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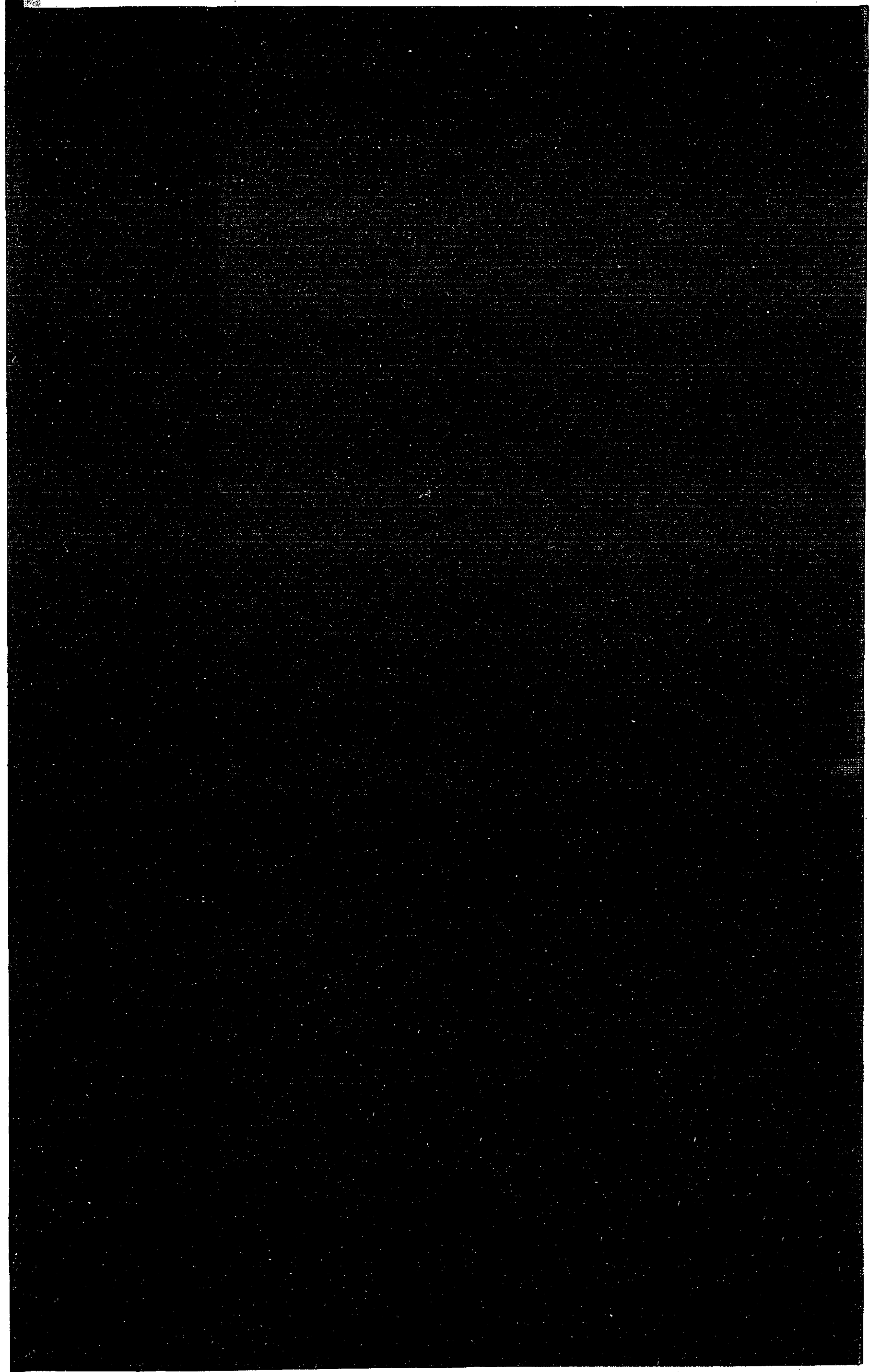

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# CONSIDERATIONS

ON THE

# STATE OF THE CURRENCY.

By THOMAS TOOKE, F.R.S.

*SECOND EDITION.*

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## ADVERTISEMENT

TO

*THE FIRST EDITION.*

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THE original design of this publication was that it should serve as a sequel to one in which I have endeavoured to trace the causes of the fluctuations which had occurred down to 1822. And in pursuance of that design it was my intention to introduce a detailed description of the circumstances which have led to the late crisis, with statements of quantities, as well as of prices, illustrative of the different points which it was my object to explain. But in the progress of my attempt, I found that to pursue this plan systematically would require, in the collection and arrangement of materials, more time than I could allot to it, consistently with the purpose of being ready for publication within the period in which alone the discussion was likely to be of any interest or use. It occurred to me also, upon consideration, that as the greatest part of the facts which I had originally purposed to insert, are either matter of notoriety or of ready access, a detailed description of them would have made the work more cumbersome, without adding, in a proportionate degree, to the force of the conclusions. I have confined myself, therefore, in the following pages, to a sketch of the most prominent features of the circumstances which have preceded and accompanied the recent transitions, and to such statements only as are essential to a full exposition of my view of the general causes which have produced those transitions.

*Richmond Terrace, Whitehall,*
*Jan.* 28, 1826.

## ADVERTISEMENT

TO

*THE SECOND EDITION.*

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The call for another edition has afforded the opportunity of inserting a few Explanatory Notes, and of adding, in the shape of a Postscript, some brief remarks on the measures which are in progress, as likewise on those which are supposed to be in contemplation with reference to the Currency.

*February* 22, 1826.

E 4799

# INTRODUCTION.

THE period of three years, which has elapsed since I attempted to explain the causes which had produced the variations of prices in the thirty years terminating in 1822, has been signalized by fluctuations almost as great as in that remarkable interval, and by revulsions of commercial credit, still more striking and destructive.

The urgent necessity of devising means of preventing, or at least diminishing the range of such fluctuations, has been painfully brought home to the conviction of the public. But this object, if it is attainable at all, can only be realized by an accurate appreciation of the whole of the causes of the evil. No remedy can be applied until all the defects in the system of our currency be exposed. To do this as completely as the importance and extent of the subject would require, is a task requiring much more leisure than I can devote to it. If there are a few points relating to the discussion of these topics, which the following pages will be found to elucidate, my purpose in publishing them will be fully answered.

Of the different causes which I had occasion to assign, in explanation of the fluctuations that occurred from 1793 to 1822, the alterations in the *system* of our currency, by the bank restriction and resumption of cash payments, and by the effects of war and the transition from war to peace, being wholly inapplicable to the fluctuations of the last three years, there remain only,

1. The seasons.

2. Alterations in the value of the currency *,

* On reference to the arguments contained in my former work on the subject of alterations in the value of the currency, as among the concurrent causes of the great fluctuations of prices which had occurred in the thirty years ending in 1822, I am sensible of an error in the mode of statement of the arguments, and in one or two expressions, which, although of no great importance, I take this opportunity of explaining. The whole scope and object of my argument was to negative the alleged influence of the bank restriction and resumption acts in raising and depressing general prices beyond the degree indicated by the difference between paper and gold. I did not mean to deny that there were great fluctuations in the value of the currency during the period referred to, beyond the indication by that test: on the contrary, I distinctly stated, that from the powerful inducements held out to speculation, by the circumstances of the war and the vicissitudes of the seasons, there were great alternations of enlargement and contraction of country bank-notes, and of private paper, and credit, occasioning great temporary variations, which would equally have occurred in the value of the currency, independent of the bank restriction. But I ought, at the outset of the work, to have stated, more distinctly than I did, the division of the argument into two branches, *viz.*, that of alterations in the value of the currency arising from the suspension and resumption of cash payments, and that of alterations in the value of the currency from circumstances which would have affected it independently of those measures. With this explanation, and with the correction of two passages, *viz.*, one in page 135, second edition, line 16, from top, where, instead of the mere word "currency," should have been inserted the words "alterations in the system of the currency;" and the other, in page 143, in last line but one, where I have inadvertently used the word "*value*" instead of "*system* of the currency," I am perfectly ready to abide by the result of any comparison of the consistency of the views which I then entertained with those which I am now bringing forward on the subject of the currency.



in a state of the circulation in which the bank paper is perfectly convertible.

But the former not having been, in the last three years, characterized by any very decided deficiency or exuberance of general produce, cannot be adduced as having had any prominent share in the recent, as they undoubtedly had in the former, fluctuations. I shall, therefore, not consider these under a distinct head, but only notice them incidentally. And the whole discussion in the following pages will turn upon the degree in which the *currency* has been connected, in the relation of cause and effect, with the violent transitions between high and low prices, between the extremes of confidence and alarm which have prevailed in the commercial world.

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## SECTION I.

### Upon the Causes which determine the rate of Interest, and the Application of these to the late Fluctuations.

Among the most striking and important of the fluctuations which have occurred within the period under discussion, are those of the prices of the British and Foreign funds: but the prices of the funds, in as far as there is no question of risk, are neither more nor less than the measure of the variations in the rate of interest. In accounting, therefore, for the great alterations in the prices of government annuities and securities, it becomes desirable, as a preliminiary step, to investigate the circumstances on which the rate of interest depends. It will appear, moreover, that the rate of interest enters as cause and effect into every consideration of the regulation of the paper currency in this country; it would be difficult, therefore, if not impossible, to proceed intelligibly in the discussion of the manner in which the paper circulation has been administered, or of the merits of the system itself, without something like a clear understanding of the causes which influence that rate.

The commonly-received opinion, and that

which is generally adopted by political economists is, that the rate of interest is governed by the rate of profit. In an article in the *Edinburgh Review*, No. 79, under the title "Standard of National Prosperity," pp. 8 and 9, which is nearly a transcript of some of the opinions contained in the lectures delivered by Mr. Mac Culloch, is the following passage: "Interest rises as the rate of profit rises, and falls as it falls: the one is directly as the other." It is admitted, in the same passage, that "it is often difficult to determine what is the precise average rate of profit at any particular period; but," the reviewer adds, "it is never difficult to determine whether it is higher or lower at one period than another, or whether it is rising or falling." "For," he goes on to say, "this may always be learned with the greatest facility from the rate of interest paid for capital lent on good security."

My only purpose, at present, is to inquire in what respect the rate of interest is an index of the rate of profit, and how far the former depends upon the latter. Without entering therefore into the question, whether the rate of profit ever has been, or is, or ever can be determined, as applied to the return to capital, in a national point of view, I would ask, whether the rate of interest, at any particular period, is in-



dicative of past, present, or future profit? *Past* profits, the present rate of interest cannot indicate, because the capital borrowed for the purpose of obtaining that profit, has, by the supposition, been realized, and the borrower has, for that purpose, no further object in paying for the use of the capital. *Present* profits, as contra-distinguished from past or future, cannot be said to exist. When they have been realized, they are past; as long as they depend on a contingency, they are future or *expected* profits.

The proposition, then, resolves itself into this. That the rate of interest, at any time, indicates the degree of expectation of profit; and then, as it is assumed that the expectations of those who borrow money, with a view to profitable employment, are likely, on an average, or in the long run, to be realized, the average rate of interest may be supposed to bear some proportion to the rate of profit. Thus, on an average of some indefinite number of years, sufficient to equalize the effects of seasons, political and commercial changes, alterations in the value of money, and every source of miscalculation, the customary rate of interest might be assumed to bear some proportion to the rate of profit. But, even on this supposition, the rule would be of little practical utility in the application to passing occurrences, or to determine whether, in any period so short as three or four, or even ten years, the rate of profit was higher or lower, rising or falling, compared with any other equal period. The author, however, of the article which I have quoted, infers, that because the rate of interest, at the precise time when he was writing, had fallen, and was apparently falling, the rate of profit, and the power of accumulation in this country, were diminished in a corresponding degree. By the same rule it might be inferred, that, as within the last few months the rate of interest has risen considerably, the rate of profit and the power of accumulation are, in the present distressed state of the commercial community, greater than they were two years ago: nay, even extending the remark to longer periods, viz. of ten or twenty years' duration, what, according to that rule, would be the inference as to the rate of profit? Certainly this: that as, during the whole of the last century, and the twenty-five years of the present, the average, or customary rate of interest on good security, was higher during the periods of war, than in the intervening periods of peace, the rate of profit, and consequently the power of national accumulation, must have been greater in the periods of war than in the periods of peace. But as I believe that no person conversant with the nature of the money-market would for a moment doubt that in every future war, if of any extent and duration, the



rate of interest, not merely on government securities, but on all safe investments, would be higher than in an equal period of the preceding or succeeding peace, the proposition would, upon the grounds supposed, admit of being generalized thus: That the rate of profit, and the power of accumulation, must be greater in war than in peace; and the final conclusion would be, that perpetual war would be attended with perpetual prosperity: a conclusion so monstrous, that it must naturally lead to a suspicion, or rather to a conviction, that the premises are unsound.

I am inclined to think that one of the fundamental errors of the doctrine in question is, that the following consideration is overlooked; viz., that while the returns to the whole of the national capital laid out with a view to reproduction, are, and must be, estimated in kind*, (supposing that there were means of making such estimate,) the rate of interest is always computed in money; consequently, profits estimated in money are not, necessarily, in the ratio of national profits estimated in commodities: the variation of the one is not, therefore,

* And that the author of the article which I have quoted supposes the estimate of profit to be made in kind, or in the quantity of commodities, may be collected from what he states at p. 14 to 16 of that article, and, indeed, from the whole course of his reasoning.

necessarily indicative of the variation of the other. It would be incumbent on the reviewer, in the first instance, to point out the invariable connexion between the returns to national capital, estimated in kind, and the returns to individual capitals, estimated in money; and in the next place, the invariable equality of the proportions of the whole national capital, compared with its productiveness, and of the supply of monied capital seeking secure investment, compared with the demand for the use of such capital, by persons having good security to offer, this latter being the condition by which the rate of interest is determined. This the author whom I have quoted has not attempted to do.

Another source of error in the reasoning, which seems to lead to the conclusion which I have pointed out, is the unqualified assumption, that money is borrowed with a view only to reproduction, or in other words, for profitable employment. The assumption is an unqualified one, otherwise it would not bear out the conclusion. For admitting that such may be the case in the majority of instances, the exceptions might be, as they are, so large, as to destroy the application of it to the business of real life.

A third source of error consists in overlooking the consideration, that monied capitals may increase in a greater ratio than the means of



employing them, without personal superintendence, although the sources of production, and the degree of their productiveness may likewise have increased. And thus the interest on the best securities, involving no trouble, may fall, as the returns to mercantile, or other professional skill, rise.

Having thus noticed what I conceive to be the errors of a doctrine, which, proceeding from a writer whose opinions have deservedly very great weight, might, if not pointed out, lead to injurious practical results, I will proceed to state what occurs to me in explanation of the causes of the variations in the rate of interest.

I should define the rate of interest to be that proportional sum which the lender is content to receive, and the borrower to pay, annually, or for any longer or shorter period, for the use of a certain amount of *monied capital**, without

* To distinguish with perfect accuracy between *monied capital* and *currency* is a matter of some difficulty, and perhaps would require a detailed analysis of every species of mercantile transaction. In general terms, however, that may be called *monied capital*, which is lent on the security of bills, that is, on discount, on mortgage, or on any other kind of security;—while *currency* is that *medium*, whether consisting of gold, notes, bills, or credit, by which the purchase of commodities is effected. In ordinary discourse, both *monied capital* and *currency* are called *money*, and the market for *monied* or *disposable capital* is called the *money-market*, and hence much confusion arises from the use of

any consideration for trouble in the collection of the income, or for risk as to the punctual repayment of the interest or principal at the stipulated periods. Whatever is received by the owner of a monied capital for the loan of it, beyond that rate, ought to be considered in the light of a remuneration for risk or trouble.

In this view, the *rate of interest* is *the measure of the net profit on capital.* All returns beyond this, on the employment of capital, are resolvable into compensations under distinct heads, for risk, trouble, or skill, or for advantages of situation or connexion. When the owner of a capital employs it actively in reproduction, he does not come under the head of those capitalists, the proportion of whom, to the number of borrowers, determines the rate of interest. It is only that class of capitals, the owners of which are unwilling or unable to employ their money actively themselves, which has any immediate influence on the rate of interest.

