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Thomas Tooke on the 1825 Financial Crisis

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In response to the 1825 financial crisis in Britain, Thomas Tooke, monetary economist, published the pamphlet, *Considerations on the State of the Currency* (1826), with the central purpose of explaining the causes of the crisis and its implications for banking policy. In this influential pamphlet, Tooke considers the role of monetary policy by the Bank of England, especially in relation to interest rates, the role of commodity markets, the circulation of paper currency and the problems associated with its regulation in relation to metallic reserves. My paper is concerned with expounding Tooke's explanation for the crisis in the *Considerations* and how it affected his thinking on the determination of interest rates, on the conduct of Bank of England policy and on Britain's banking regulations. The paper will also consider Tooke's critique of Ricardo's Ingot Plan in the pamphlet.

Jel Codes: B12, B15, E50, N23.

1. Introduction

The crisis of the London financial market in 1825 caused political economist Thomas Tooke to write the pamphlet, *Considerations on the State of the Currency*, published in two editions, in 1826, with the central purpose of explaining the causes of the crisis and its implications for banking policy. Indeed, Tooke began writing the pamphlet with anticipation that the London capital market was heading for a crash because of an unsustainable speculative boom in stocks and other financial assets. In late November, some three weeks before the financial crisis came to a crescendo on 12 December, a consequence of the collapse of a major City commercial bank, Tooke had worked out a rough plan for a published work with a summary list of conclusions of the various topics to be covered. He submitted these for comment to William Huskisson, President of the Board of Trade, and Lord Grenville, an ex-minister and influential member of parliament. In a letter to Lord Grenville (19 November 1825) Tooke wrote:

> My present plan is to consider the currency and the corn laws, under two separate heads, as insuring a recurrence as greater or less intervals of violent and ruinous fluctuations I have made some progress with argument under the formers head, but have still a good deal to do, and have not yet made any collection, still, less any arrangement, of materials for discussing the Corn Laws on which therefore I must be very brief [...] The Idea which I should wish but want the power adequately to convey is that purely scientific part of political economy in the tracing of indisputable or similar facts under the clearest definition to ultimate and necessary consequence. The practical application of the science; or of abstract principles, to the business of legislation in labour, in commerce, and finance, is strictly analogous to the application of mathematical science to the business of engineering (*Grenville Papers*, British Library, Add 69082).

Hence, it appears that initially Tooke had a substantial "scientific" work in mind.[1] However, he was persuaded to write a less ambitious pamphlet focusing on the impending financial crisis and its immediate policy implications. Both Grenville and Huskisson encouraged Tooke to write a pamphlet with an eye to influencing debate expected on the crisis and policy issues at the next parliamentary session in February 1826:

[1] This is confirmed in the "Advertisement" to the first edition of the *Considerations* where Tooke strongly suggests he had originally intended to update his history of prices in *Thoughts and Details on High and Low Prices of the Last Thirty Years* (1823; 1824) with a sequel (from 1822) consisting of a more expansive monetary analysis.

> … I should be highly gratified … by learning that the public is about to profit by a continuation of your valuable and useful labours. Few more important services can be rendered to the country than the establishing truths like these, not by a deduction from remote, and questionable examples, of which we know not all the circumstances, but by reference made from time to time, to the transactions which are actually passing under our own eyes and which we are enabled to completely dissect and analyse. This could not be done but by a person uniting as you do, the most accurate knowledge of general principles with the most extensive practical experience (Grenville to Tooke, 23 November 1825, *Grenville Papers,* British Library, Add 69082)

> It is unnecessary for me to state how much I concur in the deduction which you have so clearly stated in the Summary of your intended publication. I am sure that by giving it to the public, about the time of the meeting of parliament you will do the country a great service, and what to me and others is not a matter of indifference, probably prevent, or at least check, a great deal of nonsense which, without some preliminary discussion to direct and guide the thoughts of those who do not think or enquire much for themselves, would probably find vent in the House of Commons (Huskisson to Tooke, 8 December 1825, *Huskisson Papers*, British library Add. 38747).

Following this advice Tooke wrote the *Considerations* over the winter of 1825–26 in readiness for public debate on the crisis expected at the next parliamentary session beginning early February 1826. While Tooke therefore abandoned his original plan and settled on a less ambitious pamphlet designed to influence upcoming debate, the *Considerations* contained views on monetary issues which had been well thought out from a theoretical standpoint. This is also apparent in questions Tooke sponsored at meetings of the Political Economy Club in 1824 and 1825, concerning the relationship between the price of bullion and the value of the currency, the issue of Joint Stock Companies, and the relationship between the rate of interest and rate of profit on capital (Higgs 1921, 21–25).

Two editions of the *Considerations* were published within a month of each other. The first is dated 28 January 1826, the second 22 February. The second edition was written by Tooke in conjunction with the progress of parliamentary debate and proposed legislative modifications to the banking system introduced by the Liverpool Government. It added “explanatory notes” to the first edition and a long “Postscript”, extending the discussion on banking policy to account for “measures which are in progress, as likewise on those which are supposed to be in contemplation with reference to the currency” (Tooke 1826, 2). These legislative measures were in large part anticipated by Tooke in the first edition, indicating he had access to the policy thinking of high office in government. In the "Postscript" to the second edition, Tooke gave support to the legislative reforms introduced into parliament.

Aside from explaining the causes of the financial crisis and its policy implications by reference to upcoming parliamentary debate, the *Considerations* provides Tooke's first systematic views on monetary issues. It critically examines Ricardo's Ingot Plan and provides an analysis of the determination of the money interest rate which comprises a dissenting view on the relationship between interest and profit. Section 2 of this paper will consider Tooke's explanation of the 1825 financial crisis provided in the pamphlet. In Section 3, we will consider Tooke's view on the policy implications of the crisis and his position on reforms proposed in parliament by the Liverpool Government. Section 4 examines Tooke's objections to Ricardo's Ingot Plan, articulated in the *Considerations*. Then, in Section 5, we exposit Tooke's analysis of the money rate and his dissenting position on the relationship between the money rate of interest and rate of profit on capital in the pamphlet. We then consider the significance of this analysis for his banking school theory developed in the 1840s and its subsequent influence on classical economics. Finally, in Section 6, by way of a conclusion, the significance of the *Considerations* is appraised.

2. Tooke's Explanation of the 1825 Financial Crisis

The Financial Crisis of 1825 was accompanied by bank collapses, widespread bankruptcy, and, most significantly, an internal drain of bullion reserves which nearly forced the Bank of England to suspend cash payments on demand, only four and half years after resumption had been painfully affected. The crisis was to be the beginning of a severe economic downturn which persisted through 1826 and early 1827. It took many by surprise because it came at a time of apparent prosperity and healthy economic activity. As Hilton (1977, 202) has stated, "[t]he events of the winter of 1825/6 mystified contemporaries." The problem was that no major event could be identified as the catalyst for the crisis. Instead, the origins of the financial disaster lay in the 'delusion' of investors behind the unsustainable 'boom' in commodities and the share market, which has all the hallmarks of the speculative mania of the famous 1720 South Sea Bubble.

