989), pp. 88–90.
29. See White, op. cit., note 9, pp. 122–6.
30. Ibid., p. 79.
31. So much for James Gilbart's alleged devotion to free banking, years before his surrender to Peel's Act.
32. See the interchange in Hilton, op. cit., note 25, pp. 593–4. It is characteristic of Professor Hilton's lack of insight into economic theory that he brands Peel's questioning as 'inept' and faults him for scoffing at the importance of Gilbart's 'personal knowledge' when judging inconvertible fiat money.
33. Cited in Fetter, op. cit., note 1, p. 193.
34. White, op. cit., note 9, p. 80. Thus the Scottish devotion to their vaunted free banking system turned out to be mainly special pleading. Much of White's book is devoted to the thesis (a) that until Peel's Act of 1845, Scotland enjoyed a regime of free banking uncontrolled by the Bank of England, with liabilities convertible into gold; and (b) that this free system worked far better than England's central bank-dominated one.

    But both parts of this thesis are deeply flawed. On (b) White confines his evidence of superiority to the lower bank failure rate in Scotland. But bank failure is a minor way to gauge the workings of a banking system. White presents no data whatever on whether Scotland suffered any less economic inflation or recession than England. One suspects, then, in the absence of data, that the economic record was about the same for the two parts of the United Kingdom. On (a), the problem is that Scottish banking was scarcely 'free'. Most Scottish bank reserves were kept, not in gold, but in deposits at the Bank of England, or in its surrogate, bills on London. Scottish banks, then, far from being free and independent of the Bank of England, pyramided on top of bank liabilities. Furthermore, the bank habitually bailed Scottish banks out in time of trouble. To top off the argument, the realities were that it was very difficult, both socially and legally, for anyone to actually obtain gold from the Scottish banks in exchange for their liabilities – especially in times of trouble when the gold, of course, was in particularly great demand.

    On Scottish banking in this era, see in particular the definitive work of Sydney G. Checkland, *Scottish Banking: A History, 1695–1973* (Glasgow: Collins, 1975). Checkland writes that 'Requests for specie met with disapproval and almost with charges of disloyalty', and 'the Scottish system was one of continuous partial suspension of specie payments. No one really expected to be able to enter a Scots bank...with a large holding of notes and receive the equivalent immediately in gold or silver. They expected, rather, an argument, or even a rebuff. At best they would get a little specie and perhaps bills on London. If they made serious trouble, the matter would be noted and they would find the obtaining of credit more difficult in the future'. And finally, 'This legally impermissible limitation of convertibility, though never mentioned in public inquiries, contributed greatly to Scottish banking success'. Ibid., pp. 184–6. Also: 'the principal and ultimate source of liquidity lay in London, and in particular in the Bank of England'. Ibid., p. 432. Also see Charles W. Munn, *The Scottish Provincial Banking Companies 1747–1864* (Edinburgh: John Donald, 1981), and Charles A. Malcolm, *The Bank of Scotland, 1695–1945* (Edinburgh: R. & R. Clark, n.d.). On the Scottish free banking question, see Murray N. Rothbard, 'The Myth of Free Banking in Scotland', *The Review of Austrian Economics*, 2 (1988), pp. 229–45; Larry J. Sechrest, 'White's Free-Banking Thesis: A Case of Mistaken Identity', Ibid., pp. 247–57.
35. Wilson, son of William Wilson, a prosperous woollen manufacturer, was educated in a Friends' school and, at the age of 16, was apprenticed to a hat manufacturer. Soon, his father bought the firm for James and his brother. In 1824, Wilson came to London, and became a partner in a mercantile firm which, after 1831, became James Wilson & Co. After losing a great deal of money in indigo speculation, Wilson retired from business in

1844. In the meanwhile, he had become interested in economics and free trade, and had published several tracts on commerce and the Corn Laws. Wilson's writings strongly influenced such later free trade stalwarts as Peel and Gladstone. Finally, Wilson founded *The Economist* in 1843, writing almost all of the copy himself, and forged it rapidly into a highly influential journal. Wilson became an MP from 1847 to 1859, and was also financial secretary to the Treasury during the 1850s. Under the Palmerston regime in 1859, Wilson became vice-president of the Board of Trade, paymaster-general, and a Privy Councillor, and then, just before his death, was sent to India as finance minister, where he proceeded, ironically enough, to increase taxes and to issue a great quantity of government paper.