This is the description of capitals which M. Say calls *Capitaux disponibles.*

the word *money*, where *monied capital* is meant. M. Say notices this distinction between *money* and *disposable capital*, and the errors to which the confounding of the two terms together has given rise, in his excellent and justly-celebrated work "Traité d'Economie Politique," p. 112. *et seq.*



The possessors of disposable monied capitals, who operate on the rate of interest as lenders, may be classed under the following heads:

1. Persons or bodies of persons, trustees, or others, who are precluded by legal or other disability from investing any money which they have to lay out, in any security that is attended with either risk or trouble. Banks, whether corporate, or consisting of private individuals, in as far as they conduct their business according to correct banking principles, may be reckoned under this head. It is perfectly possible that, within certain limits, an increasing proportion of national monied income may be accumulated in the hands of persons or bodies coming under this description, to such an amount, that if the borrowers who have securities to offer which involve neither risk nor trouble to the lenders, be limited to a certain number, the rate of interest upon such securities may be depressed in almost any degree*. It is clear, in this point of view, that a fall in the rate of interest on the best securities is no criterion of the returns to

* It is on this account that an increased issue of Bank of England, and other bank, notes in the way of loans to government, or of discount on mercantile bills, contributes to reduce the rate of interest, when there is no corresponding increase of borrowers having the most undoubted security to offer.

capital actively employed, which involves the necessity of risk, trouble, and skill. If by any financial operation, brought about without any intermediate disturbance of property, as for instance, by an effective sinking fund, our national debt were reduced to one or two hundred millions, it is not inconceivable that any perpetual annuities offered by government, within that amount, would fetch fifty years' purchase, or in other words, that the rate of interest, all other things remaining the same, would, on such securities, be reduced as low as two per cent. per annum*.

* In referring to government securities as a criterion of the rate of interest, an allowance is to be made for the greater or less latitude for a rise or fall in the value of the capital sum invested, and for the greater or less facility with which sales of a given amount may be effected at the shortest notice. Thus exchequer bills have on particular occasions been at such a premium as left to the purchaser an interest below 2 per cent. per annum; while the lowest rate on other government securities has been considerably higher. On private securities, too, the rate of interest at any given period may vary according to the length of the term and to the convertibility of the security. Thus mercantile bills of the most unexceptionable credit at short date have sometimes been discounted at 3, 2½, and even as low as 2 per cent.; while advances on mortgages of the best description have not been obtainable under 4, or at the lowest 3½, per cent. All the circumstances which determine the greater or less eligibility of investment according to the greater or less facility and certainty of conversion, are to be taken into account, in estimating the general rate of interest at any particular time.



A state of war, on the other hand, may easily be supposed to raise the rate of interest, by creating a supply of that description of security to a larger amount, and more rapidly, than could be absorbed by the accumulations of the class coming under this head. A rise in the rate of interest is, therefore, a condition for obtaining the requisite funds from the other classes of persons possessing monied capitals.

Hence it may be seen why the rate of interest, as measured by securities involving no risk or trouble, should be lower in peace than in war, without resorting to any difference in the rate of profits, to account for that difference in the rate of interest.

2. Persons who are willing to take some trouble, with little if any risk, and who invest their monied capitals in mortgages, ground-rents, or in loans on goods and other securities involving the necessity of superintendence, and more or less of trouble and exertion in collecting the annual interest. In proportion to the difficulty of obtaining good securities of this kind, except at a reduced rate of interest, this class would be liable to

merge into the next class which will be mentioned.

The prevalence, however, of habits of prudence, and the consequently increasing proportion of the national income accumulating in the hands of this, as well as of the first class, would enable persons possessing skill for the active employment of capital, or enjoying advantages of situation or connexion, and offering sufficient security, to retain a larger portion of the returns, as a compensation for their risk, trouble, and skill. Supposing the whole returns to capital to remain the same, a diminishing proportion might go as the net profit to the monied capitalist, and an increasing one to mercantile, manufacturing, farming, or other professional skill. These returns, beyond the mere interest of money, and beyond what may arise from rent or the monopoly of situation, connexion, &c., M. Say classes under the head of *profits industriels*, as contra-distinguished from *profits de capitaux*, a distinction which our economists might adopt with advantage.

3. Persons, who, in order to obtain a higher rate of interest, or a higher price for the use of their monied capitals, are willing to run an extra degree of risk in the investment of them, but without bestowing personal labour, or possessing any technical knowledge or skill, to



qualify them for the active management of such investment.

This is a class, the extent of which could not have been adequately conceived till the experience of late years, in which the success of foreign loans, and mining schemes of the most hazardous nature, proves how many persons there were in this country, who, having some property, were willing to embark it in enterprises of more or less hazard, provided that such enterprises promised on the face of them to yield more than the common rate of interest, without requiring labour or skill. In proportion as the funds of this class have been absorbed in successive payments to the loans and schemes, they must have been withdrawn from the competition with the two first classes of lenders, and this new mode of investment must, consequently, have operated thus far in preventing a fall, if not in occasioning a rise, in the rate of interest on the best securities in this country, at the same time that the progressive reduction in the rate of interest, on the best securities, must have detached many monied capitalists from the two first classes, and brought them into the third. There can be no doubt, therefore, that the fall in the rate of interest, an artificial one as it now appears, was, in some degree, a necessary condition of the success of those loans and schemes to the extent to which they were carried.

The three classes of persons here enumerated as being lenders of monied capital, include those, who, being actively engaged in trade, manufactures, or farming, accumulate more than they can re-invest in their own occupation, with the prospect of getting the ordinary rate of interest, after allowing for a remuneration for their labour and risk.

A material consideration to be here borne in mind is, that it is only as long as those capitals are floating, or disposable, that they operate on the rate of interest. When once they are invested, whether for a long or a short time, they are out of the competition of *lendable* capitals, and cease to affect, directly, the rate of interest. Thus, if I have invested my monied capital in the purchase of exchequer bills or in the discount of mercantile bills, however undoubted in point of security, and at however short a date, that sum is withdrawn from the amount of floating or disposable capital. I may, indeed, if I have a sudden occasion to require so much money for immediate use, re-sell or re-discount the bills, but then this sum must be withdrawn from the amount of floating or disposable capital in other quarters.

These being the principal heads under which the lenders of monied capitals may be classed,



constituting one of the conditions on which the rate of interest depends, *viz.*, the *supply*, it remains to consider what is the description of the borrowers, who constitute the *demand*. These may be classed as follows :—

1. Persons who have the *prospect* of being able to employ a capital beyond their own funds, in such a manner as to afford a return adequate to remunerate them for their trouble, and skill, and risk, after replacing the amount advanced, together with the sum stipulated for the use of it.

2. Persons who, having embarked the whole of the capital which they possessed, and having entered into engagements which require larger advances, and afford smaller returns than they had anticipated, call for a further sum, of such an amount, as their securities, or credit, enable them to obtain, in order to make up for the deficiency, or temporary absence of the returns which they had reckoned upon.

3. Persons who have occasion to borrow, in order to supply the means of unproductive expenditure beyond their income. This head includes a great number of borrowers, having various kinds of securities. It embraces not only those who are proprietors of lands and houses, which admit of being mortgaged, or who have personal security to offer, but the

government, which may mortgage the revenues of the state. Under this head may be considered the agents of foreign governments, who may raise loans in this country, or, in more general terms, may offer foreign government securities, which hold out adequate temptation for investment on the part of capitalists in this country.

An attempt at a classification of particulars like these, may appear to some too much like a parade of science; but it is only by treating the subject in this way, that the causes of variation in the current rate of interest can be extricated from the confusion in which they are involved by the attempts which have been made, in discussions purely scientific, to account for all such variations by the supposition of corresponding alterations in the rate of profit.

The simplest way, as it strikes me, on all such occasions, is, where any thing like an analysis can be made, to consider, in the first place, the effect of an alteration in each class of the circumstances under consideration separately, the others remaining the same, and then to trace the influence of any variation in each class on all the others. To do this completely, however, would require a much greater length of discussion than would be consistent with the immediate object of the present inquiry; and I



shall content myself with pointing out the manner in which the state of the currency affects the conditions of the rate of interest, and in which the change of these conditions again affects the state of the currency.

Suppose that, at a given time, all these conditions were in their ordinary state, and that the current rate of interest were, consequently, steady; it is very easy, then, to conceive how a sudden increase in the issue of paper, by banks of circulation, may disturb that state of things, notwithstanding that the amount of such increase may be apparently small, when compared with the whole of the national capital; for it is not with the whole, nor even with any considerable part of the national capital, that what I consider as a *nominal* addition to it, by a fresh issue of bank promissory notes, comes in competition. The amount of capital seeking investment, at any given time, may easily be imagined to be so limited, that what might otherwise appear to be an insignificant sum, may yet be a large proportion of that amount, and may, consequently, produce a great temporary depression in the rate of interest, on that description of security for which it comes directly into competition.

But in reducing the rate of interest on the best class of securities, this competition drives the possessors of capital seeking investment, to the alternative of submitting to a diminished income, or of running a risk which they otherwise would not have done, in the disposal of it. And it is, in most instances, the proprietors of the smaller capitals, being those upon whom the reduction of income presses hardest, who have recourse to the more hazardous investments, whether on comparatively slender private security, or in sleeping partnerships, or in joint-stock companies, or in foreign loans.

It must be evident that the same reduction of interest, which leads the possessors of floating capital to incur an extra risk in their investments is likely to induce persons who have credit, and who are in the active employment of capital, to extend their engagements, if there be any speculative ground for anticipating an advance of prices. This they may do, either by purchases on credit, to a greater extent than usual, or by borrowing at the reduced rate of interest. If the reduction in the rate of interest, and the facility of credit thence arising, should coincide with a tendency from other causes, to a speculative rise of prices, and with the opening of new fields for enterprise, there will naturally be a great extension of the demand for the loan of capital, by borrowers under the first head.



In the period, however, the consideration of which will form the chief subject of the present inquiry, the increase of borrowers under that head, in consequence of the disposition to speculate, and to form joint-stock companies, had not any immediate or very sensible effect in raising the rate of interest: it merely prevented the greater fall, which, otherwise, must have been occasioned by the immense augmentation of paper, or *nominal* capital *, which was created

* I make a distinction between *capital* in the scientific use of the term as applied to the actual funds destined for reproduction, consisting of raw materials, &c., and *monied capital*. In a settled or uniform state of the currency, however, and in the ordinary use of credit, these two terms may be considered as identical or convertible. But during the progress of an increase of the currency there is a factitious increase of *monied capital*, and this I have called *nominal*, which comes in competition with the pre-existing monied capital; and it is while in this state of increase that it both reduces the rate of interest, and diminishes the value of money. It cannot enter into circulation otherwise than by reducing the rate of interest, other things remaining the same; as it must inevitably, at the time it is issued, increase the number of lenders, or diminish the number of borrowers. The additional currency, in whatever way it comes into circulation, and whether it is in the form of gold or paper, or mere credit, must, eventually, raise the price of commodities and labour. But as almost every increase of paper, excepting what is paid by the bank for bullion, is issued in the way of loan, either to government, or to individuals, it is likely to affect the rate of interest in the first instance,

during that period, as will be hereafter more particularly noticed. The supply of *nominal* capital was increased, during that period, in a ratio equal to, if not beyond, that of the immediate increase of demand, great as it was.

In the early progress of a general speculation, the immediate absorption of capital is comparatively small. The increased demand for capital by the class of borrowers described under the first head, may not only not outrun the increased supply of *nominal* capital, created by an enlargement of the circulating medium, so as to produce a rise in the rate paid for the use of such capital, but the enlargement of the

before it comes in contact with commodities. And this may account for an observation which I have heard made, and which appears to me to have some foundation, and that is, that the effects of an increased circulation are perceivable in an advance of the funds, and other securities bearing interest, before they can be traced to the prices of commodities; and the converse holds with regard to a diminution of the currency while in progress. When the amount of the currency has become settled, for any length of time, at a particular level, it is immaterial, as relates to the rate of interest, whether the level of the currency be at one half or at double of its former value: the rate of interest will then be governed entirely by the supply of, and demand for, capital, as resulting from circumstances independent of the currency. But it cannot be too constantly borne in mind, that every alteration in the amount of currency produces a temporary effect upon the rate of interest.



circulating medium may be, and, indeed, commonly is, under such circumstances, so large as to produce a *fall* in the rate of interest. But the case, in the further progress and termination of a general speculation, is widely different.

There is, then, an immense increase in that class of borrowers, which comes under the second head; and in proportion as the facility of obtaining credit, as indicated by a low rate of interest, has been such as to give great latitude to speculation, there will be an increased demand for capital, and the intensity of the demand will be indicated by a great rise in the rate of interest. The demand is no longer limited, as it was, by the prospect of advantage to be made by the outlay of the capital, after defraying the rate required for the use of it; it is now limited only by the utmost extent of the securities of every description, which all persons who have entered into engagements beyond their own immediately available or convertible capital can bring forward. If, therefore, the *nominal* amount of capital were the same as it had been when the disposition to over-trade was at its height, there would, by the rapidly increasing absorption of funds, and the consequently urgent wants of the borrowers, be a considerable rise in the rate of interest. "No complaint (observes Dr. A. Smith, *Wealth* *of Nations,* vol. ii. p. 151 and 152) is more common than that of a scarcity of money. Money, like wine, must always be scarce with those who have neither wherewithal to buy it, nor credit to borrow it. Those who have either, will seldom be in want of the money, or of the wine, which they have occasion for. This complaint, however, of the scarcity of money, is not always confined to improvident spendthrifts; it is sometimes general through a whole mercantile town and the country in its neighbourhood: *over-trading* is the common cause of it. Sober men, whose projects have been disproportioned to their capitals, are as likely to have neither wherewithal to buy money, nor credit to borrow it, as prodigals, whose expense has been disproportioned to their revenue. Before their projects can be brought to bear, their stock is gone and their credit with it. They run about everywhere to borrow money, and everybody tells them that they have none to lend."

But coincidently with, and partly arising out of the very circumstances which entail a recoil of the speculation, and a consequent increase of the number of borrowers, is the occurrence of a great diminution of the amount of disposable or monied capital. All that part of the *nominal* capital which arose out of the increase of the circulating medium, beyond what



the ultimate reference and necessary subsidence to a level with the value of gold, in the rest of the commercial world, could admit of being retained in circulation, is swept away by the process which I have, on former occasions, described. Not only is there a very great diminution of the amount of disposable capital, from this cause, but a further reduction must be allowed for, from the large proportion of persons, bankers and others, who having, in ordinary times, and during the general prevalence of prudence in the conduct of business, confined themselves to the safest and most convertible securities, have been tempted, if not driven by the low rate of interest into loans on doubtful or inconvertible securities, and, perhaps, into engagements by which they are themselves brought into the class of borrowers.

Thus, while the demand for capital is increased in a very great degree, the supply of it is diminished, not only relatively to the increased demand, but to the former amount of supply. There can, therefore, be no difficulty in such cases, in accounting for the great rise in the rate of interest. And this process has been strikingly exemplified in the recent state of the money-market*.

* The following extract from a paper published at New York in July last, describing a state of things very similar

to that which we have lately witnessed here, and arising from similar causes, may, perhaps, not be uninteresting as an illustration of the foregoing remarks:—

"*The scarcity of money* is probably greater in Wall-street at this moment than it has been for many years; the full explanation whereof, it would perhaps be difficult to ascertain. Some of the causes may, however, be assigned. Among the most prominent, we should be disposed to place that of the many new companies incorporated by the last Legislature. It was assumed as a fact, both by the petitions for these companies, and by the Legislature itself, that a great mass of unemployed capital was lying idle in New York, to which these companies would afford the means of profitable investment and employment. This assumption was, in our judgment, unfounded. We do not believe there was any excess or superabundance of capital; and all calculations, therefore, made on the existence of such were erroneous. New companies, however, were chartered, and great demand was created for these stocks—a spirit of speculation was engendered, and men of all descriptions and degrees were seen striving to get shares in this or that bubble, not with any view to (for most of them had not the means of) a permament investment; but calculating that, by good management on the part of the directors, and from the craving of the superabundant capital for employment, these shares must rise. Hence persons without any means, or any judgment or knowledge in such matters, became subscribers; borrowing, on the pledge of their shares, the money to pay for them, until, by a repetition of this process, one and the same sum was often made to represent as many times its value as there were new companies. All of a sudden, however, in the natural course of trade, that capital which was deemed superabundant, but which was in fact only awaiting its usual and accustomed modes of employment, is called



for—the purchaser of cotton has to pay for it—the importer of goods has to remit, the projector of distant voyages has to prepare his funds. Moreover, receipts from foreign shipments have fallen short of expectation. The adventures round Cape Horn and to the Brazils, in flour, &c., have brought back few or no returns; the markets are glutted—the shipments to the Spanish Main, of dry goods, have been overdone. The pause in cotton abroad has interrupted sales; hence, from all these combined causes, the merchant is thrown upon his resources at home, and the money that had been lent on pledges of stock, is recalled to its natural and proper vocation. But how is it to be repaid? The borrowers of it must sell the stock given to secure the loans. But the very demand for money, for the purposes above enumerated, dampens the spirit and means of speculating in the stocks, and sales cannot be made therefore without great sacrifices. What is the consequence? The holders for the rise make every possible effort to avoid the necessity of selling; they borrow anywhere and everywhere, and at every rate of interest. They besiege the Banks, the Insurance Companies, and individuals—for they must, at some sacrifice or other, repay what they have borrowed, or their career is up; and it is precisely, as we are informed, among this class of speculators, that the distress for money is most severely felt.