In the *Considerations,* the main causes of the financial crisis according to Tooke was to be found in the speculative 'boom' in the London capital market that began in 1823. He contended that the monetary policy of the Bank of England not only accommodated, but significantly contributed to, the speculative boom. Tooke writes:

> It so happens in the instance before us, that the extension of the bank circulation took place at a time, when other circumstances were contributing, in a remarkable degree, to excite speculation; and when, even if the bank issues has remained stationary, there would, in all probability, have been an increase in the general circulation, by means of the country bank-notes and private paper. (1826, 37)

Tooke's explanation begins with the commodity markets. He maintained that, from early 1823, the prices of agricultural commodities rose due to circumstances constraining their supply in relation to stronger demand. On corn, Tooke (1826, 37–8) argued that because of "below average" harvests in 1823 and 1824, the accumulated stock on hand ran down as strong demand for consumption of the crop persisted, inducing speculation in the trade of future shortages caused by the prospective operation of the Corn Laws, which led to a higher range of prices.[2] On the market for meat, Tooke (1826, 38–40) contended there was also a rise in price because of an "unusually extensive slaughter of cattle and sheep during the great depression of prices three years ago", such that supply could not meet a stronger demand in 1823 and 1824. He argued that the general rise in the prices of agricultural commodities in England was the cause of a significant increase in the circulation of bank notes issued by country banks. In Tooke's judgment the expectation of future shortages led to a speculation on commodity markets of a "moderate scale" which spread from agricultural to manufacturing products, so inducing an expansion in the circulation of private paper and bank credit.

Tooke (1826, 42) identified "two new and powerful incentives to speculation [which] came into play" at the beginning of 1824. The first was a general reduction in money rates of interest with rates on consols falling from 4% in 1823 toward 3% by end of 1824. Tooke also refers to the simultaneous rise in the price of Exchequer Bills as an indicator of the Bank of England's stance to inject liquidity into the London market by their "open market" purchase. He is highly critical of this monetary accommodation by the Bank of England for contributing to the "spirit of speculation":

> … instead of taking warning from the indications of pre-existing excess, actually increased its issues in July of that year [i.e. 1824] …

[2] Under the 1822 Corn Law there was a limited sliding scale of duties for imported wheat above the "average" price of 70s. per quarter while below this pivotal price, imported wheat was prohibited from release onto the domestic market. While the price of corn approached this pivotal price in early 1825 the government suspended its operation so relieving the market pressure and upward effect on price.

> Although this increased issue by the bank … did not alone cause the great additional excitement of the spirit of speculation which followed it; yet it gave a fresh and powerful stimulant to that spirit, and assisted in converting incipient delusion into absolute insanity. For never did the public … exhibit so great a degree of infatuation, so complete an abandonment of the most ordinary rules of mercantile reasoning since the celebrated bubble-year 1720, as it did in the latter part of 1824, and in the first three or four months of 1825. (Tooke 1826, 44, 48).

Tooke (1826, 71–2) was aware that a major reason for the Bank of England's accommodating policy in 1824 was to facilitate large debt conversions to reduce the structure of interest rates on long-term British Government debt. Indeed, this was part of a cheap money policy instituted in 1822 when the Bank of England, under pressure from the Liverpool Government desperate to provide relief from a deep economic depression, lowered its discount rate below 5% for the first time since 1774 (Hawtrey 1962, 14). The Government then implemented large debt conversions in 1822 and 1824 which reduced the structure of interest rates on long term debt. The main objective of the conversion operations facilitated by the Bank of England was to relieve the onerous fiscal burden of debt-servicing the massive national debt accumulated during the French Wars to accommodate cuts in taxation, principally in customs duties on imports.[3] But Tooke argued that the priority of monetary policy is to ensure the stability of the financial system, and so the Bank of England ought to have pushed back against the wishes of the Government and undertaken a tighter monetary policy stance to squash speculative activity then occurring He writes:

> It may be true that the arrangement for the disposal of the military and naval pension annuities could not have been carried into effect without the intervention of the bank, and the conversion of the four per cents, into three and half per cents. was facilitated by the bank undertaking to advance to government between five and six millions of the of the four per cents. Paid in October, 1824, which the holders would not convert into the three and half per cents., such advance to be repaid out of the sinking fund. How far the latter of these measures was justifiable, if it could not be carried into effect without the assistance of the bank, though an increased issue

[3] In the "Free Trade" budget of 1824, Liverpool's Tory Government, under the direction of Huskisson, President of the Board of Trade, instituted reductions in the import duty on several commodities including wool and raw and manufactured silk. The duty on wool was reduced in stages from *6d* to *1d* per 1b. by December 1824; and on raw silk from the East Indies, from *4s* to *3d* per lb., and from China and Italy, from *5s* to *6d*, effective from March 1824. Following opposition in parliament on behalf of silk manufacturers, the reduction in duty on manufactured silks, to a maximum of 30 per cent ad valorem, was not to take effect until July 1826 (Smart 1917, 194–211).

> of its notes, may fairly be questioned. It was not, however, so likely as the former, to entail a permanent addition to the circulation, although whatever addition was made, in consequence of the operation, could hardly fail of being injurious.
>
> It is the former measure, the purchase of the pension annuities, which seems, as far as can be judged of it, to have been the occasion of great part of the overissue. Now surely, if the bank directors had refused to hazard an excess of issues, which would not be readily within their own control, in order to facilitate that most absurd measure, their objections could hardly have been overruled by an appeal to the pressing exigencies of the state: and the public could hardly have thought that it would suffer much loss by the bank refusing to take part in the operation … it is difficult to suppose that ministers, committed as they are, and sincerely disposed as I believe them to be, to the preservation of the currency on the footing of strict convertibility, would have ventured to overrule objections, which might have derived from a view to the danger, however, remote, of being obliged to have recourse to a second suspension of that convertibility. (Tooke 1826, 71–2)

Tooke (1826, 72–4) believed that the "true reason" for the accommodating policy of the Bank of England was to increase profits by lending (or discounting) whilst its bullion reserves were relatively high. Tooke's central argument is that by mid-1824 there was growing evidence of an "excess supply" in the circulation which permitted a moderate speculation in the stock market and in commodities but that the Bank of England's accommodation fueled its momentum and caused an unsustainable speculative boom. Hence, Tooke (1826, 66) maintained "that precisely at the time at which there ought to have been a contraction" the Bank of England extended its note issues "increasing, both directly and indirectly, the mass of circulation, and promoting extravagant speculation which have so distinguished the period under consideration".[4]

The second powerful incentive to speculation in 1824 identified by Tooke (1826, 42–3) was the opening up of trade and commerce with newly independent South American countries, many of which were major producers of gold and silver at a time when their value was high.[5] As a result, highly speculative foreign loans to South

[4] Later, in Volume II of *History of Prices*, Tooke (1928 [1838], 178–9) wrote: "The Bank had not kindled the fire, but, instead of attempting to stop the progress of the flames, it supplied fuel for maintaining and extending the conflagration".

