

[022_262] [7 December 1820]

Paper money for Spain*

Of Paper money in general—its nature—uses and abuses: of the particular species of paper money here proposed—its uses with reference to the commercial world in general, and the present situation of Spain in particular.—Obligation proposed to be attached to the emission of it—particular form proposed to be given to it.

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§ 1. *Of the nature of paper money in general*

Paper money is a species of money in itself not having any value worth regarding in the way of use, but consisting of a promise to deliver money which has in itself a value in the way of use, and from the trust reposed in that promise deriving a value in the way of exchange. Particular circumstances out of the question, a man will not in general give to a stranger that which has a value in the way of use in exchange for that which has not any value in the way of use.

Metals of all sorts have their use: and from these uses and these alone have they derived the uses they are of in the way of exchange.

The properties [to] which they are indebted [for] their value in the way of use are infinitely diversified. The characteristics [to]¹ which they are indebted for their usefulness in the way of exchange are durability, divisibility and portability.

Divisibility in perfection—they possess, all of them, in common: in durability the difference is not very material: it is in respect of portability that the two metals distinguished by the name of precious are so much distinguished above the rest.

It is from the superiority of their value in the way of use that they derive their

* [Editor's Note: Bentham drafted this unfinished essay in December 1820, having received notice that the Spanish Minister of Finance, José Canga Argüelles (1770–1843), had instructed the Spanish envoy in London to consult with Bentham and review the partial printing of 'Abstract or Compressed View of a Tract intituled *Circulating Annuities*'. In the event, the project proved abortive.]

¹ MS 'for'.

superiority in respect of portability: it is because so long as value is inlaid[?] in so small a weight and bulk that they are portable with so much less trouble and consequently expence.

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§ 2. Of the uses of Paper money in general

Paper money has two distinct functions which must not be confused: the one purely useful, not exposed to abuse: the other capable of being made preponderantly useful, but in an extreme degree susceptible of abuse. The one is that which it performs in so far as it is employed merely as a substitute to the stock of metallic or other intrinsically useful money: the other that which it performs when and in so far as it is employed in making an addition to the stock of money.

As a substitute, it possesses in a superior degree the characteristic properties of the metallic money composed of the pretious metals. By means of it a much greater saving[?] can be made than by means of them in the time and trouble of *reckoning*^a and carriage.

^aThe nature of the case gives room for two modes of reckoning, one arithmetical, counting; the other physical or geometrical, weighing or measuring. Weighing is the more obvious, the more common, as being in general the least troublesome: but in some instances measuring has also been employed: inspection is added in all cases.

That the whole quantity of paper money in a country should operate purely in the quality of a substitute to metallic money, and not to any amount as an additament, it is necessary that in the case of every particle of metallic money promised by a particle of paper money, the particle of metallic money so promised should be kept in hand without being ever employed in the way of exchange.

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§ 3. Of that use of paper money as an additament: of the means of employing it in this character to the best advantage: and of

the means of preventing the use from degenerating into abuse

From an issue of paper money in excess, two distinguishable mischiefs or evil consequences are liable to arise: namely rise of prices; and breach of faith—failure in the performance of the promise of which the paper money consists.

Rise of prices is an evil consequence which to a certain extent is capable of taking place without being accompanied with the other, without being accompanied with any failure in respect of the performance of the promise: in this case, the mischief has its limits: but if once the sort of failure in question has place, then the quantity of additional paper capable of being issued and likely to be issued—and in a manner necessary to be issued—has no limits.

The addition made to the aggregate quantity of money by paper money is as the quantity of paper money kept in circulation to the quantity of metallic money kept in hand for the performance of the promises made by paper money. Total quantity of metallic money before any issue of paper money, suppose, three millions: paper money now issued, three millions: total six millions: deduct one million kept to answer the demands, one million: remains five millions: net quantity added to the original three millions, two millions: total of money of both sorts—now five millions.

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By rise of prices is here meant—not a rise in the price of this or that particle in the list of things possessing a value in the way of use: but a universal rise of all such articles as compared with those articles, viz. money of both sorts, to which no value is given but that which is given to them in the way of exchange.

Of rise of prices the mischief consists in this: that into the pockets of one class of men money (i.e. a mass more or less considerable of the matter of wealth in all shapes) is put at the expence of another class of men: always understood that in this there would be no mischief were it not for the truth of the axiom thus expressible: Quantity of money in question and all other influencing circumstances the same, the suffering from loss not consented to is always greater than the enjoyment from

[gain].²

The effect will be most readily conceived from the case of fixed-incomists—persons possessed of fixed incomes. Double prices, you tax all fixed-incomists fifty per cent. Their income, being in name the same as it was, is in effect but half what it was.

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Great as the cost is that may in this way be produced, a nation or nations are exposed to a still greater. Cases have more than once happened when, but for this evil, the greatest of calamities would probably have taken place: in England, for example, at the time of the Revolution, conquest by a foreign nation, France: or the restoration of the then lately expelled domestic despotism:³ in the Anglo-American United States, restoration of the foreign and the lately expelled despotism of England.⁴

What is obvious is—the more gradual the rise, the less the suffering: if it be to a certain degree, scarcely is the effect perceived: and the effect may be perceived, and still the cause escape notice. Suppose no addition made to the stock of money, the prices of the articles, individually considered, are almost without exception subject to fluctuation: to rise at one time, to fall at another: and this is more particularly the case in the instance of those articles the expenditure on which forms by far the greatest part of the expenditure of the great majority of the people, namely articles of food in general, and bread in particular.

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In a case which, though not likely to happen, has not upon the face of it any thing more extraordinary than the opposite to it has, money might receive increase, yet no rise of prices take place. This would actually be the case, if there being no money in use but metallic money, the quantity of the metals in question furnished by the mine should cease to be on the encrease. For as population and thence production

² MS 'loss', contradicts the sense of the passage.

³ Bentham had in mind the Glorious Revolution of 1688 and the consequent flight of James II (1633–1701), King of England and Ireland, and as James VII King of Scotland, 1685–8.

⁴ Bentham had in mind the period following the American War of Independence of 1776–83.

increased, the quantity of articles vendible coming to market to be purchased would increase: and, by the supposition, the quantity of money employable in the purchase of them not receiving any increase, or not receiving an equal increase, to purchase the money he had occasion for, each man who had goods to sell would be content to give more of his goods: in a word, in the case of the decrease of money the exact converse of that which has place in the case of the increase of it would have place.

The fact is—that as the art of extracting the metal from the mines has improved, the quantity of money extracted from the [mines]⁵ has continually been on the increase and not only the absolute quantity, but the relative quantity—the ratio of the quantity of money to the quantity of things vendible: here then, are two modes increase which have been going on at the same time: increase in the quantity of money capable of being made the subject matter of the promises, and increase in the ratio of the quantity forming the subject of the promises to the quantity capable of being employed in the fulfilment of such promises.

⁵ MS 'minds', contradicts the sense of the passage.