"Another cause, perhaps, of the scarcity of money, and of the extreme unwillingness of the banks to discount, is *the disproportion between the specie in bank, and the paper in circulation.* It is very—we should say, if censure could be made to bear where it ought—inexcusably great. How this has happened, it would at this moment carry us too far to inquire, though we may attempt it hereafter. The fact, however, is indisputable."

The following extract of a Letter from an eminent merchant in New York, dated 23rd November, is likewise strongly corroborative of my observations respecting the effect produced on the rate of interest by the recoil of extensive speculations:—

"No bill of exchange can be sold here but on credit of two, three, and four months; and such is the precarious state of commerce, that such payments are hazardous in the extreme, and paper discounted at from $1\frac{1}{2}$ to 3 per cent. per month. Failures are consequently daily occurring, and numerous; some, to a considerable amount."

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## SECTION II.

Upon the high and low Prices of the last three Years, and upon the Degree in which these have been connected with the State of the Currency.

THE phenomena of the high and low prices, which have occurred within the three last years, may be classed under two distinct heads.

The first comprehends those articles of which the rise of price may be clearly traced to a deficiency of supply, arising from the operation of natural or artificial causes, such as the seasons or other casualties in some instances, and in other instances from the more permanent influence of monopoly, as in the case especially of articles of food; this class of commodities still maintaining a high range of prices.

The second comprehends the commodities and other objects of exchange, which, having risen more or less, as a consequence of unfounded speculation, have, in the majority of cases, subsided to, and in some below, the level from whence they rose.

The latter class is that alone, the great variation in the prices of which can fairly be ascribed to the operation of the currency; but it embraces objects of such extent and importance, as fully to account for the alternation of general excitement and despondency, and for the appearances of unbounded commercial prosperity, succeeded by every indication of depression, stagnation, and discredit which have marked the period under consideration.

That a great part of these fluctuations of prices may be ascribed to the state of the currency, is, *à priori*, to be inferred from principles generally admitted: for the theory of money alone would lead us to expect in cases where a great alteration in the prices of numerous and extensive classes of commodities or other objects of exchange, cannot be distinctly traced to any adequate difference in the circumstances affecting the supply and demand, that there must have been some corresponding alteration in the amount of the circulating medium. The correctness of this inference *à priori*, admits, in the present instance, of being confirmed by direct evidence of the fact of an enlargement of the circulating medium, sufficiently considerable in point of amount, and coincident in point of time, to account for the rise of prices: while, on the other hand, in the absence of any direct evidence of the relative amount of Bank of England notes, since the fall of prices has



occurred, the extensive destruction of the circulation of country notes by the numerous failures and suspensions of the banks, and the depression of mercantile credit, are quite sufficient to establish the fact of a great diminution of the aggregate amount of the circulating medium*.

The directors of the Bank of England, in pursuance of a policy, which, without being beneficial to themselves or the proprietors, is very injurious in its consequences to the public, commonly endeavour to throw a veil of secrecy and mystery over their proceedings. Being called upon in Parliament, during last session, for a return of their issues of notes since February, 1824, the date of the last return made by them, they thought proper to refuse to comply with the request. Parliament having acquiesced in that refusal, it would have been

* Consistently with my main object, of giving practical and detailed proofs in illustration of the points now under discussion, it will be superfluous for me to enter here into the general reasoning, from which it is to be inferred, that no such extensive rise of prices, except in case of scarcity, could take place without an increase of the effective powers of the circulating medium, and *vice versâ*. I shall content myself, therefore, with merely referring, in general terms, to the obvious nature of the grounds on which that conclusion rests, and assume it to be granted.

difficult, if not impossible to obtain any account of the amount of bank-notes in circulation, beyond the very imperfect information given in answer to questions by proprietors, at their half-yearly meetings. But it was, fortunately, discovered, that as the bank was obliged, by Act of Parliament, to deliver to the Commissioners of stamps, on the 1st of May in each year, an account of its weekly issues, the desired accounts might be obtained through the Stamp Office. Owing to the wording of the order, in the first instance, a return was made only of the averages for the three periods of three years each, ending respectively in April, 1823, 1824, 1825. This return presented the following results:—

| | | |
|---|---|---|
| In 3 years, ending April | 1823 . . . | £20,603,548 |
| | 1824 . . . | 18,984,499 |
| | 1825 . . . | 19,092,005 |

exhibiting a decrease in the two last averages. This circumstance was deemed by most of those who commented upon it at the time, as being conclusive against any imputation upon the bank, of having contributed by its issues, to the speculations which then prevailed. It was, however, not difficult to see, that the view presented by this return was a fallacious one; for the first average contained more than a year



and the second a few months, in which the issues of 1*l.* notes formed a considerable proportion, not less, probably, than seven or eight millions; whereas, in the period embraced by the last average, the 1*l.* notes had been called in, and replaced by an issue of sovereigns. The amount of the 1*l.* notes ought to have been allowed for, either as a deduction from the first two averages, or to have been added as sovereigns, after the period when and in proportion as the 1*l.* notes were withdrawn.

The fallacy became evident upon a return from the Stamp Office, in obedience to an amended order for the *weekly* issues. From this document, which was ordered by the House of Commons to be printed, on the 2d of June, 1825, it appears that there was a very considerable increase of the issues during the two years ending April, 1825. The increase is most striking upon a comparison of some particular weeks in corresponding periods of each year: thus, the amount of notes in circulation was,

| | |
|---|---|
| Jan. 4, 1823 . . . . . | £16,379,530 |
| Jan. 3, 1824 . . . . . | 17,230,799 |
| Jan. 1, 1825 . . . . . | 20,756,948 |

But as this difference may be supposed to be accidental, and of a duration insufficient to influence the value of the currency, let us take the average of the weekly returns for each of the three years, ending April, 1825, *viz.*,

| | |
|---|---|
| April, 1823 . . . | £17,750,473 |
| April, 1824 . . . | 19,011,575 |
| April, 1825 . . . | 20,881,123 |

After these statements, it is presumed that the fact of an increase in the bank-circulation, of three millions, having taken place in the year ending April, 1825, as compared with the circulation in the year ending April, 1823, will not be disputed*.

I am very far from contending that an extension of the issues of Bank of England notes necessarily operates in raising prices, and eventually depressing the exchanges. Much less that it is, as has been sometimes asserted, invariably accompanied by a corresponding increase in the issues of country banks, and in the circulation of private paper: on the contrary, I have, in my former work, adduced instances to shew that a considerable diminution of country bank-notes, and of private paper, and a great fall of prices, have sometimes occurred coincidently with a marked increase of Bank of England notes.

* I have inserted in the Appendix (B), a statement of the monthly averages of the weekly issues for each of the three years, ending April, 1825, as stated in the return from the Stamp Office, dated May 28, 1825.



In such instances it was clear that a reduction of the other component parts of the circulation had taken place in a proportion greatly beyond the increase of Bank of England notes, and that the total of the circulating medium was diminished.

But I had further occasion to shew that if, under circumstances favourable to speculation, and, consequently, to the extension of country bank-notes, and private paper, an extended quantity of Bank of England notes were issued, the rise of prices would be so much the greater and more rapid.

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 had 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.

After the close of 1822, there was a progressive rise in the prices of agricultural produce. This rise may be referred chiefly to the following causes.—

Of corn, the produce of 1822, although very fine in quality, was a bare average in quantity. The glut, which had previously existed, had been abated by the increased consumption consequent on the low prices; and as the harvest of 1823 was not above, and that of 1824 was rather below an average produce, the stock on hand, which had previously been of extraordinary magnitude, was undergoing a gradual diminution. This circumstance combined with a still increasing population, has brought the monopoly created by the Corn-laws into full operation, and a higher range of prices has been the consequence.

Of meat, the rise in price is easily accounted for by the unusually extensive slaughter of cattle and sheep during the great depression of prices three years ago, and by the prevalence of an extensive rot among the latter, in consequence of the extreme wetness of the autumn of 1824, leaving a reduced number to meet the demand*. This rise in agricultural produce afforded the means for an extension of

* That the rise in the price of corn, and of farming stock in general, was the cause rather than the effect of the increase of the issues of the country banks, may, I think, fairly be inferred from the following considerations. While the prices of all other commodities which, without being in deficient supply, rose between the close of 1824, and the first three or four months of 1825, from 30 to 50, and, in some instances, as high as 100 per cent. have fallen in the last three months of 1825, to or below the level from which they rose; the prices of corn, and of meat, have been



the issues of the country banks; and accordingly it appears from the following official

on the average of the corresponding periods, as high in the latter period as in the former. The comparison will stand thus:—

Aggregate average of the six weeks ending—

| | Wheat. | | Barley. | | Oats. | | Rye. | | Beans. | | Pease. | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *s.* | *d.* | *s.* | *d.* | *s.* | *d.* | *s.* | *d.* | *s.* | *d.* | *s.* | *d.* |
| Dec. 24, 1824, | 63 | 6 | 40 | 3 | 23 | 4 | 38 | 4 | 40 | 7 | 47 | 7 |
| Mar. 31, 1825, | 69 | 1 | 38 | 11 | 24 | 8 | 39 | 7 | 37 | 2 | 39 | 9 |
| Dec. 26, 1825, | 64 | 4 | 41 | 2 | 26 | 8 | 44 | 1 | 45 | 9 | 48 | 10 |

Hence it will appear that notwithstanding the great contraction of the circulation of the whole kingdom during the last six weeks of 1825, the price of all grain, wheat excepted, was higher than even during the great speculations of the first three months of that year. The fall in wheat, since that time, may be accounted for, first, by the admission of between three and four hundred thousand quarters of foreign, which were bonded prior to May, 1822, and by the circumstance of the wheat-crop of 1825 having been both early and abundant. As to barley, it is well known that it was artificially kept down, in order to prevent the ports opening for it in August last, and that the subsequent rise, which admitted the importation, was from scarcity overpowering both that effort and the effect of the contraction of the currency which was already felt.

The prices of the best meat in Smithfield market, as quoted from the *Farmer's Journal*, are as follow, viz:

| | Beef. | | | | | | Mutton. | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Highest. | | Lowest. | | Mean. | | Highest. | | Lowest. | | Mean. | |
| | *s.* | *d.* | *s.* | *d.* | *s.* | *d.* | *s.* | *d.* | *s.* | *d.* | *s.* | *d.* |
| Last Quar. of 1824, | 4 | 10 | 4 | 0 | 4 | 5 | 5 | 0 | 4 | 2 | 4 | 7 |
| First Ditto 1825, | 5 | 2 | 4 | 10 | 5 | 0 | 6 | 0 | 5 | 0 | 5 | 6 |
| Last Ditto 1825, | 5 | 4 | 4 | 8 | 5 | 0 | 5 | 4 | 5 | 0 | 5 | 2 |

The

statement, that there had been from that time, to the latest period to which the returns have been made up, a progressive increase in that branch of the circulation.

By an account from the Stamp Office, "of the number of country bankers' notes stamped in each year from 10th October, 1820, to the latest period at which the same can be made up"—the number stamped amounted,

| | |
|---|---|
| In the year ending 10th October, 1822 to . | 2,293,035 |
| ending 10th October, 1823 . . | 2,455,731 |
| ending 10th October, 1824 . | 2,935,081 |
| And in the *half-year* ending 5th April, 1825 | 1,716,387 |

According to the proportions here given of the number of notes stamped, and assuming the common calculations, that the total amount in 1822 was about twelve millions, to be correct, the amount in 1825 would be between

The prices have kept up during the greatest pressure of the contraction of the currency, at nearly the same height as they were during the greatest enlargement of the circulation, and are almost as high as they were on the average of the last war. If this statement does not afford a presumption of scarcity, I do not know what can; and I believe that I may appeal to all those who are conversant with country matters, for the notoriety of the fact, that the stock of cattle, and particularly of sheep, has been deficient in the last two years. The probability now is, that the supply will be increased, from the great encouragement held out by the high prices of those two years.



eighteen and nineteen millions, making an increase in the interval of between six and seven millions.

While this rise of the prices of agricultural produce, and the accompanying increase in the country bank-circulation, were in progress, several other articles of general consumption became objects of speculation.

In some instances it was found that low prices had induced a rate of consumption beyond the ordinary supply, and that a rise in price was the necessary condition of an increase of production, or of a diminution in the consumption. But until nearly the close of 1823, these speculations were partial, of short duration, and mostly on a moderate scale.

There was still some prevalence of the prudence and caution which had been taught and enforced among the commercial classes, by the reverses and losses which they had so recently sustained. Some attention was still paid to the most obvious elements of mercantile calculation; and although there was an evident tendency to increased speculation, the objects for the exercise of it were selected with a considerable degree of care and sobriety. Goods had been imported or bought in the home-market at the lowest prices, and with a practical knowledge of the actual and contingent supply compared with the probable consumption; and manufactures had laid in their raw materials, and erected their machinery on such terms as enabled them to supply both the foreign and home market with wrought goods at a fair profit.

There was enough, however, of commercial enterprise bordering on speculation, to favour an extended circulation of private paper and credit. In this state of things, any addition to the issues of the Bank of England was evidently beyond the wants of the circulation.

At the commencement of 1824, two new and powerful incentives to speculation came into play. The rapid fall in the rate of interest*, as indicated by the rise of the public securities, and the situation, political and financial, of the South American States, which had virtually established their independence, and of which a recognition, partial indeed, but sufficient

* The fall in the rate of interest may be seen from the following comparative statement of the price of the 3 per cent. consols (exclusive of the accruing dividend,) and of the premium on exchequer bills:—

| | 3 per cent. Consols. | Prem. on Exchequer Bills. |
|---|---|---|
| April 3, 1823 | 73½ | 10 to 12 |
| July 1, —— | 80¾ | 21 to 24 |
| Oct. 3, —— | 82½ | 37 to 40 |
| Jan. 1, 1824 | 86 | 51 to 53 |
| April 2, 1824 | 94¼ | 56 to 58 |



for commercial security, had been made by the government of this country.

The fall in the rate of interest, which was, to a certain extent, the effect of the increased issues of paper, became, in its turn, a cause of speculation, and thence of a further increase of the circulation, by the facilities which it afforded for the use and abuse of credit. The rise of the funds had allowed a great profit on the subscriptions to some of the new insurance companies, and other schemes. It had also operated in raising the premium on several of the South American and other foreign loans.

These causes, combined with those which have been before alluded to, were in operation, subject only to occasional and trifling reaction through 1824; and were sufficient to render the circulation excessive, without any increase in the amount of the Bank of England issues. Indeed, the tendency to excess in the circulating medium, and to an exportation of the precious metals, was already indicated by the shipments of bullion to South America which were in the course of being made in the Spring of 1824; and although the exchanges with the continent of Europe did not apparently yield a profit on the export of gold until July of that year, there is reason to believe that there were some operations which kept up the exchanges by the transmission of gold, when an attempt to have remitted the amount in bills might have caused a great and alarming depression.

Unaccountable as it may seem, the Bank of England, instead of taking warning from the indications of pre-existing excess, actually increased its issues in July of that year.

The amount of Bank of England notes in circulation in

| | | |
|---|---|---|
| January, 1824 | - - was - - | £.19,800,615 |
| July, - 1824 | - - - - - - - | 21,660,973 |

But it was reserved for the first three or four months of 1825, to display to the fullest extent the effects of an increased issue of Bank of England notes, coinciding with circumstances favourable to speculation.