[5] In 1822 Mexico, Greater Colombia (which included the present republics of Colombia, Venezuela, Ecuador, Peru, Argentina, and Chile) had freed themselves from Spanish colonial rule; and by the end of 1823 Brazil established independence from Portugal. Following recognition as sovereign states by the United States, and under the auspices of the Monroe doctrine pronounced in 1823, the British government appointed consuls to these new states, signed commercial treaties with them, and relaxed its navigation laws with respect to shipping from South America (Smart 1917, 174–7).

American governments and newly floated joint stock mining and insurance companies became a major outlet for investment funds in the London capital market.[6] The mania which took place in 1824 and 1825 in the stock market is captured by Tooke's description:

> It is well known how numerously mining and other joint-stock companies sprung up, and how successful they were for some time in catching and turning to account the disposition for hazardous adventure which pervaded the nation ... Many persons, quite removed from all connexion with business, retired officers, widows, and single women of small fortune risked their incomes or their savings in every species of desperate enterprise. The competition and scramble for premium in concerns which ought never to have been otherwise that at a discount, were perfectly astonishing to those who took no part in these transactions. (1826, 50)

Tooke (1826, 53–5) contended that there being "no solid foundation for the general rise of prices", it must have been "connected with an excess of paper" in circulation that could not be sustained long "while subject to the check of convertibility". The process by which this speculative boom would inevitably induce financial crisis is explained in the following way by Tooke:

> ... when the efflux of gold should take place, as soon it must, the great contraction of the currency which would ensue, must inevitably entail a fall in prices to, or possibly below, the level from whence they have risen, accompanied with great commercial reverses, and with every appearance of gloom and depression, succeeding to the excitement and apparent prosperity which had marked the preceding twelvemonth. (1826, 55)

The inevitable financial crash described by Tooke (1826, 53–64) was fundamentally brought about by the Bank of England having to adopt a tighter monetary stance from

On the loans raised by London banking firms in 1822 to 1825 for the governments of these new independent South and Central American states which induced a boom in sovereign bonds, see Jackson (2022 231–34).

6 Tooke (1826, 50) wrote: "New mining, insurance, and other schemes, were set on foot on the principle of joint-stock companies in immense numbers". It was estimated by English (1827, 29–31) that 624 joint-stock companies were formed in 1824 with the consent of parliament, numerous being concerned with South American trade, mining, and maritime insurance. What gave apparent credibility to many speculative investment schemes was the number of parliamentarians who served on the Boards of Directors of the newly created companies. Hence, "[O]f the 278 directors in Latin American mining companies listed by Henry English, 45 were MPs, and about one-third of the major companies promoted had MPs or peers as a lead or founding director" (Quinn and Turner 2020, 54). At this time the MP of Sudbury, John Wilkes, earned the moniker "Bubbles Wilkes" for his role in promoting numerous dubious projects, including fraudulent ones, which eventually led to his arrest, bankruptcy, resignation from parliament and banishment by his family to Paris (Quinn and Turner 2020, 40).

mid-1825 in response to an external drain of bullion. The increase in the rate of interest induced a decline in the price of financial securities and shares which caused their sell-off by investors attempting to avoid or minimize losses that then turned into panic selling. With the widespread reduction in the prices of financial assets, mercantile credit dried up, undermining the speculative bubble in commodity markets and sharply bringing down the prices of commodities in general. Tooke explained the resulting contraction in bank credit in this way:

> There is another circumstance which always attends a great fall of prices, and which tends, for a time to reduce the circulation of private paper, even below the amount which existed before the factitious rise, *viz.*, commercial failures, which when occurring to a great extent, occasion a general distress, and difficulty in obtaining credit, even in the course of ordinary mercantile business … in the present instance, the contraction of the currency has been aggravated by the peculiarly slender means with which a great part of the banking establishments in England have been conducted. The issues of many of these banks had been enormously extended, without any adequate reserve of available funds to meet such sudden demands as it is of the very essence of the principles of banking to contemplate and provide for. (1826, 57–8)

Indeed, by October 1825 the monetary pressures led to a series of bank failures that ratchetted up panic in the London financial market. Evidently Tooke (1826, 59–60) believed, in this respect, that a major contributing cause of the 1825 financial crisis was prudential failure of commercial banks, especially country banks, who extended their issues based on inadequate reserves and, in many cases, operated whilst "insolvent". With the contraction in private bank credit and panic-driven increased demand for liquid funds, the Bank of England became more concerned with the threat to its reserves posed by an internal, rather than external, drain, and responded by a further tightening through its sale of public securities. According to Tooke (1826, 59–60) the height of the crisis came in December when there was a run on banks, with "nearly seventy banks, town and country" forced to "suspend payments", including several London banks, the largest and most prestigious being Pole, Thornton & Co., which collapsed on the twelfth of the month.[7] In the following week the Bank of England dramatically changed tack to

[7] This is certainly a reference to Henry Thornton's old firm, Pole, Thornton and Co., which closed its doors to the public on 12 December 1825. Concerned that the failure of Pole, Thorton and Co., the London correspondent bank to forty-three provincial banks, would lead to widespread commercial failures, the Bank of England advanced it £300,000 on 7 December. This assistance did not prevent the firm from ceasing operations a few days later (see Hilton, 1977, 215–16; evidence of J.B. Richards, Deputy-Governor of the Bank of England in 1825 to the Committee for Renewing the Bank Charter, 1832, *Reports*, 1831–2, esp. Q.5006, 152.). Five other London banks were forced to close their doors in December 1825. They consisted of Williams, Williams and Burgess of Birchin Lane, Scott, Williams and Co.

quell the panic and provided support to the market through an expansion of discount facilities, and, in desperation put into circulation £1 notes, not seen since 1821.[8] With reserves having declined to a parlous state, the Bank narrowly avoided suspension of cash payments by providing relief during the crucial period of intense monetary pressure. As Tooke (1826, 60) wrote, "happily, the public escaped the calamity of a second suspension" only four and half years after the resumption of cash payments with the re-establishment of the gold standard, in 1821.

The events of winter 1825–26 revealed that a monetary system in which paper money was convertible into gold (at the official standard) was of itself no protection against financial crisis. This point had already been made in Tooke's earlier work, *High and Low Prices* (1824, 88–120), where Tooke had indicated that resumption of cash payments and re-establishment of the gold standard would not, of itself, eliminate the possibility of financial crisis as an inevitable result of speculative activity. His reason was the elasticity of credit offered by the British financial system. The 1825 crisis was a spectacular example of this boom-bust thesis. But whereas previously Tooke explained crises as the result of speculation and "overtrading" in commodity markets, the 1825 crisis was predominantly the result of speculation in shares and stocks. This underlying difference explains why, amidst the appearance of prosperity, the financial crash caught so many by surprise.