36. Fetter asserts that Torrens 'never could have said of Wilson's ideas, as he did of Tooke's, 'that the flood-gates are opened, and the landmarks removed'.' Fetter, op. cit., note 1, p. 200.
37. See Lloyd Mints, *A History of Banking Theory in Great Britain and the United States* (Chicago: University of Chicago Press, 1945), p. 90.
38. A few years later, in his *Principles of Political Economy*, Mill became sympathetic to freedom of bank note issue, but on general *laissez-faire* rather than specific monetary and banking grounds.
39. William Cotton, of the Bank of England, thought that the suspension came too soon, and John R. McCulloch thought it of doubtful value, but no currency man attacked the suspension, or even gave any sign of comprehending the significance of the suspension question.
40. These epigones included Charles Neate, a professor at Cambridge who published his lectures, *Two Lectures on the Currency* (1850); R.H. Mills, a professor at Trinity College, Dublin, in his *The Principles of Currency and Banking*, in the mid-1850s; John Inchbald's *The Price of Money* (1862), and the popular tract by George Combe, *The Currency Question Considered* (1856), which was hailed by the London *Times* and went through six editions within one year.
41. The book consisted of the nine 1845 articles on Peel's Act, plus later essays.
42. *The Petition of the Merchants, Bankers and Traders of London Against the Bank Charter Act: with Comments on Each Clause* (London, 1847).
43. Quoted in Fetter, op. cit., note 1, p. 208.
44. Ibid., p. 216. Fetter wittily describes the feelings of the Banking School and the other anti-Peel Act gold men *vis-á-vis* the threat from the Birmingham school: 'The situation is suggestive of the attitude that tradition associates with the Duke of Wellington – he had no fear of the enemy, but the very thought of his allies filled him with terror'. Ibid.
45. Vera C. Smith, *The Rationale of Central Banking* (1936, Indianapolis: Liberty Press, 1990), p. 94.
46. Ibid., p. 108.
47. From Henri Cernuschi, *Contre le Billet de Banque* (1866), Cernuschi's testimony before the massive French government's bank inquiry of 1865–66. Translated by Ludwig von Mises, *Human Action* (New Haven: Yale University Press, 1949), p. 443.
48. Victor Modeste, 'Le Billet Des Banques D'Émission Est-Il Fausse Monnaie?' ('Are Bank Notes False Money?'), *Journal des Économistes*, 4 (Oct. 1866), pp. 77–8. (Translation mine.)
49. Smith, op. cit., note 45, pp. 115–16.