The close of each year is the period at which, by annual custom, the stocks of goods on hand and the prospects of supply and consumption for the coming season, are stated and reasoned upon by merchants and brokers, in circular letters addressed to their correspondents and employers. By these circulars it appeared that, of some important articles, the stock on hand fell short of that at the close of the preceding year. From this, the conclusion was more or less plausibly deduced, that the rate of the annual



consumption of those articles was outrunning the rate of the annual supply, and that an advance in price ought to take place; at the same time there were, as in the case of cotton and silk, confident reports of failure of crops, or other causes, which would inevitably diminish the forthcoming supply. Expectation of scarcity was thus combined with actual deficiency in exciting the spirit of speculation. This was directed, in the first instance, to the articles which, upon fair mercantile grounds, justified and called for some advance in price, inasmuch as the rate of the consumption of them had outrun the average rate of supply. The rise, however, which would have been requisite to increase the supply, or to diminish the consumption, would, in most of the cases in question, have been trifling.

But, when speculation is once on foot, with a circulation of the expansive nature of ours, the rise of any one article may not only be in a ratio far greater than the occasion really calls for, but by increasing the aggregate of the circulating medium, may cause indirectly a rise in other commodities.

The impulse, therefore, to a rise being given, and every succeeding purchaser having realized, or appearing to have the power of realizing, a profit, a fresh inducement appeared at every step of the advance to bring forward new buyers. These were no longer such only as were conversant with the market: many persons were induced to go out of their own line, and to embark their funds or stretch their credit, with a view to engage in what was represented to them by the brokers as a certain means of realizing a great and immediate gain.

Cotton exhibited the most extraordinary instance of speculation carried beyond all reasonable bounds. Silk, wool*, and some other

* It is the more worth while to notice the speculations in silk and wool, because some of the consequences of those speculations have been the pretence for calling in question the soundness of the policy of the commercial measures which have been brought forward by the president of the Board of Trade. The complaints of those who arraign the policy in question, are not, however, exactly alike in every particular as regards the two articles. But on one point they agree, viz., in considering that the excessive importations of these articles, which have contributed to depress the exchanges, were the effects of the reduction of duty. Now I am inclined to believe that no part of the excess of importation can be ascribed to the reduction of duty. The detailed reasons for that opinion would be here misplaced, as not immediately bearing on the subject under discussion in the text. One remark, however, is obvious, and, at the same time, decisive on the question, and that is, that a still greater excess of speculation and consequent importation has taken place in cotton, in which there was no alteration of the import duty. The same re-



articles, in which some advance was justified by the relative state of the supply and demand, became the subjects of a speculative anticipation, and advanced much beyond the occasion,

mark applies to other articles which are now very low, such as tallow, flax, timber: in none of these has any alteration of duty taken place; on the other hand, the importation of hemp, on which the duty has been reduced 50 per cent. has been much smaller in this last season, than on the average of the three preceding years. With regard to silk, independently of the charge brought by those who object to the reduction of duty on the raw material, that it tends by inducing excessive importation, to depress the exchanges, the manufacturers complain of the depressing effects produced upon the vent of wrought silks, by the anticipation of the admission of the foreign manufacture in July next, at a duty of 30 per cent. If stagnation and depression were peculiar to the trade in manufactured silk, and could not be distinctly traced to other causes, the complainants might have, at least, a plausible ground for considering the impending foreign competition as the cause of that depression, although this would form no sufficient ground for continuing to tax the consumers of silk, for the benefit of the manufacturers. But how happens it that the same stagnation and depression exist in cotton, linen, woollen, and other manufactured goods, in which there can be no such dread of foreign competition? Is not the same sufficient cause applicable to them all, viz., the excessive importation consequent upon the previous speculative advance of prices? Excessive importation has produced a decline of the raw material, and this again of the manufactured article. The depression in the silk trade is perfectly accounted for by this general cause.

as the event proved, though not in so great a degree as cotton.

Speculative operations embracing so many commodities of great importance in point of amount, necessarily created a large mass of paper, and of transactions on mere credit; thus adding to a circulation already swelled by the increase of country bank-notes. Such were the circumstances under which the Bank of England issued, and for some months maintained in circulation, an increased amount of its notes.

Although this increased issue by the bank, as I shall have occasion to shew more particularly hereafter, 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 (that part of it at least which entered into the vortex of the operations in question) exhibit so great a degree of infatuation, so complete an abandonment of all 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.

The speculative anticipation of an advance was no longer confined to articles which pre-



sented a plausible ground for some rise, however small. It extended itself to articles which were not only not deficient in quantity, but which were actually in excess. Thus, coffee, of which the stock was increased, compared with the average of former years, advanced from 70 to 80 per cent. Spices rose, in some instances, from 100 to 200 per cent., without any reason whatever, and with a total ignorance on the part of the operators, of every thing connected with the relation of the supply to the consumption.

In short there was hardly an article of merchandise which did not participate in the rise. For it had become the business of the speculators or the brokers, who were interested in raising and keeping up prices, to look minutely through the General Price Currents, with a view to discover any article which had not advanced, in order to make it the subject of anticipated demand.

If a person, not under the influence of the prevailing delusion, ventured to inquire for what reason any particular article had risen, the common answer was, "Every thing else has risen, and therefore this ought to rise."

The following statement will exhibit some of the most striking instances of this advance of prices:

| | | | In 1824. | | | In 1825. | |
|---|---|---|---|---|---|---|---|
| | | | s. | d. | | s. | d. |
| Cotton . | Bowed Georgia rose from | | 0 | 9 | to | 1 | 6½ |
| Coffee . | St. Domingo, | ,, | 58 | 0 | ,, | 88 | 0 |
| Saltpetre | East India | ,, | 20 | 0 | ,, | 36 | 0 |
| Spices . | Mace | ,, | 4 | 8 | ,, | 23 | 0 |
| ,, | Nutmegs | ,, | 2 | 8 | ,, | 12 | 0 |
| ,, | Pepper, black, | ,, | 0 | 5¾ | ,, | 0 | 9½ |
| Silk . | Reggio | ,, | 11 | 6 | ,, | 17 | 0 |
| Tobacco | Virginia (ord. and mid.) | | 0 | 2½ | ,, | 0 | 6½ |

For the details of the fluctuations of the three last years, see the Appendix (F.)

While such were the transactions in the market for goods, and while there was an extension of the system of loans to the Transatlantic States, some of them affording little or no security, but almost all coming out at a premium, an enlarged field was presented for the spirit of gambling to enter upon. New mining, insurance, and other schemes, were set on foot on the principle of joint-stock companies, in immense numbers.

The earliest South American mining associations formed in this country, had been entered into with considerable circumspection; the parties with whom they originated, had by local information and connexion, secured comparatively beneficial contracts and priority of the working of some of the most productive mines. These apparent advantages being made



known, attracted numerous persons to buy shares from the original subscribers at a progressively increasing premium. The great gains, or rather premiums in anticipation of gains thus obtained by one or two of these associations, held out an inducement to the formation of new ones.

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.

The operators on the share-market made the new schemes the basis for an enormous extent of gambling. 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 premiums in concerns which ought never to have been otherwise than at a discount, were perfectly astonishing to those who took no part in these transactions.

These operations in shares had an effect like that of the speculations in goods, in adding to the mass of the circulation of paper and credit; and this, be it still kept in mind, concurrently with the addition which had been made to the Bank of England issues.

It is not possible to compute, with even any approach to accuracy, the amount of the addition to the total of the circulating medium by these united causes; but if I were called upon to hazard an estimate, I should conjecture that the whole amount of the circulating medium, including transactions on credit without the intervention of paper, must have been, on the average of the four months, ending April 1825, little, if at all short of fifty per cent. above what it had been in the corresponding period of 1823. The approximation of this estimate to the truth is rendered probable, by the consideration, that upon the principles which determine money prices and nominal values, such a general rise of prices, amounting, in some instances, to upwards of 100 per cent., without even the allegation of any general scarcity, could not have taken place without an immense expansion of the circulating medium. It is also to be considered, that the greater part of the transfers of the original shares in the foreign loans, and new schemes, while the payments on them were light, and while confidence was still entire, were carried on by a medium engendered in a great degree by those very transactions; and that the profits realized or anticipated by the successive shareholders, afforded a fund of additional credit as well as of nominal capital,



with which they might and did appear as purchasers of other objects of exchange.

This sort of medium comes under the description of what is familiarly and expressively denominated a *bubble*, which bursts upon the test of metallic value, or of ultimate payment in the basis of the currency being applied to it. But it does not the less, while it lasts, add to the mass of nominal values and exchanges; nor are the fluctuations arising out of it less real in their influence upon the fortunes of individuals, than the fluctuations arising out of business more strictly mercantile.

Thus far, then, as to the enlargement of the currency in part caused by, and in part causing, a high range of prices.

We now come to that which has constituted the main feature of the fluctuations which are the subject of the present investigation—*the fall of prices.*

It was perfectly clear to any person not possessed by the mania which prevailed last spring, that there was no solid foundation for the general rise of prices which had then occurred, and appeared to be still in progress.

From the information which had been communicated to me by Mr. Jacob, as stated in the Supplementary Section to my last work, it appeared that there had been a great falling off in the annual supply of gold and silver from America. The fact had since been fully confirmed by official accounts of the coinage in the mint of Mexico down to the close of 1823; and, by an official report from the great mining district of Guanaxuato, which stated both the fact, and the cause of the diminished produce of the metals, *viz.*, the abandonment of the principal mines. Now the reduced produce seems to be little, if at all, more than may be considered to be sufficient to supply the consumption for plate, ornaments, *&c.*, and the wear and loss of the coin; so that there was no ground for inferring that any diminution of the value of gold and silver could have yet occurred. On the contrary, there was reason to suspect, from the considerations above mentioned, that the greatly-diminished production since 1810, compared with that of the corresponding antecedent period, must have left a chasm in the aggregate supply, which could hardly fail of being felt in a lower range of metallic prices than had been experienced for many years, before it could be counteracted by the increased produce of the metals, which may be anticipated from the mining projects now on foot. It might, moreover, have been perceived, that as the prices of food abroad, and of most other articles which were not interchangeable with this country, and



consequently not affected by any speculative demand from hence, were not higher than they had been for some time before, and in several instances not so high; a still stronger presumption was afforded of the probability of an increased rather than diminished value of the metals in the rest of the commercial world. Upon this view there could be little doubt that the rise of prices, in every case in which it could not be distinctly accounted for and justified by scarcity, was delusive, and must have been connected with excess of paper. It was evident that this excess of paper could not be retained much longer while subject to the check of convertibility; and that when the efflux of gold should take place, as it soon must, the great contraction of the currency which would ensue, must inevitably entail a fall of prices to, or possibly below, the level from whence they had 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.

How correct this antecedent reasoning was, has been proved by the event. The process by which the fall has taken place is simple and obvious.

As applied to goods—an overwhelming importation and consequent accumulation of stock, and, at the same time, a diminished export; most articles having risen beyond the price which the foreign consumer could pay for them.

As applied to the funds, or public securities, of this country—a rise in the rate of interest, occasioned by circumstances which have been already explained.

As applied to shares in the new schemes—a more accurate appreciation of a greater outlay and of smaller returns than had been before anticipated, and a limitation of the demand for investment in them to such persons only as could afford to depend upon remote contingencies for an income: above all, a general deficiency of means among the subscribers to pay up the succeeding instalments, as they relied, for the most part, upon a continued rise to enable them to realize a profit before another instalment, or upon the same facility as had before existed, of raising money for the purpose at a very low rate of interest.

As applied to foreign loans—the absence of security for some of them, and the rise of the rate of interest in this country, which has the same depressing effect upon all of them.

In these, and in all other cases, in which a great reduction of nominal value has taken place, an inversion of every step, by which it



has been shewn, that the rise of prices and the fall in the rate of interest, became both the cause and the effect of the great enlargement of the circulating medium, will account for a fall of prices* and a rise in the rate of interest †, as being both the cause and the effect of the contraction of the circulating medium.

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 diffi-

| | | | in 1825. | | in Feb. 1826. |
|---|---|---|---|---|---|
| * Cotton . | Bowed Georgia | has fallen from | 1 6½ | to | 0 7¼ |
| Coffee . | St. Domingo | „ | 88 0 | „ | 50 0 |
| Saltpetre, | East India | „ | 36 0 | „ | 23 0 |
| Spices . | Mace | „ | 23 0 | „ | 4 6 |
| . | Nutmegs | „ | 12 0 | „ | 2 9 |
| . | Pepper | „ | 0 9½ | „ | 0 5 |
| Silk . | Reggio | „ | 17 0 | „ | 11 0 |
| Tobacco | Virginia (ord. and mid.) | „ | 0 6½ | „ | 0 3¼ |

† 3 per cent Consols for Money,

| | | Excheq. Bills. |
|---|---|---|
| in November, | 1824. . 96¼ | 60 premium |
| January, . | 1825. . 94½ | 68 |
| April . . | „ . . 93⅛ | 50 |
| July . . . | „ . . 90¾ | 24 |
| October . | „ . . 87¾ | par |
| November | „ . . 84 | 18 discount |
| December | „ . . 75½ | 85 |

culty in obtaining credit, even in the course of ordinary mercantile business*. This is the natural and necessary effect of the reaction from a previous speculative rise of prices, which had been accompanied by an enlargement of the circulation, through the medium of mercantile paper and credit. But in the present instance, the contraction of the currency has been aggravated by the peculiarly slender means with which a great part of the private 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. It appears, by the disclosures arising out of the late disastrous and unprecedentedly numerous failures, that several of the banks had been for some time before, insolvent, and had been kept afloat merely by the confidence of their customers, and the facilities of the money-market, which had accompanied the increase of the Bank of England issues during the high prices. The first breath of

* It is this effect of a fall of prices, which sometimes admits (and has done so in the recent fall) of the Bank of England keeping up the amount of its issues consistently with a recovery of the exchanges.



suspicion, and the smallest reduction of their accustomed accommodation was sufficient to sweep away this description of circulation of paper. It has been discovered, moreover, that several of the country banks, which were solvent, as far as related to the power of eventually liquidating their engagements, had not been conducted on correct banking principles, having either no reserve at all, or a very inadequate one in an available and immediately convertible form.

Some, too, of the London banks had carried on an extensive business with very insufficient available resources, and were, therefore, liable to be run upon on the occurrence of any general discredit. One of the most considerable of these, after struggling through difficulties for upwards of a week, stopped payment early in December. The notoriety of these difficulties in the first instance, and the eventual failure, diminished the resources of the country connexions of this firm, and such of them as had not independent ample and immediately-convertible funds, were under the necessity of suspending their payments; thus adding to the alarm which was already prevalent. The consternation now became general, not only among the holders of local notes, but among depositors, as well in the metropolis as in the country. There was, in consequence, a severe run upon several of the London bankers, of whom three or four, besides the one before alluded to, suspended their payments. The panic was then at its height; nearly seventy banks, in town and country, suspended their payments in the course of the single month of December last. Bank of England notes and gold were almost the only medium which would then be accepted in payment throughout the country; but Bank of England notes, where even they were taken as readily as gold, could not supply the chasm created by the discredit of the local paper, since the bank had ceased to issue one-pound notes; gold, therefore, was required specifically for this as well as for the more general purposes of meeting the demand from want of confidence in the paper. The drain upon the bank coffers for gold, for internal purposes, was, from these causes, so great, that, following a previous drain for exportation, doubts were entertained whether cash payments could be continued. Happily, the public escaped the calamity of a second suspension. The contraction which had taken place in the circulating medium, by the destruction of nearly all the country paper, and the cessation of almost all transactions on credit, and the detention of sums for the purpose of increased reserves by bankers and others, was greater,



perhaps, than had ever before occurred, notwithstanding that an enlarged issue of Bank of England notes had been made through the medium of extended discounts of mercantile bills; and this contraction was at length effectual in occasioning an influx of gold sufficient to place the bank out of immediate danger. In the mean time it had issued a few one-pound notes, to supply the urgent wants of the country circulation.

Under the circumstances which I have here very hastily and imperfectly sketched, a melancholy exemplification has been afforded of the mode in which extremes produce their opposites; in which unbounded confidence, and all the delusion of unfounded anticipation, have been succeeded by distrust and dismay.