3. Policy Implications and on the Proposed Reforms of the Banking System

In the aftermath of the 1825 financial crisis there were two main institutional modifications to the English banking system which were enacted by parliament in 1826. The first concerned the "suppression of small country notes", which Tooke strongly recommended in the first edition of the *Considerations* (1826, 126–33). In March 1826, an Act (7 Geo. IV, c. 6) was passed prohibiting the issue of new banknotes under five pounds by banks as from April 1826, and the reissue of existing ones after 5 April 1829, in England and Wales. However, due to concerns about immediate liquidity

of Cavendish Square, Sikes, Snaith and Co. and Everett, Walker and Co. both of Mansion House Street and Stirling, Hodsoll and Co. of the Strand (Pressnell 1956, 486–7). However, surviving the crisis solvent, Pole, Thornton and Co. merged with Williams, Williams and Burgess to reopen in early 1826 under banking firm Williams, Deacon's Bank Ltd (see Hayek 1939, 34–6). Indeed, many of the banks which closed in December later re-opened. Nevertheless, the crisis caused sixty-three English banks to enter bankruptcy in 1825–6. With reference to the effect on the wider economy, it is estimated that real gross national income of the United Kingdom contracted by over 5% in 1826 (see Quinn and Turner 2020, 55–6).

[8] As a matter of policy, the Bank of England began retiring its small notes under five pounds after resumption of cash payments on 8 May 1821, progressively replacing them with gold coin. Their circulation was considerably reduced until December 1825 (see Fetter 1978 [1965], 107).

pressures the Act was modified shortly afterwards to allow the issue of new banknotes under five pounds until October 1826.[9] The second institutional reform concerned the admittance of joint stock banking in England which had thus far been impeded by the exclusive privilege of incorporation granted to the Bank of England. It was Thomas Joplin in his influential pamphlet, *On the General Principles and Present Practice of Banking in Scotland and England*, published in 1822, who made a strong case for joint stock banking in England. In the first edition of the *Considerations* Tooke (1826, 125–6) also recommended joint stock banking "on the footing of those in Scotland" but wrongly believed that "a concession on the part of the Bank of England is not likely to be made". As it transpired parliament passed an Act (7 Geo. IV, c.46) permitting the establishment of joint-stock banks outside a radius of sixty-five miles from London as well as allowing the Bank of England to open branch offices in any part of the country. This second reform clearly indicated the extent to which the financial crisis had brought home to policymakers the unstable nature of England's unit banking system in regional areas outside the City. While Tooke (1826, 139–41) tends to underrate the importance of this institutional change in the second edition of the *Considerations*, it was in fact an important start to a series of reforms which would modernize English banking in the nineteenth century.[10] In the first place, joint stock banking would provide much greater security to provincial banking and therefore stability to the overall financial system. Moreover, it would provide the basis for the rapid growth in deposit banking in the second half of the nineteenth century. Secondly, the concession granted to the Bank of England to open branches outside London was the first step in its eventual monopolization over the issue of legal tender in the country, formally established with the Bank Charter Act of 1844. The other major recommendation by Tooke (1826, 123–5) in the first edition of the *Considerations* for the regular publication of the accounts of the Bank of England did not materialize.[11] For this reform Tooke would have to wait until the renewal of the Bank Charter in 1833 when the Bank of England was required under legislation to render a weekly confidential statement of accounts to the Chancellor with a summary of them published monthly.

While the influence of Tooke's *Considerations* on parliamentary opinion should not be overrated, it nevertheless played a significant role in giving credibility to the

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[9] For a summary of the parliamentary debate on this question, see Smart (1917, 337–49).

[10] See Cameron (1972, 27 *et seq.*), King (1936, 35 *et seq.*); and Clapham (1939 [1930], 272–84).

[11] The Government's position on this issue was stated by Prime Minister Liverpool in the House of Lords on 9 February, 1826: "So long as the Bank of England continued under restriction, parliament has a right to call, from time to time, for the accounts of the Bank, in order that they might be fully acquainted with the proceedings of that body; but the restriction having expired, and the Bank being under no control, he did not conceive that parliament was entitled to call for information from them as a matter of course" (2 *Hansard*, British Parliamentary Papers, xiv, 142).

Liverpool Government's response to the crisis and its legislative measures. This is evident in references to Tooke made by major speakers in the course of parliamentary debate.[12] The explanation of the financial crisis provided by Tooke in the *Considerations* indeed gained wide acceptance.[13] In the first place, Tooke's explanation was entirely in accordance with the government's position that the crisis was the result of reckless "overtrading" encouraged by a defective system of banking. Indeed, as early as March 1825 Prime Minister Liverpool made a parliamentary speech in which he voiced his concern about "over-speculation" in the financial market and warned that those entering into speculative activities did so at their own "peril" and "risk" and declared that they could not expect any financial relief in the future from the government (House of Lords, 25 March 1825, 2 *Hansard*, British Parliamentary Papers, xii, 1195–6). This was followed up in April by another official warning by Huskisson that the "excessive speculation" going on in the share market was likely to lead to "depression and exhaustion" and implored the "country banks not to lend their money to the encouragement of crude and hasty speculations" (House of Commons, 28 April 1825, 2 *Hansard*, British Parliamentary Papers, xiii, 288). These official warnings would in fact play an important part in the Liverpool Government's resistance to calls for assistance in the aftermath of the crisis. In the parliamentary debate on the crisis in 1826, government ministers emphasized one after the other that the "real cause" of commercial distress was "overtrading and rash speculation" which could not have been curbed by any policy action on the part of the government. They stressed the government had fulfilled its responsibility by official statements alerting the public to the impending dangers at the time of the "boom". In this way the government was able to deflect criticism away from any of its own policy actions that may have contributed to the climate of share speculation.

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[12] Perhaps the most glowing tribute came from leading "Whig" opposition speaker, the Marquis of Lansdowne, when he said:

> The effect produced by an excessive issue of small notes had been correctly described in a pamphlet which had already been noticed in terms of great praise in the House, and which proceeded from a gentleman who united in an eminent degree of practical knowledge with theoretical precision. He meant Mr. Tooke (House of Lords, 9 February 1826, 2 *Hansard*, British Parliamentary Papers, xiv, 134–5).

For other references to the authority of Tooke's pamphlet see House of Commons, 2 *Hansard*, British Parliamentary Papers, 222–3; 273).

[13] The parallels between Tooke's explanation of the 1825–6 financial crisis and those provided by the Chancellor of the Exchequer, Frederick Robinson, the President of the Board of Trade, Huskisson, and Prime Minister Liverpool, in their major parliamentary speeches on the commercial distress are unmistakeable (House of Lords, 2 *Hansard*, British Parliamentary Papers, 168–193, 229–45, 450–56, 498–500).