8 John Stuart Mill and the reimposition of Ricardian economics

8.1 Mill's importance

The Mills, father and son, had a fateful impact upon the history of economic thought. If James Mill played a crucial and neglected role in developing Ricardian economics and its philosophical ally, Benthamite utilitarianism, and in foisting them upon the British intellectual world, his son John was by far the most important force in reimposing Ricardian dominance two decades after it had fallen into decline. It is ironic that the fate of British intellectual life in the nineteenth century should depend so closely on the psychological interplay between famous father and son, ironic since both purported to be austere 'scientists' above all. The two men could not have been more different in character and quality of intellect. James Mill, as we have seen, was a hard-nosed, hard-hitting, self-confident hard-core 'cadre' type, in intellect and action, original in carving out an architectonic system of economics, philosophy and political theory, and then supremely energetic in organizing people and institutions around him to try to put them into effect. James tried to educate John Stuart (1806–73) to follow him in leadership of this philosophic radical cadre, but the education didn't take. After John's famous nervous breakdown at the age of 20, the younger Mill emerged as almost the opposite to his father in temperament and quality of intellect. Instead of possessing a hard-nosed cadre intellect, John Stuart was the quintessence of soft rather than hardcore, a woolly minded man of mush in striking contrast to his steel-edged father. John Stuart Mill was the sort of man who, hearing or reading some view seemingly at utter variance with his own, would say, 'Yes, there is something in that', and proceed to incorporate this new inconsistent strand into his capacious and muddled world-view. Hence Mill's ever-expanding intellectual 'synthesis' was rather a vast kitchen midden of diverse and contradictory positions. As a result, Mill has ever since provided a field day for young Ph.D's caught in the game of publish or perish. Dispute over 'what Mill *really* believed' has become an unending cottage industry. Was Mill a *laissez-faire* liberal? A socialist? A romantic? A classicist? A civil libertarian? A believer in state-coerced morality? The answer is yes, every time. There is endless fodder for dispute because, in his long and prolific life, Mill was all of these and none, an ever-changing kaleidoscope of alteration, transformation and contradiction.

John Mill's enormous popularity and stature in the British intellectual world was partially due to his very mush-headedness. Here was this person of undoubted intellectual parts, an erudite man growing up in a circle of distinguished scholars and political activists, and yet here is this eminent man who sees good in all conceivable positions, even the reader's, whoever he may be. Add to this another unusual note: Mill's felicitous style. For in the history of thought, the style very much reflects the quality of mind; clear-headed thinkers are usually lucid writers, and confused and inchoate thinkers usually write in the same way. Ricardo's crabbed and tortured style reflected the muddled complexities of his doctrine. But Mill was unusual in possessing a graceful and lucid style that served to mask the vast muddle of his intellectual furniture. Ricardo won at least brief popularity for his very obscurity, though he had the invaluable aid in spreading his doctrine of such clear writers as James Mill and John McCulloch. But John Mill won fame and influence partly through the grace of his writing.

If he had known the full extent of his son's defection of character and intellect, the elder Mill would surely have despaired. But he never really found out, for John learned early to dissemble, playing a double game throughout his 20s while his father was still alive. Thus he was perfectly capable of publishing an article praising his father's philosophical favourite, Jeremy Bentham, while at the same time writing an anonymous article elsewhere highly critical of Bentham. Mill's intellectual duplicity proved a sharp contrast to his father's candour.

Oddly enough, however, and weighing the totality of John's career, James might in a sense have been truly pleased. For through all the mush, through all the flabby and soggy 'moderation' that marked the adult John Mill and still attracts moderate liberals of every generation, in the last analysis filiopietism triumphed. When push at long last came to shove in the mind of John Stuart Mill, he came down, albeit of course 'moderately', on the side of his father's two idols, Bentham and Ricardo. In philosophy, he abandoned hard-core cadre Benthamism, for soft-core 'moderate' Benthamite utilitarianism. And in economics, he not only was basically and proclaimedly a Ricardian; he also gladdened his father's ghost by re-establishing Ricardianism on the throne of British economics, a feat he accomplished through the enormous popularity and dominance of his *Principles of Political Economy* (1848). So even though John Stuart substituted moderate for full-fledged democracy, and, still more disturbingly, moderate statism and socialism for his father's *laissez-faire*, James Mill might have been gladdened by his son's ability to reimpose Ricardianism upon the world of economics. Indeed, the great advances of the anti-Ricardians of the 1820s, 1830s, and 1840s were truly forgotten in Mill's re-establishment of the cost, and indeed the labour, theory of value, the Ricardian rent theory, Malthusian wage and population theory and the remainder of the Ricardian apparatus. For not the first or last time in the history of economic and social thought, error displaced truth from the post of dominance in the intellectual world. In placing Ricardo back upon the throne of economics, John Stuart was fulfilling perhaps the most cherished, although one of the most fallacious, of his father's goals and principles.

It should be realized that John Stuart's life in the shadow of his father was not only psychological or organizational. At the age of 16, John entered his father's office in the East India Company, and assisted him for many years,