To the great facility which only a few months before had been experienced by speculators, projectors, and adventurers of every kind, in raising whatever sums they might require at the shortest notice, and at a low rate of interest, on securities of goods, on mortgages, or on bills of whatever length of date, or on mere personal credit, the most signal contrast was exhibited, of an utter inability to raise money upon any but the best and most convertible securities. Goods became unsaleable, beyond the immediate and urgent wants of the consumers, so that the stocks which are usually held in anticipation of demand, were wholly unavailable to meet the pecuniary engagements of the holders. Thus many merchants having accepted bills for only half the invoice amount of wool, cotton, and silk, coming to their consignment, were unable to realize even that half by sales, or by advances on the security of the bill of lading: and not only no further advances could be obtained by way of loan on the security of goods, but the advances already made were peremptorily called in. Advances on mortgage, owing to the usury law* were, wholly out of the question. From the same

* The operation of the usury law may be distinctly traced in a great aggravation of the distress among merchants and bankers during that critical period. Had it not been for that preposterous law, many individuals would, in all probability have been enabled to obtain immediate relief, by getting bills, which were not within the bank time, discounted at seven or eight per cent.; but those who would have lent on that kind of security, if not limited to five per cent., naturally directed their disposable capital to such modes of investment as admitted of their realizing a larger interest without coming under the operation of that law. Thus numbers who would gladly have given an advanced rate of eight or ten per cent., were driven by an enactment which was absurdly intended as a protection to them, to sell stock or goods at a loss of twenty or thirty per cent. for cash, compared with the price for time. For it is a matter of notoriety that extensive sales were actually made of stock, at that difference; and it is within my own knowledge that sales of goods for immediate money, were made at a still greater sacrifice.



cause, *viz.*, the value of the use of monied capital having risen beyond the rate of five per cent., which has been imposed by law as the maximum, no bills, however good in point of security, were convertible, which had longer to run than ninety-five days, and which did not come within the forms prescribed by the bank, as the rule of its discounts. The different shopkeepers, retail tradesmen, and small farmers, having taken in payment, in the course of their dealings, the notes of the country banks which subsequently failed, were prevented from making their payments within the stipulated periods, to the manufacturers and wholesale dealers; and these, consequently, were unable to fulfil their engagements, or discharge their acceptances to the importing merchants.

It would be an endless task to attempt to follow all the steps by which disappointment and loss and insolvency, have, at the close of 1825, followed the brilliant hopes, the reputed gains, and the unlimited credit, which characterized the early part of the year. Suffice it to say, that these contrasts, inadequately as they are here exhibited, serve to illustrate the process, by which, I have endeavoured to shew, that the factitious increase of a medium of paper and credit, raising the prices of commodities and of the public funds above the level which the metallic basis of the currency can support, must be succeeded, not only by a destruction of all that artificial medium, but by a temporary contraction of the circulation below the level from which that enlargement took place, and by a fall of prices to a rate, in some instances, below that from which they had advanced.

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## SECTION III.

### Upon the Regulation of the Bank Issues.

From the cursory view which I have given of the circumstances connected with these fluctuations, I am inclined to think that there were causes in operation, which, without any increase in the amount of Bank of England notes, would have created a speculative rise of prices, above the level which the proportion between the supply and the rate of consumption really warranted. There might likewise have existed some part of the disposition to hazardous adventure, which has been exhibited in the forming of new projects, and in the trade in shares.

Fluctuations, to a greater or less extent, are inseparable from the course of commercial affairs. The business of production, or supply, proceeds wholly upon anticipation; it is dependent on the seasons, and on an endless variety of casualties; while consumption, or demand, may be influenced by changes of habit, fashion, legislative enactments, and by political events. The contingencies which may excite a spirit of speculation and enterprise on the one hand, and disappoint expectation and defeat calculation on the other, are therefore almost innumerable.

But assuredly, that is a most vicious system of currency, which instead of mitigating, aggravates the evils that attend all violent fluctuations. Such, however has been the system of our currency. We have seen that precisely at the time at which there ought to have been a contraction, there was an extension of the Bank of England issues, increasing, both directly and indirectly, the mass of the circulation, and promoting the extravagant speculations which have so distinguished the period under consideration. Seeing this, we are naturally led to inquire upon what system the directors have proceeded, in enlarging their issues coincidently with a tendency from other causes, to a speculative rise of prices; when such an enlargement of the circulation would necessarily extend the range of the rise, and by entailing the necessity of a contraction, would increase the violence of the ultimate fall.

The constant language of the bank directors, during the restriction, as appears by their evidence before the Bullion Committees of 1810 and 1819, was, that the criterion by which they judged of the proper amount of their issues, was the greater or less demand for discount, upon *bonâ fide* bills, at the legal rate of interest, *viz.*, five per cent. Consistently with this criterion, the inference is clear, that



when, even after a reduction of the rate of the bank discount to four per cent., there was a very small demand for discounts, and the market-rate of interest was declining, the circulation might be considered as sufficiently full, and that, if it did not require contraction, it did not at least admit with propriety of increase.

There was, however, not only an absence of demand for discounts at five, or even at four per cent., but there were other general appearances, which I have before alluded to, of a fulness of the circulation of paper. These appearances which might have given rise to suspicion and precaution, on the part of those who had the regulation of the main sources of the supply of paper, were converted into a certainty in 1824, and the first three months of 1825: and yet this last period was, as we have seen, that, in which the utmost extent of issues was maintained.

It may, however, be said, that the price of gold ought to be the only guide to the directors in regulating their issues; and judging by this test, the price having been mostly at 3*l.* 17*s.* 6*d.*, and never having exceeded 3*l.* 17*s.* 10½*d.*, it may be contended that there has been no symptom of excess. But those who urge this objection, neglect the consideration that, since the passing of Mr. Peel's Bill, which has removed all obstruction whatever to the exportation of coin, the market-price *cannot* exceed the mint-price of gold, as long as the bank is solvent, for so long will coin be demanded from the bank in preference to buying bullion at the smallest advance upon the mint-price of 3*l.* 17*s.* 10½*d.* per ounce. It was only the legal disqualification of the coin for purposes of export, or injudicious purchases by the bank, which could, before 1797, have admitted of bullion being sold above the mint-price.

The only test of excess, therefore, is the tendency to an efflux of the metals; in other words, the exchanges.

I have before stated what were the indications of the exchanges in the spring of 1824. I have mentioned that an efflux of the metals to South America was then taking place, and that there was reason to believe that several remittances of bullion had been made to the Continent, even whilst the exchanges were nominally at, or above, par; but in July, 1824, there was a considerable decline in the Continental exchanges, and an evident efflux of gold. Here, then, was a warning not to be mistaken, even supposing the amount of the circulation justifiable down to that time. But instead of attending to this infallible cri-



terion of excess, the directors made, at that precise time, the great increase to their issues, compared with the preceding January, which has been stated in the previous section, when a drain upon their treasure had actually begun.

Down to the beginning of April, 1825, the period to which the latest returns of the Stamp Office reach, there was no diminution of bank-notes in circulation. The comparative amount stood thus:—

| | |
|---|---|
| April 5, 1823 . . . . . | £16,845,840 |
| April 2, 1825 . . . . . | 20,328,979 |

Even in March last, some of the evils which were impending, and have since burst upon us, might have been averted. A resolute reduction of the bank circulation, and an advance of its rate of discount to five per cent. might, at that time, have done something at least in putting the country on its guard. Such a contraction might, indeed, have hastened the fall of prices, but it would have prevented, or at least abated, the further efflux of gold, and the necessity for so great and violent a contraction of the circulating medium, as has since taken place. A diminution of the bank issues, was, moreover, called for at that time, merely as a measure of precaution against the contingency of a bad harvest, which, by opening the ports for corn, would inevitably by itself have occasioned a great drain on the bank coffers. But the directors seem not to have been aware of the possibility of danger, until they were on the brink of the precipice.

It still remains that we should inquire more accurately into the views which could induce the bank directors to extend their issues at such a time, and under such circumstances.

In all the cases of over-issue by the Bank of England, from that of the year 1795 (which may, I think, be clearly proved to have been the remote cause of the inability of that body to meet its engagements in 1797), down to the time of the passing of Mr. Peel's Bill, one or other of two pleas, has always been studiously put forth, not only as a justification, but as a claim of merit. One of these pleas is, that the bank has aided the public service by advances to government, when the state of credit, or a pressure on the money-market, rendered a resort to open loans, for the whole of the government expenditure, inexpedient. The other is, that accommodation has been afforded to trade by a liberality of discount, when the mercantile interests had no other resource to rely upon. On neither of these grounds could any extension of issues, beyond the amount which was consistent with



preserving the conformity of the paper to its standard, be justified.

But in the recent instance of the extended issues, in 1824 and down to the spring of 1825, no plea of state necessity, nor any pressing demands for accommodation to the trade of the country, can be urged in defence of the measure.

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 that the conversion of the four per cents. into three and a half per cents. was facilitated by the bank undertaking to advance to government between five and six millions of the four per cents. paid off in October, 1824, which the holders would not convert into three and a 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, through an increased issue 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 that 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 over-issue. 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 financial 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 re-using to take any part in the operation, even although, by such refusal, that notable scheme which was neither more nor less than a virtual nversion of the operation of the sinking-fund, had dropped to the ground. Indeed, 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 been derived from a view to the danger, however remote, of being obliged to have recourse to a second suspension of that convertibility.

The true reason for the enlarged issues I suspect to have been, that the coffers of the bank were, at that time, (the beginning of 1823,) surcharged with gold to an inconvenient amount, greatly reducing the profits, and rendering doubt-



ful the permanence of the existing rate of dividend on bank stock. To extend its paper, and diminish its stock of gold, the following means presented themselves :—

1. To buy exchequer-bills in the market.
2. To reduce the rate of mercantile discount.
3. To adopt new modes of accommodation to individuals, in order to induce them to borrow at 4 per cent.
4. To purchase the pension annuities, of which the project offered itself at that time.

The first of these means held out no sufficient inducement; the rate of interest on exchequer-bills, after the payment of the premium, being little above two per cent. per annum. Besides, as the bank then professed not to sell exchequer-bills, they did not form a readily convertible security; or, if sold, the very emergency requiring the sale might occasion a difference in the premium or an actual discount sufficient to defeat the object of getting *any* interest.

The second was tried by a reduction of the rate of discount from five to four per cent.; but this reduction taking place after the current rate had fallen still lower, was attended with little, if any, extension of application for discounts. The experiment of a still further reduction might, indeed, have been made, but in order to make it effectual, it might have been necessary to push the reduction to a very low rate, which could only have been done with safety, by coupling the measure with a notice to the public that the rate would in future be subject to frequent variation.

But a variable rate of interest would have been very unpalatable to such of the directors as stood committed, by their evidence before the Bullion Committee, to opinions of a very peculiar description, relative to the rate of interest; opinions quite irreconcilable with a measure of this kind, and it was probably, therefore, never suggested, and much less ever seriously entertained.

The third was adopted by the resolution to advance money on stock, and on mortgage, at four per cent. The advance of money on stock was unobjectionable, if coupled with a limitation as to the amount to be advanced to any individual, (such limitation being expedient, for reasons similar to those for which the amount of bills discounted by the bank for particular houses, is limited,) and also with a limitation of time for the repayment. But this mode was not likely to lead, nor did, in fact, lead to any great extension of bank paper, as long as the market-rate of interest was below four per cent.; and soon after the market-rate rose above four per cent. the practice was discontinued.



The advance of money on mortgage was a measure altogether unjustifiable. The governor stated, on the 22d of September last, that the amount so advanced did not exceed £1,400,000. This amount however, inconsiderable as it may seem, forms no small proportion of that part of the bank circulation, which, being over and above the advances to government, was that alone, through the medium of which it could conveniently regulate its issues. To render this amount, therefore, likewise inconvertible, was at variance with every sound principle of banking.

The fourth, combining the amount of advance to which it pledged the bank *, with its imper-

* Advances made by the bank against an annuity of 585,740*l.*, bought by them on the 27th, March, 1823, being part of 2,800,000*l.* per annum, for forty-four years, in names of commissioners, for defraying the charge of naval and military pensions, as per Act passed 1822.

| | | |
|---|---|---|
| 1823. | April 15, | £885,719 |
| | July 15, | 1,225,000 |
| | Oct. 20, | 67,870 |
| 1824. | Jan. 15, | 1,175,000 |
| | April 15, | 67,870 |
| | July 15, | 1,175,000 |
| | Oct. 20, | 27,870 |
| 1825. | Jan. 15, | 1,135,000 |
| | April 15, | 27,870 |
| | July 15, | 1,130,375 |
| 1826. | Jan. 15, | 1,097,870 |
| Payments to Jan. 1826, | | 8,015,444 |
| To pay, to July 1828, | | 5,073,980 |
| Total payments, | | 13,089,424 |

Annuities received in half-yearly payment:—

| | | |
|---|---|---|
| 1823. | Oct. | £292,870 |
| 1824. | April, | 292,870 |
| | Oct. | 292,870 |
| 1825. | April, | 292,870 |
| | Oct. | 292,870 |
| Received, | | 1,464,350 |
| To receive up to July, 1828, | | 1,464,350 |
| Total Receipts, | | £2,928,700 |

fect convertibility*, was the most objectionable of all the modes enumerated; but as it appeared to facilitate the attainment of the immediate objects in view, it was too tempting to be resisted. It presented the means of investing a large sum at a rate of interest somewhat beyond the market-rate; and it enabled the

* It has been said, in favour of this purchase, that the annuities were saleable, and that, according to the prices of other annuities, they might have been sold at a profit soon after they were taken by the bank. But those who urge this justification, do not consider that all speculative purchases, if made to a large extent, raise the market, and appear to afford the means to the speculators of realizing a profit: it is only, however, their own purchases which produce the rise, and the moment that they attempt to realize, particularly if they have bought on credit, they most commonly find that they must submit to a loss. If the bank had offered the annuities for sale, with a view to contract its issues, the very first step towards that object would have counteracted itself. The extended issue produced the rise in price; a contraction would, of course, depress it. If, however, they were readily convertible, why were they not sold, when it is contended that they might have been, and when it had become evident that the payments for them were likely to lead to an enlargement of issues beyond what the circulation could bear? The alternative, therefore, is clear, that either the purchase was objectionable, for the reasons which I have stated, or that the purchase having been made, the annuities ought to have been sold with a view to prevent the pressure of advance which has since been so inconveniently felt.



bank to extend its issue of paper, and thus to get rid of its surplus gold without resorting to such a reduction in the rate of discount as would have been requisite to accomplish the same object.

Even if it had been in this view a desirable investment, the precaution ought to have been taken as soon as the increased issues for payments upon the purchase produced an unfavourable effect on the exchanges, to have re-sold the annuities, or to have raised the rate of discount as a means of withdrawing the redundant paper. Indeed, in as far as relates to a regulation of the issues on correct principles, the rate of discount ought to have been earlier reduced, and again earlier raised.

One of the great difficulties which the directors have experienced in the regulation of their issues, has arisen from the uniformity of the bank rate of discount, while the market-rate of interest has been subject to frequent and sometimes great variations. The consequence of this has been, that when the market-rate has been above the rate charged by the bank, the applications for discount have been so numerous and urgent, that the issues through that medium have tended to an excess; while, on the other hand, when the market-rate has fallen below the bank-rate, the channel for keeping up the circulation of paper through the medium of discount, seems almost wholly to have failed. Thus, before the restriction on cash payments, the range was from $3\frac{1}{2}$ to $\frac{1}{4}$, according to the scale which is inserted in the Appendix*. And, during the restriction, the amount of discounts is known to have

* The amount of discounts, as well as of the cash and bullion in the coffers of the bank, has hitherto been studiously kept by the directors from the view of the public. They were, indeed, obliged to furnish to the Parliamentary Committees in 1797, 1810, and 1819, some data upon which to form an opinion of the degree of variation which had occurred under the above heads, but this information was given in as mysterious a form as possible; *viz.*, that of a scale. The scale which was given in to the Lords' Committee of Secrecy in 1797, transpired and appeared in some of the newspapers of that period. In the *Monthly Magazine* for October 1797, that scale was published, together with a key by which it was solved. The reasoning from which that key was derived seems to be conclusive. At any rate the solution must be so near the truth as to be sufficient for all purposes of general inference. The statements connected with this scale were copied into Mr. Allardyce's book on the Bank Affairs in 1798, and I have not, on any occasion, heard their general correctness called in question: I, therefore, assume that they are accurate in the main, and as I have occasion in the course of this discussion to refer to them, I insert them in the Appendix D., with an additional table, in which I have applied that key to the solution of such part of the scale as was not already computed into money.



varied very considerably. In 1810, the notes issued through that medium, must have formed a very large proportion of the whole circulation: while there is reason to believe that they fell off in 1817 to a most insignificant amount. It must be evident, therefore, that unless there was a compensation in the amount of the bank issues through other channels than those of advances to individuals by way of discount or loan, there must occasionally have been an enormous variation in the amount of the circulation of its notes. The only other channels are those of advances to government (or what would come to the same thing, the purchase of government securities), and the purchase of bullion. Supposing therefore that the advances to government, or repayments from it, do not coincidently in point of time, counterbalance in amount the great occasional variations of the amount of issues through the medium of discounts, there must be a corresponding variation either in the amount of notes in circulation, or in the amount of treasure in the coffers of the bank.