Secondly, Tooke's vehement attack on the Bank of England suited the Liverpool Government well. Not only did it help shift the odium of responsibility for the crisis and resulting commercial distress onto the Bank of England but also helped to give the government some leverage in negotiations with Bank Directors over the afore-mentioned legislative reforms to the banking system. It also gave support to the government's resistance to calls for the issue of exchequer bills as a means of providing financial assistance to distressed firms. Following the large number of bankruptcies, and with commercial confidence at a low ebb, merchants began to petition parliament in early 1826 for the government to provide relief from an acute liquidity shortage in the money market in the same way as it had previously done in 1793 and in 1811, by the issue of exchequer bills. In the face of considerable parliamentary support for such a measure, the Liverpool Government resolutely refused on the grounds that monetary relief could more effectively be provided by the Bank of England purchasing exchequer bills in the open market.[14] It is significant that in the second edition of the *Considerations,* Tooke (1826, 160–68) gave support to the government's position on this issue. The government's refusal can be traced back to the afore-mentioned pledge by Prime Minister Liverpool in March 1825 not to provide assistance to businesses in peacetime who failed through speculative activity. For the Liverpool Government it was the principle of "moral hazard" they were upholding. To provide special assistance would only encourage "extravagant speculation" rather than "honest industry".[15] In the view of the government the best discouragement to reckless speculation in the future came from the present "experience of the sufferings" inflicted by economic recession. Eventually the Bank of England was persuaded to lend up to £3 million to distressed businesses in exchange for some reduction in its outstanding advances to the government. As it turned out only half this amount was lent out by the Bank. Contrary to Tooke's (1826, 160 *et seq.*) then sceptical view of the lender-of-last-resort role of the Bank of England, this measure had the desired psychological effect of quickly restoring confidence to the money market.

[14] On this episode see Hilton (1977, 223–31); Smart (1917, 326–8).

[15] Huskisson essentially summed up the position of the government when he said in the House of Commons:

> ... if we created a precedent which went to allow a party who had speculated to excess to come and ask for relief, it would be highly impolitic...men would speculate more readily if they knew that, under loss, they would be sure to find relief ... if we once taught the extravagant trader and the speculator, whenever they embarked in rash schemes, that should they not get out in time (for that was the object of most of the parties) they might always expect to obtain an asylum in government, it was as much calculated to encourage speculation as the poor-laws were calculated to encourage vagrancy, and to discourage honest industry (14 February, 1826, 2 *Hansard*, British Parliamentary Papers, xiv, 403).

4. On Ricardo's Ingot Plan

The *Considerations* represents Tooke's first attempt to develop a systematic position on monetary issues distinct from Ricardian orthodoxy. On several issues Tooke dissents with the position of Ricardo. In fact, from the very beginning Tooke had reservations about some aspects of Ricardo's views on monetary issues. While in evidence before the Commons and Lords Committees on Resumption of Cash Payments in 1819 Tooke supported Ricardo in the immediate return to convertibility, he did express doubts about the quantity theory as a basis for practical policymaking and objected to the permanent adoption of Ricardo's Ingot Plan on resumption (Tooke 1819b). In the *Considerations* Tooke develops on these reservations to further distance himself from Ricardo's position.

The Ingot Plan was set out by Ricardo (1951–73, vol. 4, 43–141) in his pamphlet, *Proposals for an Economical and Secure Currency*, first published in 1816. The plan was proposed as a "system of currency" to be adopted on the resumption of cash payments by the Bank of England. Under a fully convertible gold money system, it essentially consisted of making Bank of England notes payable on demand in uncoined bullion instead of coin. The purpose of the plan was to economize on the use of scarce gold and silver specie as coin in monetary circulation, consistent with securing gold as a stable "standard" of monetary values in the English economy. The plan therefore envisaged that monetary circulation would be overwhelmingly carried on by paper money (at the expense of coin) whose value would be rigidly fixed according to the official money price of convertible bullion. This plan was at centre stage of evidence given before the Commons' and Lords' parliamentary committees of 1819 and subsequently became the basis for Peels' Bill for the resumption of cash payments.

Before the Lords' committee on resumption, Tooke was asked of his opinion of Ricardo's Ingot Plan to which he read out a written answer prepared in advance. While Tooke thought the plan "admirable for its Ingenuity and Simplicity" and had "no Doubt of its Convenience and Cheapness" which was "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" he opined that "if proposed as a permanent System, I cannot but consider it as objectionable" (Tooke 1819b, 180–81). He favored a system in which cash payments can be made in coin. The reason "above all" Tooke gave for this opinion was the "extended inducement to Forgery" provided by a monetary circulation consisting entirely of paper currency. He also believed that being "so frail a Material" and "resting so exclusively on Credit and Confidence" paper currency was "exposed to the danger of frequent Derangement, and in some cases total Destruction" (Tooke 1819b, 180–81).

However, a more substantial reason for Tooke's objection is found in the statement that "independent of these Objections to an exclusive Paper Currency, it strikes me that many Contingencies and Exigencies might arise, wherein an abundant Stock of the precious metals might be of essential Advantage" (Tooke 1819b, 180–81). While Tooke did not elaborate on this point in his written answer to the Lords Committee of 1819, it lies at the heart of his objection to the Ingot Plan which was fully developed in Section V of the *Considerations*. It essentially flows from Tooke's reservations about the quantity theory, more specifically, about the operation of Ricardo's "automatic" price-specie-flow mechanism, as a practical basis for the management of the currency, which he first raised in oral evidence to the 1819 committees on resumption and then developed more fully in the *Considerations* (1826, 90–114).

From the beginning, Tooke did not subscribe to Ricardo's rigid version of the quantity theory, with its implicit assumption of a constant velocity of circulation of Bank of England notes. In his above-mentioned committee evidence, Tooke maintained that this velocity usually varied with "what is called confidence" when "goods change hands freely upon notes, or other means of credit, and therefore the currency has fewer functions to perform, and is less detained in the hands of the different classes who have to part with it" (1819a, 132). These variations were associated with alternations in economic activity (in the "rapidity or stagnation in the circulation of commodities") and fluctuations in the prices of commodities. Thus, according to Tooke "the value of the currency depends very much upon the rapidity of its circulation" (1819a, 132)). While Tooke does not dissent with Ricardo's premise that the Bank of England, through the management of its notes, can "autonomously" influence the whole quantity of money (and credit) in circulation, he contended that the amount of country bank notes could however vary independently. This is evident in his answer to the following question:

> Q. Have you observed, within your own experience, in the city of London, what is called abundance, and sometimes a scarcity, without any corresponding increase or diminution, at the same periods, in the amount of the bank of England paper?
>
> (Tooke) ...in the case of bank issues, there may be, from distinct causes, an increase or diminution of country bank notes, without a corresponding change in the amount of bank of England paper ...
>
> (1819a, 131).

Among those 'distinct causes' affecting the quantity of country banknotes, Tooke emphasizes the supply conditions of corn because it has a considerable influence on the "general prices of other commodities, as well as of corn" (1819a, 132). In his not always clearly stated argument about the interrelationship between the "real" conditions of (corn) production, the movement in prices, the role of "confidence" and speculative activity in commodity markets, Tooke comes very close to contending that variations in the structure of credit depend on prices (1819a, 127–32). This of course implied, in contrast to Ricardo's position, that the Bank of England could not "autonomously" control the whole quantity of money in circulation easily in the short run. In *High and Low Prices* (1824) and then in the *Considerations* (1826) Tooke developed on this position to maintain that while the Bank of England can systematically influence the quantity of money in circulation and are rightfully responsible for its overall regulation, this power is considerably constrained by extraneous factors which can cause independent variations in credit. These mainly consist of credit expansions (or contractions) which accompany confidence and speculation (or despondency and stagnation) in the commodity markets and which are often promoted by country banks whose "issues of country banknotes seem to be dependent on circumstances not immediately under the control of the Bank of England" (1826, n. 87).[16] In section IV of the *Considerations* Tooke (1826, 86–100) points out, with reference to an array of possible disturbances, the various difficulties which are encountered by the Bank of England in its public policy task of regulating the quantity of paper in circulation with the objective of suppressing price fluctuations and maintain a stable foreign exchange rate.

In his Lords' committee evidence of 1819, Tooke was questioned on the external adjustment process by which the foreign exchanges are restored to par. The qualified nature of his answers anticipated some serious reservations about the effective operation of the price-specie-flow mechanism. In the hypothetically proposed case of an autonomous "reduction of Banknotes" which induces a decline in the price of domestically produced commodities, Tooke was clear that an improved trade position depended on the response of foreign and domestic demand to the relative price change. Tooke acknowledged that this response was conditional on "the wants, or effectual Demand of Foreign Countries, as well as at Home", but maintained them to be "very much influenced by the Price" since "a Quantity of Commodities, which is much beyond the Vent at one Price, may be within it at another" (1819b, 170, Q15).[17] However, in contrast to Ricardo's position, Tooke did not regard the trade adjustment process as "automatic", but rather as a "tendency" whose effective operation was subject to wider circumstances. This position is evident in the answer he gave to a question about whether "Foreign Countries will be able and willing to purchase a larger Amount of Value" following a reduction of prices:

[16] See Tooke (1824, 88–120).

[17] Also see Tooke (1819b, 170–71), answers to Qs 12–14, 16–18.

> I should say, that in general that would be the Effect, or that in general such is the Tendency of reduced prices, taking a greater or shorter Length of Time to produce the full Effect, according to Circumstances, too numerous to detail; such as Distance, the bulk or quality of the articles, &c. (1819b, 170, Q17)

These early qualifications take on greater significance in the *Considerations* when Tooke develops on them to argue that in practice the price-specie-flow mechanism works too slowly and without sufficient regularity to be a reliable basis for the short-term conduct of monetary policy. The "wider circumstances" affecting external adjustment mentioned by Tooke (1826, 90–91, 113–14) included prohibitions and other foreign restrictions on trade, the state of credit conditions in foreign markets, the distance of transit of the traded commodities between the domestic and foreign markets, and the supply conditions affecting the ability to satisfy effectual demand abroad. Because these circumstances are "incidental to all extensive commercial relations" Tooke (1826, 114, 90) contended that the adjustment in trade flows "requires an interval of some length" before it induced bullion flows. Hence, in the *Considerations* Tooke considered the "price-specie-flow" as only a long run tendency and not a reliable basis for the conduct of monetary policy in the short term in relation to the foreign exchange rate.

In 1826 Ricardo's Ingot Plan was not an issue of public debate.[18] The plan was essentially used in the *Considerations* by Tooke as a foil for his strong advocacy for the Bank of England to hold, as a matter of policy, a large reserve of specie. This is evident in the focus of Tooke's (1826, 101–5) criticism, centred on the adequacy of bullion holdings by the Bank of England envisaged by Ricardo and fellow advocate, McCulloch, under the plan. Tooke contended the small bullion reserve implied by the plan would not be sufficient to meet the periodic external outflow of specie associated with variations in the balance of payments. Any external outflow would therefore place considerable pressure on the Bank of England to promptly tighten policy to prevent a rundown of reserves to levels which would endanger the convertibility of the currency. Tooke (1826, 103–5) believed a large precautionary reserve was necessary to guard against the possibility of "natural and political" events which can at times cause an extraordinary external drain (or "extra-outpayments"). The upshot of his argument was that because of the difficulties of regulating the amount of paper money in circulation, and given the relatively slow process of external adjustment implied by the price-specie-flow

[18] Gordon (1979, 43–4) argued that the 1825 crisis marked a decline in Ricardo's authority as a political economist with his monetary views coming under harsh criticism in the1826 parliamentary session. It is notable that after great success in 1824 and 1825, attendances at McCulloch's "Ricardo Memorial Lectures" declined considerably in 1826 and then further in 1827 before the lecture series was discontinued (O'Brien 1970, 48–55).

mechanism, a large reserve holding by the Bank of England would give time to adjust policy and for the process of adjustment to work before panic in the money markets was ignited by concerns about the inadequate level of reserves (Tooke 1826, 104–7).

In 1819 Tooke objected to Ricardo's Ingot Plan as a "permanent system" because of its impracticality, for reasons that he then foreshadowed in reservations expressed about the quantity theory, but which were only fully developed later in 1826 in the *Considerations*. It is clear in his evidence to the Lords' Committee on resumption that he only supported the plan as an "intermediate measure" to facilitate the resumption of cash payments by the Bank of England. In reply to a question by this committee asking him "what Steps would be most expedient" for effecting resumption Tooke said:

> ...I have heard no better Measure better adapted, than the one which has been suggested, of obliging the Bank by Act of the Legislature to sell Gold Bullion at certain stated prices progressively downwards, till it shall have reached the Mint Price; because I conceive, that there would be very great Danger of any Measure short of this failing of its Effect, as no Words merely conveying the Promise of a resumption of payments in Specie can satisfy the public that it will actually take place at the Period fixed; such Promise having, previous to the renewal of the restriction in 1816, been given in Words as strong as Language can convey (1819b, 179–80, Q83).

Tooke's position in 1819 seems to have coincided with that of the Liverpool Government who wanted to use Ricardo's plan as a means to compel at the time an unenthusiastic Bank of England to actually abide by parliament's decision to resume cash payments.[19] As indicated in the quote above, the crucial element of the plan for coercing the Bank of England to prepare for resumption, was the timetable for a graduated reduction from the market to mint price of bullion at which the Bank of England was obliged to redeem its notes.[20] The graduated scale stipulated in Peel's Act enabled the Bank to immediately convert notes into bullion and forced it to gradually reduce its issues until resumption of payments in cash (coin) was to be secured no later than the 1 May 1823. Hilton (1977, 89) has shown that like Tooke the government ministers standing

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[19] On the politics of the resumption of cash payments, see Hilton (1977, 31–66).

[20] Asked about the timetable of the graduated scale by the Lords' Committee, Tooke hoped that resumption would be effected in a "shorter period" than envisaged by the plan in order to relieve "the Suspense and more or less Uncertainty in undertaking all commercial Operations, which may be influenced in their results by the State of the Currency while they are in Progress" (1819b, 180, Q 84).

behind the Commons Report and Peel's Act "had no particular affection for the Ingot Plan, except as a corollary of the graduated scale and a means to coerce the Bank [to actually resume payments]". Thus, when to Ricardo's disgust, the Bank of England, after having capriciously reduced its commercial discounts to speedily accumulate specie, asked permission to abandon the Ingot Plan altogether and pay in cash from 1 May 1821, the government "gladly agreed to jettison the use of ingots now that the Bank was prepared to resume at once."