But, it has so happened that, in some instances, the advances to government, and the repayments by it, instead of being in compensation of the opposite tendency of the amount of issues through the medium of discount, have been in the same direction: and that it should be so, in the majority of instances, is obvious; because, when the market-rate of interest is high, there must be an increased disposition on the part of government to apply to the bank for accommodation; as, on the other hand, when it is low, to take the opportunity of paying off previous advances. The only mode of obviating the inconvenience hence arising, and of regulating the circulation upon correct principles, would have been by frequent, and sometimes, great alterations in the rate of discount.

Of this influence of the market-rate of discount compared with the rate charged by the bank, on the amount of its issues, the directors appear not to have been aware; or, if aware, not to have acted upon that conviction. From 1820 to 1823, by keeping the rate of discount above the market-rate, they so reduced the amount of their issues through that channel, that, as has already been observed, they experienced a great and inconvenient accumulation of gold, for, in fact, they had no other medium than the purchase of bullion for keeping up the numerical amount of their circulation. Then, and not till then, when the accumulation was nearly as great as it could possibly be, and when the market-rate of interest had fallen



considerably, did they take any measures for reducing the amount of their treasure: But they seem to have been perfectly unconscious of the violent effect which the measures they did take, were, under the circumstances, calculated to have upon the rate of interest; and not to have known that when the influx of the metals had already reached such a height, there was some danger, lest in applying a great force to prevent more of them from coming in, they might not only overpower any tendency to a further influx, but occasion too strong a tide in an opposite direction.

There is, in the situation of the Bank of England, in 1789 and 1790, and the measures then adopted, and the consequences of them, so great a degree of similarity to the more recent state of the circulation as connected with that establishment, that it may be desirable to notice one or two particulars relative to that period.

The advances of the bank to government had been reduced from nearly ten millions in 1782, to little more than seven millions in 1789 and 1790; and its discounts, which had been as high as four millions in 1785, did not exceed one million.

The following is a comparative statement of its treasure, computed from the scale in the Appendix, and of its issues of notes:—

| | Cash and Bullion. Average of the four quarters. | Notes. On 25th Feb. |
|---|---|---|
| 1789 | 10,024,000 | 9,905,240 |
| 1790 | 10,097,000 | 10,217,360* |

This was a position in which it could not suit the bank to remain, seeing that its circulation of paper was entirely unproductive, or rather carried on at the loss of the expense of the establishment for conducting that branch of its business†.

* It is not improbable, that some part of this overflow of treasure in the bank, was occasioned by the efforts of the country banks, which were then greatly increasing in numbers, to extend their paper circulation to the exclusion of so much coin.

† The accumulation of gold in the bank coffers from 1820 to 1823, has been very generally ascribed to a determination on the part of the bank directors to buy as much gold as they could, with a view to the resumption of cash payments; and the fall of general prices which was assumed to be the consequence of that absorption of gold by the bank, was therefore charged to the operation of Mr. Peel's Bill. Now, there appears to be no reason to believe, that Mr. Peel's Bill had any more to do with the accumulation of gold by the bank in 1821 and 1822, than it had with that in 1789 and 1790. In both cases, the same general cause operated; *viz.*, that the bank-rate of discount being kept greatly above the market-rate, the power of issuing bank-notes, through the medium of advances on mercantile bills, was reduced to next to nothing. There was a repayment, indeed, by government, of five millions, in pursuance of the provisions of Mr. Peel's Bill; but there was likewise a repayment of nearly three millions (a large sum in proportion to the whole circulation) in 1786, and it is not at all clear that a repayment would not have taken place since 1819, although it had not been prescribed by that Bill.



In order to get out of a situation so disadvantageous, the directors were under the necessity either of reducing their rate of discount, or of extending their advances to government.

An opportunity for resorting to the latter expedient presented itself; and by their advances to government, they were enabled, in 1791, to increase their issues by about 1,500,000*l.** Contemporaneously with, or rather preceding, this addition to the circulation of the Bank of England notes, there was a great increase of the issues of the country banks.

This great factitious increase of nominal monied capital coming into competition with the pre-existing real monied capitals seeking investment, operated in reducing the rate of interest, and accordingly the market-rate of discount of good bills fell to three per cent. The artificial incentive to speculation thus afforded, coincided

* Amount of bank-notes in circulation:—

| | |
|---|---|
| 25th February, 1790 | 10,217,360 |
| 25th February, 1791 | 11,699,140 |

with circumstances which were of themselves calculated to excite a spirit of mercantile enterprise. The consequence was, a very general extension of private paper and of transactions on credit, operating as cause and effect in a great rise in the price of colonial produce, and of many other commodities*. While the rise in the price of commodities induced an increased import and diminished export, the reduction in the rate of interest, indicated by the rise in the three per cent. consols to 97¼ in March, 1792, forced capital abroad in the way of extended credits to the foreign merchants, and of occasional investments, even at that time, in foreign government funds. There was great extravagance in the direction of British capital, both at home and abroad; and, as invariably is the case in times of speculation, the country was, both in and out of Parliament, represented to be in a state of unexampled prosperity.

The treasure of the bank then flowed out as fast as the directors could wish. The exchanges† fell in the beginning of 1792 sufficiently to admit of an efflux of bullion.

* Corn was not among the number, as the season happened to be abundant.

† The Hamburg exchange fell to *34s. 3d.*, and the price of foreign gold rose to *4l.*, and of Spanish dollars to *5s. 5d.* The reduction, therefore, of the treasure of the bank, from the computed amount of 9,588,000*l.* which it stood at in September, 1791, to 6,255,000*l.*, in September, 1792, seems to be accounted for by supposing an exportation to that extent. The subsequent drain of nearly three millions more in the six months following, (the exchanges having then turned in our favour,) appears to have been absorbed into the country circulation, to make good the chasm occasioned by the discredit of the local notes.



This superfluous paper and credit being brought, after an interval of more than twelve months of speculation and of artificially-raised prices, to the limiting principle of final liquidation in gold, at its standard value in the rest of the world, was swept away at the close of 1792 and the beginning of 1793. The destruction of the redundant and factitious circulation, was accompanied by a commercial crisis so violent, and in so many points resembling that which we have just now experienced, that a reference to historical notices of it, will, perhaps, be read with interest; and I accordingly insert in the Appendix (A) some extracts of such notices.

## SECTION IV.

Upon the Difficulty of regulating a Paper Circulation.

WE have seen that one of the great difficulties attending the regulation of the bank issues, with reference to the proportion of its paper to its treasure, has arisen out of the endeavour of the directors to preserve a uniform rate of discount, while the market-rate is liable to great fluctuation. But, although the management of the circulation of paper by the bank has been, according to the view which I have ventured to take of it, any thing but judicious, I am prepared to allow that the regulation of the issues of such an establishment as the Bank of England, supplying, as it does the whole of the paper circulation of the metropolis, and the basis for a large proportion of the paper circulation of the rest of the kingdom, is a matter of great difficulty*.

* Part of this difficulty arises out of the nature of the country bank circulation. The issues of country bank-notes seem to be dependent on circumstances not immediately under the control of the Bank of England. I have, on a former occasion, stated instances, in which there was a considerable growth of country bank-notes, without any coincident, or immediately preceding, increase of Bank of England notes; and other instances in which there has been a considerable reduction of the country circulation, notwithstanding an increase of the bank issues. At the same time, we have seen, that if, coincidently with circumstances favourable to the growth of country paper, the Bank of England should increase its issues, the extension of the former will be the greater and more rapid; and the reverse, of course, under opposite circumstances. The *indirect* effects, therefore, as well as the *direct* effects, on the rate of interest and the prices of commodities, of any given enlargement or contraction of the circulation of the Bank of England may be greater than might be inferred from the mere difference in the numerical amount of its issues.



There is, indeed, so much nicety requisite, in regulating a circulation of that kind, and of that magnitude, so as to avoid the danger of frequent and great variations in the value of the currency, in the rate of interest, and in the state of credit, that I have great doubts whether any person, or body of persons, would be competent to the task; nay, more, whether a system of currency consisting of so large a proportion of paper-money, is not of necessity liable to great and preponderating evils,—evils quite sufficient to outweigh the consideration of the cheapness of such a medium of exchange.

It remains for us to inquire whether the bank directors, or any other body of men, can have any criterion by which they can decide with accuracy, at any particular period, that an issue or a contraction of their paper will or will not be excessive, and by which they can keep the currency at a uniform value.

It will be urged that the state of the exchanges affords this criterion.

That the exchanges do indicate excess or deficiency in the circulating medium is perfectly true, and that such indication of excess existed in the summer of 1824, when the bank increased, instead of diminished, its issues, has already been stated.

But it still is a question, whether the exchanges indicate quickly enough, and with sufficient precision, the degree of excess or defect of the circulating medium, and the consequent degree of the tendency of gold to flow out, or to flow in, so as to admit of preparation on the part of the bank, to counteract that tendency, and to proportion the effort to the occasion.

The facts which have been already referred to, connected with the recent state of the circulation, leave no doubt* that it was in excess, as

* This expression strikes me upon consideration, to be somewhat too unqualified. All that I mean to convey is, that from an attentive observation of the circumstance connected with the state of the circulation, there is, in my opinion, strong ground of presumption of an excess having existed for some months, prior to the summer of 1824, when the exchange with Paris, the most delicate of the tests, first indicated such excess. One of the strongest of the grounds for this presumption is, that there was a decided increase in the amount of that part of the circulating medium in this country, which consists of Bank of England and country bank notes, and of mercantile paper and credit, for nearly a twelvemonth before that period; while it is now in as full proof as the nature of the subject admits of, that gold had not experienced any diminution of value from increased quantity in the rest of the world during that interval. Another ground for the same inference is afforded by the circumstance, that the contraction which has been requisite in order to restore the value of the currency, has, according to all obvious means of calculation, reduced the circulating medium below what it was in the early part of 1823, from whence the first increase may be dated.



compared with the value of gold in the rest of the world, for several months before the excess was manifested by the exchanges, or by any decided efflux of the metals. There was ground indeed for precaution on the part of the bank, according to the opinions of the directors avowed on former occasions, but there was none by the generally-acknowledged tests.

The explanation of the fact of the existence of excess, by which I mean, such an enlargement of the circulation through the medium of paper, as cannot be maintained at a level with the value of gold in the rest of the world, to which we must eventually conform, appears to be this :—

The principal medium through which the exchanges are affected, is that of prices. Such of these as relate to objects of interchange with other countries, if raised beyond the bullion prices of those countries, will induce an increased importation and diminished exportation of those commodities. But it not unfrequently requires an interval of some length, before the commodities which are interchangeable with other countries are affected by an excess in the circulation, in such a degree as to produce the effect of increased import, and diminished export, *&c.** ; and even that effect may not immediately operate on the exchanges. There may be counteracting circumstances. The

* Where a prohibition of import of articles of extensive consumption exists, especially when that prohibition extends to so important an article as corn, an interval of greater length may elapse before the level of a currency, which has been disturbed by excess, can be restored, than where there is a perfect freedom of trade. But it is probable that the excess could not have taken place at all, and certainly not to the same extent, if corn had been importable at a moderate duty in 1823. The price would not have risen as it did, giving occasion, as has been shewn, to an increased circulation of country paper; neither would it have been liable to the great fall, which, after an interval of famine, is, under the present system, inevitable.

Our corn-laws, therefore, besides all the other evils which they produce, aggravate the fluctuations to which the value of the currency is liable.



excess may have communicated itself in an increased medium of credit, to the countries with which we happen to have the greatest interchange*; and it has so happened, that in some remarkable instances this has been the case, as in 1818, and very particularly in 1791. It is only upon the final liquidation in gold, of the engagements connected with the extension of this international circulation of credit, that the effect one way or the other upon the exchanges is produced; and this effect will be so much more violent, as the previous miscalculation

* The effect of an extended circulation of paper and credit in a country like this, in producing while in a state of increase, an extension of credit in the places abroad with which we have the most considerable dealings, has hitherto been overlooked or not sufficiently attended to. Such extension of credit has a temporary influence in raising or maintaining the price of commodities abroad, so as to admit occasionally of an increased demand for exports from hence in the face of rising prices; the demand in this case operating as one of the causes of the rise. In more general terms the extended credit given in times when confidence prevails, by the merchants and manufacturers of this country to those abroad, operates temporarily in reducing the value of the currency of those parts. It is this circumstance which communicates the overtrading of this country to places abroad, and when the revulsion happens, produces a contraction of the circulation there which temporarily diminishes the demand for exports from hence, notwithstanding a contraction and fall of prices on this side.

upon the value of the currency has been of long duration.

It is therefore impossible to estimate with any approach to exactness, the force and permanence of the causes which may produce an influx or an efflux of the precious metals, even when the direction of the tide has manifested itself; and accordingly the degree of the increase or contraction of the bank issues necessary to counteract the one or the other, cannot always be determined.

In some instances it has been found that an efflux of the metals could not be stopped even by a contraction of the bank circulation to an amount below that at which it stood before the enlargement, which produced the efflux, was made.

The drain, nearly to exhaustion, of the bank treasure in 1783, took place, notwithstanding the immense proportional reduction of the amount of its issues coincidently with the progress of that drain of which I here give the statement.—The computed treasure compared with the issues stood thus:

| | Cash and Bullion computed from the Scale. | Bank Notes. |
|---|---|---|
| March 1782 | 3,648,000 | 9,160,470* |
| Oct. 1782 | 2,332,000 | 6,371,300 |
| March 1783 | 1,261,000 | 7,338,230 |
| Oct. 1783 | 473,000 | 5,894,520 |

* The amount of bank notes here stated, is extracted from the Appendix to the Report of the Lords' Committee of Secrecy in 1797. Of the circulation previous to 1782, I have not been able to find any connected account for an uninterrupted series of years. Mr. Samuel Thornton, in his evidence before the Lords' Committee in 1819, p. 75, states, that in 1779 the amount of notes was 6,000,000, and that in 1780 they were increased to 8,400,000.

It may be worth while here to remark, that assuming the above amounts to be correctly stated, an increase which eventually proves to be an excess, may be in progress for some time before it produces such an effect upon the exchanges as to occasion a drain upon the coffers of the bank, for it appears that the amount of treasure was at its medium nearly two years later, when there was a still further increase of notes.



This contraction of the currency was attended, as might have been expected, with a great rise in the rate of interest; the best criterion of which is, that three per cent. consols which had risen in March 1783, immediately after the peace, to 68, fell by the close of the year to 58, eventually to 54, and continued under 60 till September 1785. The omnium of a loan concluded in 1783, after having been at a premium of upwards of eight per cent. fell afterwards to below par. The rate of discount on mercantile bills, being limited by law to five per cent., affords of course no criterion; but all property yielding a revenue fell so much, as to indicate an extraordinary increase in the rate of interest. "Every one (says Chalmers, in his Estimate, p. 186) must remember how impossible it was for individuals to borrow money on any security for any premium till towards the end of 1784."

In a subsequent, and more remarkable instance, *viz.*, from 1795 to 1797, the contraction of paper, in order to arrest the progress of the drain of gold from the bank, was still greater *.

The comparative amount of bank-notes stood thus:—

| | | | |
|---|---|---|---|
| February 26 | .. | 1795 ... | 12,968,707 |
| " " | .. | 1797 ... | 8,167,949 |

This contraction, exceeding four millions and a half of bank-notes, which reduced the circulation below the average of what it had been in the preceding eight years, was accompanied by a great rise in the rate of interest, and proved insufficient to avert the catastrophe of suspension. The price of the public funds

* By the following comparative statement of the amount of the bank treasure, according to the scale and computation from it, before referred to, the drain was upwards of six millions and a half.

| | Amount of Treasure. |
|---|---|
| March 1795 ...... | 7,940,000 |
| Feb. 1797 ...... | 1,272,000 |



fell, as is well known, in an extraordinary degree; but as the fall of the funds, and the rise of the market-rate of interest, were connected with the political events of that time, no accurate estimate can be formed of the effect which can be distinctly ascribed to the contraction of the circulating medium which then took place. The bank directors continued, indeed, to discount at the rate of five per cent., but they took only a very limited proportion of the bills offered. This limitation was in its operation equivalent to a great rise in the rate of interest*.