5. Tooke on Interest and Profits

In the *Considerations* a major theoretical issue examined by Tooke (1826, 5–30) in "Section I" is the relationship between the money rate of interest and the rate of profit on capital. The position Tooke adopted from his analysis dissents with "commonly received opinion" on the causal relationship between the determination of the money rate and the rate of profit. Following Adam Smith and Ricardo, the view "generally adopted by political economists" was that the rate of interest was governed by the rate of profit, and therefore, in the long run, by those "real" forces which determine the latter. In Smith these "real" forces consisted of the competition of capital, while in Ricardo they consisted of the real wage in conjunction with the prevailing technique of production. Tooke challenged this orthodoxy, by arguing that the rate of interest was heavily influenced by institutional factors in the financial market independent of production conditions determining the rate of profit.

Questions about the relationship between interest and profit which Tooke promoted at Political Economy Club meetings in 1823 and 1824 clearly indicate that he had given considerable thought to his position. At the meeting of 2 May 1823 Tooke sponsored the following three questions:[21]

> Is the rate of interest a correct index of the rate of Profit?
>
> Is the rate of Profit, as indicated by the rate of Interest any criterion of the rate of accumulation of national capital?
>
> When it is said that the rate of Profit depends upon wages, is the term Wages confined to necessaries of the most common labourers, or does it include the higher remuneration for the various gradations of skilled labour?

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[21] Higgs (1921, 25).

Two more questions for discussion were promoted at the meeting of 6 June 1824:[22]

> Into what component parts may return to Capital be divided?
>
> Has not the term "rate of Profit", as applied to particular portions of Capital, a very different meaning from "*Profit*" when applied generally in a national point of view?

These questions clearly indicate serious doubts in Tooke's mind about the commonly received position among classical economists of the causal relationship between the two rates which led him to develop the conception of an independently determined interest rate in the *Considerations*. It seems very likely that Tooke's position was heavily influenced by the upward trend movement in the rate of interest during the French wars and afterwards when there was a massive accumulation of national debt. Given the constraints placed on the British economy by war, it was difficult to attribute this rise to an improvement in the conditions of production which would have raised the level of the rate of profit.[23] Instead, Tooke's (1826, 10 *et seq*) explanation of the rate of interest shows that he was inclined to attribute this secular rise in the rate of interest (in relation to the rate of profit) to government policy for financing war debt. This view accords with reasoning given in the *Considerations* for government borrowing for "unproductive purposes" to be a cause of variations in the rate of interest in relation to the rate of profit. Tooke's thinking was also influenced by the decline in the rate of interest from 1822 onwards which he seems to have largely attributed to an excess supply of "monied" capital attenuated by an easy monetary policy.

In the *Considerations* Tooke (1826, 11–24) proposed that the average rate of interest was determined by the conditions of supply of and demand for monied capital in the financial market where monied capital was loans advanced by "owners of capital" who are "unwilling or unable to employ their money actively themselves" to either borrowers who actively invested the funds with a prospect of commercial return or who expended them unproductively. In Tooke's analysis "supply" and "demand" refer to the supply and demand of a level or volume of loan funds absent of any functional relationship to the rate of interest.[24] To explain the rate of interest Tooke (1826, 13–20) identified different classes of lenders and borrowers in terms of their institutional role and influence in the financial market. Tooke divided lenders into different classes

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22 Higgs (1921, 25).

23 Tooke (1826, 5–9) was certainly unimpressed with the Ricardian explanation given by McCulloch (1824, 1–31).

24 The conception of a supply of loan capital as an increasing function of the rate of interest and symmetrically a demand for loan capital as a decreasing function of the rate of interest can only be logically derived from the marginalist theory of capital and distribution developed from the late nineteenth to early twentieth centuries.

according to their risk-return preferences; whilst borrowers were divided between those who were "productive" by employing the capital in commercial ventures with the prospect of earning a rate of profit and those who were "unproductive" by using the funds to finance unproductive expenditures (e.g. war spending by the national government) beyond their income. Overall, Tooke's approach was to explain the long-run average rate of interest by reference to a complex of politico-institutional factors and conventional attitudes of wealth-holders and bankers toward the risk-return profile of securities which underpinned the supply and demand for monied capital in the financial market.

This analysis underpinned Tooke's argument that a major cause of the 1825 financial crisis was the reduction in the rate of interest on safe securities initially brought about by the Bank of England lowering its discount rate inducing portfolio investors to seek higher returns on more risky investments. This lay behind the unsustainable boom in the stock market in 1824 and 1825 which led to financial collapse. Again, in accordance with Tooke's reasoning in the *Considerations*, the excess supply of monied capital tended to affect the risk-return preference of asset holders in a way as to cause the rate of interest to fall in relation to the rate of profit. Hence, the development of Tooke's (1826, 13 *et seq*) position sprang from an empirically based view that much of the trend movement in the rate of interest during the long-running French wars and until 1825 was attributable to politico-institutional factors in the financial market independent of the rate of profit earned on productively employed capital.

In the 1820s Tooke was not alone in challenging the commonly held view on the relationship between interest and profits. Indeed, Joplin (1823, 62) had taken a more strident view that "the profits of trade are regulated by the interest of money, and the interest of money by the demand for it". J.S. Mill also adopted a similar position to Tooke in his essay "On Profits and Interest" written in 1829–30 though not published until 1844. In this essay Mill (1874 [1844], 114) argued "that although the rate of profit is one of the elements which combine to determine the rate of interest, the latter is also acted upon by causes peculiar to itself, and may either rise or fall, both temporarily and permanently, while the general rate of profit remains unchanged". It is clear from the essay that Mill's (1874 [1844], 109–19) position was strongly influenced by Tooke's arguments in the *Considerations*. In explaining the causes for variations of the rate of interest in relation to the rate of profit Mill (1874 [1844], 109–19) largely employed Tooke's line of reasoning as per the institutional workings of the financial market. However, the essay went beyond Tooke in providing a clear explanation of the rate of profit according to Ricardo's "surplus" approach to distribution and in providing a more precise relationship between interest and profits.