* The circumstances connected with the variations in the value of the currency between 1782 and 1797, had struck me so forcibly, that it was my intention to have adverted to them in my former work. With that view I had drawn up a sketch of the reasoning which the facts connected with that period suggested to me; but I was induced to omit the insertion of it, because to have done justice to the argument, required a reference to statements and explanations which would have led me further than was consistent with my original plan. I now, however, give in the Appendix (A 2.), the fragment exactly as it was written in 1822, because in that form it is most strictly explanatory of the point of view in which I then considered the bank restriction as operating on the value of the currency, and because it will be equally applicable to correct the very erroneous opinions which prevail, as to the exemption of the currency from fluctuations in value, during the interval which immediately preceded the bank restriction.

If then, under circumstances occasioning a drain on the bank coffers, so great a contraction, attended with so great a rise in the rate of interest, is requisite, it may be inferred from analogy, that in order effectually to prevent an inconvenient influx under the opposite circumstances, a proportionate enlargement of issues and reduction of the rate of interest would be necessary.

But the difficulty is not so much in preventing the gold from coming in, as in knowing the strength of the tide with which it sets in, and the precise level at which its force is likely to be spent. In endeavouring to prevent an influx by increased bank issues, the opposing power may be insufficient; in which case, the gold, after having come in, is to be sent back, at the hazard of creating too violent an efflux; or, the opposing power may be too forcibly applied, and then, not only will the influx be prevented, but a drain will be created, which, operating by the supposition on a small stock of bullion, endangers the complete exhaustion of the bank. And, as I have before observed, I know of no criterion by which the exact degree of the increase of the issues requisite can be ascertained.

For instance, the proportion of enlargement in 1821 and 1822 requisite, under such circumstances, might have been to the extent of five or six millions, and this enlargement might have been consistent with getting a stock of bullion to the amount of one-half of what the bank eventually did get, and consistent likewise with not causing any immediate depression of the exchanges below par. But, from what we have since seen, it is clear that such an increased amount of paper could not have been kept in circulation; and the necessity for a contraction would have arisen so much earlier and more urgently. I say, so much more urgently, because, the bank having more paper out and less bullion in its coffers, a larger proportion of the contraction must have been effected through the medium of the rate of interest, inasmuch as less of its paper could be cancelled against the demand for gold. It was only in consequence of having so large a treasure when the drain commenced in 1824, that the bank was enabled to stand the further progress of the run in 1825, without a great reduction of its issues; and even that proportion of treasure was hardly sufficient to place its solvency out of danger. It was at last saved from exhaustion only by the sudden and unprecedentedly great contraction of the whole amount of the currency by the failures of the country banks; and a considerable part of that very contraction was in fact produced through the medium of the great rise in the rate of interest, which prevented many of the bankers from borrowing to the extent to which they had been accustomed, and on which they had relied.

If a great and sudden variation in the rate of interest* be, as I think it demonstrably is, an inevitable effect of extremes such as I have described, and such as unfortunately the revulsion which the commercial part of the community is now suffering proves to be of more than barely possible occurrence, there must be a proportionate variation, upon every intermediate degree of enlargement or contraction of the circulating medium.

The result of the preceding reasoning upon the regulation of a paper circulation, even with a considerable amount of bullion and coin in the country to meet emergencies, seems to be this:—

That the exchanges do not always indicate,

* It is distinctly to be understood, that in speaking of the rate of interest as being powerfully affected by the regulation of the bank issues, with reference to the state of its coffers, I mean only the temporary effect which is produced during the progress of the forcible extension or contraction of the paper. When that effect is completed, the rate of interest will be the same, whether the value of the currency be at a higher or a lower level.



until after some interval, more or less* according to circumstances, an excess or deficiency in the circulating medium.

That when the exchanges do indicate an excess, or deficiency, they do not indicate the force of the tide in which the metals are flowing in or out.

* The interval may be greater or less, according to the degree of publicity which attends the issues of Bank of England and country bank notes. If any great alteration in these should take place, under circumstances which do not obviously require or account for it, the operators on the exchanges if they were apprized of it, might anticipate the effects which would otherwise be felt only through the medium of general prices. So upon the occurrence of any other event which is publicly known, and which may be expected ultimately to affect the exchanges, such as a bad harvest, or a change in the aspect of politics, the effect is anticipated and acted upon.

It is to be observed, however, that the business of the mere exchange operators is confined to the calculation of the profit to be made by the actual state of the exchanges; just as is that of the jobbers on the Stock Exchange to take the mere turn of the actual market; it is not a necessary nor even a regular part of their business to speculate on remote contingencies, and when they do so speculate, they are liable occasionally to great miscalculation as to the ultimate tendency of any given event.

In the absence, however, of any public ground of anticipation, the rule holds good, that it is through the medium of a rise or fall of prices of objects which are interchangeable with other countries, that the exchanges are affected

That, consequently, the bank-directors have no sufficiently accurate criterion by which they can regulate their issues, so as constantly to preserve the paper circulation at the level which a gold circulation would preserve, with respect to the currency of the rest of the world.

That this being the case, when an influx or efflux of the metals begins, and when the necessity for the enlargement or the contraction of the circulation is apparent, such enlargement or contraction must be made to a greater extent and with more suddenness than would be requisite if the circulation were in great part or wholly metallic; and that prices must be thus proportionally more affected.

Lastly, that this alternation of enlargement and contraction being made through the medium of increased or diminished loans to individuals or to government, the immediate effect of such alternations is to produce sudden and highly inconvenient variations in the rate of interest.

in a sufficient degree to determine an efflux or influx of the metals; now it must be quite clear, that an interval, greater or less, must elapse between an alteration in the amount of the currency and such an effect upon prices. The utmost extent of what I contend for on this point is, that the interval may sometimes be, and in the recent instance has been of longer duration than was supposed possible by mere speculative writers; and the effect of international credit in prolonging that interval (see note, p. 107) seems to have been overlooked altogether.



## SECTION V.

Upon the Disadvantages of a Circulation in which Paper is in large Proportion compared with the Metals.

THE last Section relates to the difficulty of regulating a paper circulation, even with a reserve of coin and bullion as large as has ordinarily been kept in circulation, and in the coffers of the bank, in this country. It appears to me that the reasoning in that chapter may be applied generally, and that it can be proved, or rendered highly probable, that the value of the currency will be more uniform, in proportion as the quantity of the metals, compared with the paper in circulation, is larger.

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

In Mr. Ricardo's "Proposals for an economical and secure Currency," p. 8, is the following paragraph:—"Amongst the advantages of a paper over a metallic circulation, may be reckoned, as not the least, the facility with which it may be altered in quantity, as the wants of commerce and temporary circumstances may require, enabling the desirable object of keeping money at an uniform value to be, as far as it is otherwise practicable, securely and cheaply attained." Of the superior cheapness of paper as a material, there can be no doubt, and if there were no counter-balancing disadvantages in the fluctuations of value, attending the exclusive use of it, this would be a sufficient reason for its adoption.

Mr. M'Culloch, in his recommendation of Mr. Ricardo's plan, in the article *Money*, in the *Suppl. Encycl. Britann.*, gives the following estimate of the proportion of bullion, which he thinks may be sufficient to secure the convertibility and the consequent uniformity of the value of a given amount of paper.—"By declaring Bank of England notes to be a legal tender, and by obliging the bank to give bars of bullion to those only who made a demand for 1000*l.* or 2000*l.* it is nearly certain that the bank would be able to keep twenty-five millions of notes afloat, with not more than one or two millions of bullion in its coffers as dead stock." Here it is assumed as *nearly certain*, that two millions, and, in this view, it must consequently be *quite certain*, that



five millions of bullion would be sufficient to keep in circulation twenty-five millions of paper*.

There would be, under this plan, as I have already endeavoured to shew with respect to our present system, no inconsiderable difficulty, under circumstances favouring an influx of the metals, to prevent an accumulation in the bank coffers, beyond the maximum of the amount proposed: for Mr. M'Culloch, in the same article, provides that the bank should be obliged to buy gold at 3*l.* 17*s.* 6*d.* or 3*l.* 17*s.* But even admitting, that by a sufficiently forcible reduction of the rate of interest, such an addition may be made to the circulation of paper as to stop the influx of gold†, and that there may

* Mr. Ricardo, in his evidence before the Lords' Committee on Cash Payments, in 1819, with reference to his plan of bullion payments, by which he proposed to limit the obligation on the part of the bank to pay notes only of 50*l.*, 60*l.*, or 100*l.* value, or to a number of smaller notes, amounting, in the whole, to such a sum, gave it as his opinion, "that three millions of bullion would, under good management, be amply sufficient, upon a supposition of twenty-four millions of Bank of England notes in circulation."—*Minutes of Evidence*, p. 187.

† When I speak of the circumstances determining an influx of the metals, I mean that there may be large returns from abroad, to be made for previous exports from this country, at the same time that, owing to good harvests of

not be danger, as well as inconvenience, in the attempt; it is under the opposite circumstances that the greatest disturbance of the currency is likely to arise.

With a bank circulation, then, of twenty-five millions upon a reserve of five millions of bullion, suppose (no impossible, nor even improbable case) that, owing to a failure of the crops at home, and the consequent necessity of an importation of corn, or to over-trading of any kind, *extra* payments abroad, to the amount of seven or eight millions, are suddenly required beyond the sums due, and immediately available, to this country. But in addition to the sudden necessity for payments for an unusually large importation, there may, if it be a period of war, be a large expenditure abroad by government, for subsidies, or for the pay of its troops; or, in peace, there may be loans or other financial operations, such as the conversion of the French rentes, or extensive re-coinages abroad, which may still further swell the payments to ten millions or upwards.

Assuming then, that, under these circumstances, *extra* payments are to be made within six or even twelve months, amounting to ten

corn, or a previous over-supply of imported commodities, the demand for the produce of other countries is less than usual.



millions, how, I will ask, are these payments to be made? I am aware that it is commonly argued by the advocates for an exclusive paper currency, that foreign payments to any amount may be provided, by such a contraction of the paper, as will raise the value of the currency and depress the prices of commodities, thus causing an additional exportation, which will make the payments to the extent required. But no explanation is given of the process by which such an increased export of commodities can be made with sufficient promptitude to meet the exigency, which is sudden and urgent.

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

When foreign payments, to the amount above assumed, are to be made, the number of remitters beyond the number of drawers, causes the exchange to fall to such a rate as makes the exportation of gold profitable; and as, by the supposition there is no gold in circulation, the remitters apply to the bank for gold in exchange for its notes.

Suppose, then, that by the contraction which the bank might find it necessary to make, in consequence of the fall of the exchanges, and the drain thence arising on its coffers, commodities should fall so much, that many, which it would not before have answered to export, admit now of being sent abroad with a profit. But before the fall can be known in the East and West Indies and America, and the distant parts of Europe, so as to induce fresh orders from thence, several months must elapse. Or, if speculative shipments should be made, it is to be observed that these are not likely to form any immediate resource. It is the common course of trade, that a very considerable proportion of the manufactures of this country are shipped either for account of our manufacturers, or of our merchants who, through their agents abroad, sell the goods, when they reach the markets, to the dealers and shopkeepers on credit; so that taking the time occupied in the shipment, the transmission, the interval between arrival and sale, and again between the sale and the expiration of the credit, a period of a year



and a half, or two years, may elapse before the funds arising from such shipments can be made applicable to foreign payments. Some increased shipments will, doubtless, be made to the nearer ports of Europe, and of these part may be for account of the merchants abroad. But all persons conversant with business must be aware that there is not likely to be any considerable increase of funds available for an emergency from this source.

It would, perhaps, be tedious to enumerate all the reasons why it should be so. I will mention only one or two. The fall which, by the supposition, takes place suddenly in the price of commodities here, would have the effect in the first instance of reducing the price of similar commodities which are held as stock abroad, from the anticipation of an increased and cheaper supply from hence*. And, in point of fact, on such occasions of falling markets, there is little speculative demand. Another

* As during the prevalence of confidence and speculation, increased shipments from this country are usually made on credit, the markets abroad are commonly glutted with our commodities, at the same time that the large speculative imports into this country create a glut here. So that when the revulsion and the consequent contraction of our currency occur, the fall of prices of our exportable commodities is met by a corresponding fall of that class of commodities

circumstance which prevents any *immediate* increase of drawers for shipments made in consequence of a fall in prices from the contraction in the currency, is, that the effects of so great a contraction in this country, must inevitably be felt in a depression of credit, greater or less, in the places abroad with which we have any considerable intercourse, and there will, consequently, be a disinclination to authorize drafts from hence to any great additional extent. That there will be eventually an increased export, there can be no doubt, but it is equally clear that a very small proportion only of it will be available as a means of making an immediate foreign payment. There will, likewise, eventually be a diminution of imports; but in the mean time an unusually large importation is forthcoming, in consequence of orders which had been sent from hence before the fall of prices, and for that importation it is that the payment is to be provided.

After the explanation which I have here given, it must be obvious that there is hardly any conceivable degree of contraction of the

in the foreign markets. And accordingly it may be observed that, in the majority of instances, the largest exports from this country have been in periods of the highest prices, and the smallest in the periods of a sudden contraction of the currency attended by a great fall of prices.



paper, upon such an emergency as that which has here been assumed, that would be effectual in forcing so great an additional export of commodities as would preserve the exchanges at any thing like their level. While on the other hand, in the case of a circulation consisting chiefly, or in large proportion, of coin, the utmost limit of the contraction would be the amount of the extra payments supposed; as, in fact, the abstraction of so much coin would effect the payment; but in the progress of the payment, the currencies of the places to which it was made, would, by the addition of so much specie, be more nearly assimilated in value to ours, thus diminishing the pressure upon the exchanges. And it may, therefore, fairly be inferred that, in the case of a circulation consisting of so large a proportion of paper, the contraction requisite to keep up the exchanges, (even if this were possible,) and to preserve the convertibility of the paper, would be nearly twice as great as in the case of one, in which the bullion in the coffers of the bank, and the coin in circulation, were of such an amount as to admit of the greatest part, if not of the whole of the extra payment being made in specie.

But before the contraction could be pushed to any thing like the extent requisite for this purpose, the notoriety of the drain upon the bank, and of the smallness of its reserve, would create a run, from fears among the holders of paper for its eventual convertibility; and the suspension of cash payments would be inevitable. It is in vain to call this a *panic*, and to say that no system of banking can be proof against a *panic*. A *panic* is an apprehension beyond the occasion; but in the case supposed, there would be just ground for apprehension. The only rational foundation for confidence, on the part of the public, in a bank, is a knowledge, that the reserve is ordinarily of sufficient magnitude to serve as a security against casualties and emergencies. Now a reserve of one-tenth, or even one-fifth, would present no such security, and would naturally lead to the recurrence of frequent alarm and periodical suspension. In the event, therefore, of a contraction to meet foreign payments, the drain would be increased, and the effects of the contraction aggravated, by the necessity which the bank would be under, of supplying bullion *to* the circulation; while, in the case of a circulation, in which there was a large proportion of coin, the effects of a drain upon the bank, whether from previous excess or from any unusual foreign payments, would admit of being counteracted and speedily remedied by supplies of coin *from* the circulation*.

* If an amount of bullion, adequate to the purpose of making the payment, were in the coffers of the bank, the contraction might be less, than if the whole or the greater part were to be taken from the coin in circulation. But as it might happen that when the occasion for a sudden payment should arise, the treasure in the coffers of the bank might be below its average amount, there would be no security against their exhaustion, unless the circulation were abundantly supplied with coin.