The position of Tooke in the *Considerations* had an important influence on the development of views about the connection between the rate of interest and rate of profit over the next few decades. Its significance was recognized by Gilbart (1834, 166), who, while agreeing with "the opinion of most of our political economists" that in a competitive financial market "the rate of interest is regulated by the rate of profit", emphasized "this sentiment has, however, been attacked".[25] The viewpoint of Tooke and J.S. Mill was in particular taken up by the other major contributors of the Banking School, John Fullarton (1969 [1845], 168–70) and James Wilson (1847, 20–22). It was also taken up by Marx (1978 [1894], 338–90, 610–613) in unfinished manuscripts written in the 1860s but not published until 1894 by Engels in Part V of volume III of *Capital*.[26] Marx (1978 [1894], 377) took the view that "the rate of interest is independently determined despite its dependence on the general rate of profit", by which he meant the interest rate could, as a component part of the rate of profit, permanently establish levels up to a maximum limit given by the latter.[27] In explaining the rate of interest, Marx developed on the arguments of Tooke and J.S. Mill to argue that its level is determined by the "balance of power" between classes of borrowers ("industrial capitalists") and lenders ("money capitalists") in the financial market.[28] This balance of power is seen by Marx (1978 [1894], 358–369) to depend on a complex set of politico-institutional and conventional factors operating in financial markets; on state regulations and laws, on the structure and organizational development of banking and on the institutional arrangements of markets (Panico 1988, 47–81).

In later writings, Tooke went a step further than these other classical writers in proposing that not only was the rate of interest independently determined in the financial market but was the regulator of the rate of profit on capital employed in production. This causal relationship developed out of Tooke's view that the rate of

[25] It is interesting to note that Gilbart recognized that in situations when the financial market was dominated by a government (or sovereign) borrowing funds for non-commercial expenditure, the orthodox view of interest and profit broke down: "When a number of commercial men borrow money of one another, the *permanent* regulator of the rate of interest is the rate of profit; and the *immediate* regulator is the proportion between demand and supply. But when a new party comes into the market, who has no common interest with them, who does not borrow money to trade with, but to spend, the permanent regulator (the rate of profit) loses its influence, and the sole regulator is then the proportion between the demand and the supply...in this artificial state of the money market, it appears reasonable to suppose that the rate of interest may have regulated the rate of profits, instead of the rate of profits regulating the rate of interest, which is the natural state" (1834,168–9).

[26] On the dating of the manuscripts see editors preface, p. 2–3.

[27] Also see Marx (1978 [1894], 358–60, 376–81).

[28] There are numerous references to Tooke in Part V of *Capital*. Although there are only two citations to Mill in this Part, there can be little doubt as to his considerable influence on Marx's analysis of interest and profits.

interest systematically entered into the cost of production of commodities and its level was thereby a significant influence on the general price level in the long run. In *History of Prices* published in 1838, Tooke identified the rate of interest among those major factors which explained the secular movement in the price level in England over the period 1793–1837. On the upward phase in prices, which Tooke (1928 [1838], vol. 2, 346–7) dates from 1793 to 1814, he mentions the contribution made by a "higher rate of interest, in consequence of the absorption by the war loans of a considerable proportion of the savings of individuals" so "constituting an increased cost of production". In the downward phase, from 1815 to 1837, Tooke (1928 [1838], vol. 2, 348–9) mentions as one of the major causes the effect of a "reduction of the general rate of interest, and a more extensive application of individual accumulations [of savings] to reproduction at a diminished cost". It is evident Tooke was led to form this view by the strong statistical correlation between the rate of interest and money prices apparent in England over the course of the French Wars.

This proposed causal relationship from the money rate of interest to prices was a central part of Tooke's banking school theory developed in the early 1840s. It clearly implied the view that the money rate of interest systematically regulated the rate of profit, a conception which was entirely consistent with Tooke's "adding-up" approach to value and distribution common among English classical economists of the mid-nineteenth century (Smith 2011, 31–43). However, due largely to a conceptual confusion between money (or "currency") and finance (or loan) capital, which Tooke shared with many contemporaries, his explanation of the determination of the rate of interest is not altogether consistent with other elements of his innovative monetary thought (Panico 1988, 77–9). Nevertheless, despite some theoretical weaknesses in his analysis, Tooke may be regarded as the true forerunner to the concept of a monetary determined rate of interest which Keynes would revive nearly one hundred years later (Smith 2011, 222–31).

6. Conclusion

The 1825 financial crisis stimulated numerous pamphlets on the causes of the crisis and its policy implications. Of these Tooke's *Considerations* (1826) stands out to be one of the most important, whose explanation of the crisis was widely accepted among contemporary policy makers and among parliamentary members, and which exerted a significant influence on parliamentary debate and in shaping the reforms to banking subsequently implemented by the Liverpool Tory government. For this reason, the *Considerations* has been an important source to economic historians concerned with explaining the crisis and its aftermath (Hilton 1977, 206, 225–6; Smart 1917, 338). But the *Considerations* was also important in the formation of Tooke's position on monetary policy. In his critique of Bank of England policy, and, indeed, of Ricardo's Ingot Plan, Tooke (1826, 114–22) argued that holding a large reserve of specie was a prudent policy for the Bank to deal with the various "obstructions" that "interpose" in the "adjustment of international payments" which cause instability in the foreign exchanges.[29] The *Consideration* marks the beginning of the policy position subsequently developed by Tooke that the Bank of England required scope for flexibility in the conduct of its operations, chiefly attained by holding a larger specie reserve, to cope with the extraordinary financial demands which would periodically occur. These extraordinary demands were normally the result of "natural and political" events which disrupted markets and often gave impetus to speculative activity. The most obvious example of this phenomenon was unfavorable seasonal conditions and a poor domestic harvest leading to high corn prices and a large importation of corn which would cause an external outflow of specie. But the main threat to currency conversion came from a panic induced internal drain caused by financial crisis which Tooke saw to be the inevitable outcome of a speculative boom. To prevent this possibility Tooke believed the Bank of England needed to adopt a far-sighted approach to policy, identifying the early stages of market speculation and taking precautionary action to suppress it by restraining credit expansion. As he argued in the *Considerations*, Tooke believed the price-specie-flow mechanism worked too slowly to be of any practical use in the short-term management of the currency. Tooke advocated a discretionary approach to monetary policy by the Bank of England centring on the flexible use of its "official" discount rate as the main way of influencing credit conditions.

The *Considerations* is therefore a highly significant work not only in respect to analysing the 1825 financial crisis but because it contains Tooke's first systematic views on monetary issues which challenged various aspects of the orthodox quantity theory of money position. As shown, Tooke opposed Ricardo's Ingot Plan as a permanent system of monetary adjustment and dissented from the orthodox view of the classical economists on the causal relationship between interest and profits by proposing that for significant periods of time the rate of interest is determined by monetary forces independently of the profit rate. This latter proposition later became a key part of

[29] Tooke came to conclusion that "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" (1826, 120).

Tooke's Banking School theory and can be said to be the foundation of the conception of the rate of interest as a "monetary phenomenon" which, following its espousal by Keynes (1973 [1936], 203–4, 229–31), has been revived in recent literature.[30]

[30] For its revival in the Classical-Keynesian approach, being a synthesis of the Keynesian demand-led theory of output and growth and the Sraffa (1960) based reconstruction of the classical theory of prices and distribution, see Garegnani (1978 [1983], 61–3); Panico (1988, 102 et seq); Pivetti (1991, 8–19); Smith (2011, 145–52, 222–6).

Competing Interests

The author has no competing interests to declare.

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