Of the comparative facility with which the coffers of a bank which has suffered too great a reduction of its reserve by imprudent issues of paper may be replenished out of a circulation consisting in great proportion of coin, notwithstanding a coincident demand for large payments abroad, a strong instance is afforded in the case of the Bank of France, in 1817 and 1818. The circumstance is thus stated in Mr. Baring's evidence, in March 1819. (*Vide* Report of Lords' Committee on the Resumption of Cash Payments, p. 103.) Speaking of a drain which that bank had experienced, he says:—"Their bullion was reduced, by imprudent issues, from 117 millions of francs to 34 millions of francs, and has returned, by more prudent and cautious measures, to 100 millions of francs, at which it stood ten days ago, when I left Paris. This considerable change took place since the first week in November, when the amount of specie in that bank was at its lowest. It must, however, be always recollected that this operation took place in a country, every part of the circulation of which is saturated with specie, and, therefore, no inference can be drawn in favour of the possibility of so rapid an operation in this country, where, owing to the absence of specie in circulation, the supply must entirely come from abroad; for in Paris, though some portions may have come from foreign countries, the great supply must undoubtedly have come through all the various small channels of circulation through that kingdom."

Again, in the same Evidence, p. 105:—

"Q. Has not France, after two years of great scarcity in corn, and two years of foreign contribution, been able to contribute a proportion of the precious metals to the wants of Russia and Austria?

"A. Undoubtedly, the precious metals have been supplied from France to Russia and Austria, and shipped, to a considerable amount, to America, notwithstanding the payments to foreign powers, and very large payments for imported corn, whilst, at the same time, wine having almost totally failed for several years past, they were deprived of the most essential article of their export."

And, in reference to these payments, in the preceding answer, Mr. Baring states, that they "produced no derangement whatever of the circulation of that country (France)."



It may not be unimportant further to remark, that the state of the currency in France, ever since the suppression of the assignats, appears to be decisive of the great advantages attending a metallic circulation, in times of political difficulty and danger. On no one great occasion did her efforts appear to be paralyzed, or even restricted, by any derangement of the currency; and in the two instances of her territory being occupied by an invading army, there does not appear to have been any material fluctuation in its value.

To this facility of resource, and exemption from great disturbance of the currency, arising out of a large circulation of coin, the derangement which took place in the currency of the United States of America, very soon after the breaking out of the last war with this country, presents a striking contrast. Upon the first pressure of financial difficulty, nearly all the banks, notwithstanding the utmost efforts to contract their paper, suspended their payments in specie. And this circumstance was not only felt, in greatly embarrassing the government of that country in its operations during the remainder of the war, but entailed a very unsettled state of the currency for some years after the termination of hostilities.

It would appear, therefore, that a currency, consisting chiefly of paper, requires a much more violent degree of contraction to meet the occasional emergencies of sudden payments, than is necessary in a circulation containing a large proportion of coin; and that there are emergencies of no improbable occurrence, in which the utmost possible contraction would be insufficient to preserve the convertibility of the paper.

This difficulty, or rather, I should say, impossibility of meeting many conceivable exigencies, without a large reserve of gold and silver, seems not to have occurred to the advocates for a currency consisting of paper circulating upon a very small reserve of bullion, as an objection to their system. They have overlooked the obstructions, which distance, habits of trade, legislative restrictions, and various casualties and miscalculations, that are inevitably incidental to all extensive commercial relations, interpose in the way of such an immediate adjustment of international payments, as ought, in their view, to supersede the necessity for the transmission from one state to another, of any considerable amount of bullion.

It may, perhaps, be said, that the late crisis has been felt in France, in the Netherlands, and in Hamburg, as well as in this country, and in the United States of America; and that, therefore, no argument can be drawn from it against



our paper-system. That the crisis has been felt in other places, I am quite ready to admit, and I have formerly had occasion to notice an instance of a great derangement of credit in Hamburg, arising out of speculations, which appear to have had their origin in that city. But the occurrence of such instances of derangement is comparatively rare, and, as applied to a city like Hamburg, is not strictly analogous to the case of disturbance of the value of the currency in an extensive and populous district or country. Hamburg is a mere cluster of merchants, of a highly enterprising character, among whom, there are considerable dealings on credit, and where the trade is consequently subject to great vicissitudes*.

There have also been extensive failures at Paris, Amsterdam, and Berlin; and there has been a general rise in the rate of discount in those places. But these failures were chiefly among the speculators in the public securities of the different states of Europe and America. Now these public securities are neither more

* The instances of Hamburg and Liverpool, of which Liverpool is the most remarkable for its enterprise, and its rapid progress in wealth and population, are decisive as to the inference, that banks of circulation are not essential, as has been supposed, to the developement of commercial activity and adventure.

nor less than annuities, which depend upon the rate of interest for their market value, and, in their turn, produce a temporary influence on the rate of interest; and, as these annuities form one of the most extensive classes of objects of interchange between London and the great commercial cities of Europe, it is quite clear that the operations of the former must, from their relative magnitude, influence the latter; consequently any great fluctuations in the funds, which produce extensive failures, and a rise in the rate of discount, here, must produce some corresponding effect on the places which I have alluded to. But, in the instance of none of those failures, does any general derangement of the currency appear to have been experienced in the countries or districts adjoining to those cities. And, although the rate of discount rose abroad, that rise indicated the utmost rate paid for the use of monied capital. Whereas, during the crisis in this country, the real rate of interest must be considered as having been very much higher, as I have before stated, when alluding to the ruinous expedients which were resorted to in order to evade the oppressive restrictions of the usury law.

But it may be further argued by the partisans of an exclusive paper circulation, that the great fluctuations in the value of the currency



which have occurred within the period now under discussion, may be ascribed to the very imperfect and insecure grounds on which the paper of the country banks in England has been issued, and to the injudicious manner in which the issues of the Bank of England have been regulated.

I am certainly no advocate for the mode of management of the circulation by the Bank of England, and I am ready to give up our country circulation as being nearly the worst conceivable. But I have already endeavoured to shew that there is no test by which an excess in the issue of paper can be determined with certainty, till an interval greater or less after the excess, has elapsed. Now, as all former experience, as well as the very nature of a paper currency issued by banks, leads to the conclusion that they will extend their notes to the utmost limit of the amount which the circulation will temporarily absorb, there seems to be no reason to suppose that under the circumstances, such as I have before described them, favourable to the extension of country notes, the issues of paper might not, and would not, have been carried as far by banks established on a solid foundation as they have been by banks on a weak foundation*.

* It will, perhaps, be objected that there has not been so much over-issue of paper, nor so much eventual contraction

There would, therefore, have been a necessity for an eventual contraction, as great at least as

in Scotland and in Ireland as in England. That there has been over-issue and consequent contraction in both is certain; in what degree I have no means of estimating. There does not hitherto appear to have been so much overtrading in those parts of the kingdom as in this; although, perhaps, even upon this point it is yet too early in the subsidence of the crisis to judge. That Scotland is, notwithstanding the superiority of her system of banking, liable to overtrading, and commercial distress may be proved by reference to 1814 and 1815, when the failures at Leith and other towns of the north, rather exceeded those of the south. In Ireland the disasters which attended her banking-system in 1820, may have been sufficiently recent to preserve her from so great an excess of paper as might otherwise have been circulated there.

Since the above part of this note was written, accounts from Scotland state that commercial distress is beginning to be most severely felt there. The following extract is from the Glasgow "Free Press" of the 18th of January, 1826:—

"The distresses that we ventured to predict as likely to result from the money panic, are now overflowing in every quarter, and many highly respectable merchants, manufacturers, and traders, find no little difficulty in keeping their heads above the water. The lessening of the amount—the limiting of the time—and the increasing of the rate of discounts, are severely felt in Glasgow; and within the short space of twenty days, nearly the same number of houses are reported to have fallen in consequence. The state of business in Glasgow is as gloomy as it can well be imagined. This is an awful fact, and a fact, the publication of which, at an earlier period, might have augmented the



that which has actually been made. The contraction would not indeed in such case be effected, as it has been, through the medium of the failures of country banks, and would therefore not be attended with the peculiar description of distress which has recently occurred from those failures. But, it is clear that there would

evil; but it is now too notorious for further concealment. Complaints are heard on every side, and the distress appears to be not only grievous, but general. To specify particular branches, even if we could do so, would be imprudent, but we confess that we cannot. All are alike affected; and though some have borne it better than others, it is not because *those* have had less to bear, but because *these* have been less able to bear it."

By accounts of a still later date it appears beyond a doubt, that the over-issue, the over-trading, and consequent revulsion have been nearly if not quite as great in Scotland as in this part of the island. The following is an extract of a letter addressed to myself by a gentleman who is a partner in an extensive manufactory at Glasgow.

"*Glasgow*, 11*th Feb.* 1826.

"Scotland, notwithstanding the solidity and respectability of her banks, is suffering as much from an over-issue of paper as our sister kingdom. Until very lately bills were generally discounted by the banks at six months, and in many instances, at nine and twelve months, which has led to an over-trading in every branch of business; *and we are now suffering severely under it.* I trust that notwithstanding the clamours of a few interested individuals, Scotland will not be excluded from the benefit about to be conferred on England by the removal of the small notes from circulation."

be the same depression of prices, whether the contraction were effected through one medium or another; as it is by the means of general prices alone, that the adjustment of the level can take place. This degree of fluctuation which must periodically occur, is, as I have shewn, over and above that to which a metallic circulation is liable.

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.

Upon the great moral evils arising out of extensive fluctuations in the value of property, as there is not, I apprehend, any difference of opinion, I will not dwell further than to observe, that, in as far as the liability to the occurrence of such fluctuations is greater with a paper than with a metallic circulation, this ought to weigh heavily against the consideration of the pecuniary saving which is the only object proposed by the substitution of the cheaper material.

But in truth, a great waste and positive loss of national wealth attends all such changes, by the misdirection of capital and industry which they occasion.



Of the misdirection, which the artificial excitement to speculation, incidental in so much greater a degree to a paper than to a metallic currency, is calculated to give to capital and industry, a memorable instance is afforded by the transition which we have recently experienced, and from the effects of which we are still suffering.

If a computation could be made of the losses that have been sustained within the last two years,—by the excess of prices paid to foreign countries for commodities *, beyond what those commodities are worth for home consumption or exportation,—by the fluctuation in the demand for labour, at one time elevating manufacturing wages beyond the rate which the eventual price of the manufactured goods could afford, and then depressing them so much, and throwing so many workmen out of employ, as to occasion an increased burden on the poor-rates, —by loans to foreign states, which present no adequate security for repayment,—by schemes, which upon a large outlay, hold out no prospect of any net profit,—by rendering the commodities produced with a view to the consumption of particular classes, of reduced value, by the

* I have seen computations, by which it appears, that in the article of cotton alone, the loss amounts to upwards of two millions and a half.

diminished demand, consequent upon the altered condition of a large proportion of the individuals constituting those classes—it would be found, I suspect, to amount to an enormous sum. And if the proportion of such losses, not only on the recent occasion, but on many other similar occasions which have occurred in our commercial history for the last fifty years, as can be fairly ascribed to the difference between a paper and a metallic circulation, admitted of being accurately computed, I am fully convinced that, as a mere question of national wealth, the balance of loss would be greatly against the former.

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## SECTION VI.

### Upon the Defects in the System of our Circulation, which call for an immediate Remedy.

Such and so great being the evils which seem to be inseparable from our present monetary system, and infinitely aggravated as these evils have been and are liable to be again, by errors in the administration of it, it will, when the whole subject comes before the legislature for consideration, upon the nearer approach of the termination of the present charter of the Bank of England, become a question of the greatest importance, to determine whether the whole of that system, as connected with the circulation of promissory notes, ought not to be entirely re-modelled.

In the mean time there are two specific evils, which are severely and extensively felt, and of which the remedy is so obvious and easy as to admit of being immediately applied.

One of the evils is that to which I have already alluded, *viz.*, the secrecy and mystery in which all the proceedings of the Bank of England are enveloped.

While that secrecy prevails, all investments of capital, all mercantile engagements, and all contracts of whatever kind, are exposed to an element of uncertainty, in addition to any other that can have been in contemplation: and plans, otherwise well combined, may be defeated by some great operation of the bank upon the currency, which, if it were known and exposed to public scrutiny and discussion, would either be quickly abandoned, or would admit of being appreciated and acted upon.

It may, I believe, be set down as a rule, that the administration of all institutions, of which the functions or operations, in any degree, affect the public interest, ought to be constantly and strictly subjected to the supervision of the public. Such supervision is the only effectual safeguard against errors and abuses. Next to the administration of the state, there is no administration of any office so immediately and extensively affecting the interests of the community, as that which is intrusted to the persons who are invested with the privilege of issuing paper-money, and who, by the manner in which they exercise that privilege, have it in their power to produce great changes in the property and condition of every individual in the kingdom. No man, nor set of men, ought, in my opinion, to be intrusted with that privilege: but being so intrusted, their exercise of it ought to be subjected to the constant control and correc-



tion of public opinion. Such publicity would enforce a steady and consistent adherence to some settled rule, the uniform operation of which the mercantile world might understand and be prepared for. There is no reason whatever why the accounts of the Bank of England should not be published with as much fulness of detail as is exhibited in the accounts published half-yearly by the Bank of France. As a specimen of the latter, I insert, in the Appendix, E. a copy of an account for the last half-year, as it has recently been rendered. A statement of this kind ought to be required, not only from the Bank of England, but from every bank in the kingdom, which is allowed to exercise the privilege of issuing paper-money.

The other evil which calls most urgently for immediate interference on the part of the legislature, is the state of the country circulation. Some security ought forthwith to be provided against the recurrence of failures of the country banks, such as those which took place in 1810, 1815, 1816, and lately, in 1825. If the Bank of England would consent to give up so much of its exclusive privileges as would admit of the establishment in England of banking companies, on the footing of the chartered Companies in Scotland, the present country banks might be entirely replaced by banks on a different footing, and of unquestioned stability. But as such a concession on the part of the Bank of England is not likely to be made, some other measures ought, in the mean time, to be adopted. Every country banker ought to be called upon to give some pledge of his ability to pay on demand the notes which he may be permitted to issue. Whether this object of security would be best attained by requiring a sum to be invested in the funds, or by any other method, it would lead me too far at present to inquire.

But whatever may be determined upon as to the expediency of providing additional security for the general circulation of the country banks, there is one part of that circulation which ought not, upon any footing, or with any modification, to be any longer tolerated. I mean the notes under *5l.* These are, in every point of view, a most objectionable medium of exchange. They are imperfectly convertible into coin, as, for instance, in the case of Mr. Jones and the Bristol Bank, last spring; and, I believe, many instances of difficulty, short of absolute refusal of payment, might be cited *. They offer greater

* Since writing the above, an instance has occurred in which a demand, even upon the Scotch Banks, for coin or Bank of England notes, in payment of the local notes, was made the subject of angry animadversion by an Edinburgh paper the *Edinburgh Evening Courant*, of Jan. 7. While there is any feeling of this sort of the harshness of demanding coin for the notes of a bank, such notes are more or less imperfectly convertible.



facilities for being issued in excess than notes of a higher denomination; and they almost invariably exclude specie entirely from the districts where they pass current.

But leaving out of the question the consideration of fluctuations in the value of the currency, some protection for the lower classes against the severe losses to which they have so often been exposed, as the holders of small notes, when the banks issuing them have failed, is imperatively called for.

It is quite idle to contend that the lower classes have the option of refusing to take the country notes. Practically, in the great majority of instances, they have not and cannot have any such option. But if there is any object more important than another for which the government of every state has been invested with the exclusive privilege of coining money, it is that of protecting the lower classes of society, who are little competent in this particular to protect themselves, from the risk of loss in receiving their stipulated wages, or other payments. And this function of the sovereignty, of issuing coin, which, under the strongest sanctions, certifies to every member of the community the weight and fineness of the money which he may be entitled to receive, is justly guarded against the interference of private individuals by the severest penalties. But by a strange inconsistency, while such care is manifested to secure the community from being imposed upon by metallic money of less than standard-value, every adventurer who chooses to follow the trade of a banker, is allowed to issue a spurious paper-money, which having neither intrinsic value nor any adequate security for eventual convertibility, is in too many instances, neither more nor less than a fraud: a fraud of which the most numerous, and most helpless classes, and those who can least bear the loss, are most commonly the victims.

Important and urgent, however, as are the considerations of policy, in respect to the value of the currency, and of justice, in respect to the protection of the lower classes, which dictate the suppression of the small country notes, it is to be feared that the same influence which has on other occasions been successfully exerted against improvements in our commercial or financial system, will be brought into operation against this. The country bankers, who are supported by the power of the landed aristocracy, had influence enough to throw out a bill



which was introduced some years ago into Parliament, for affording greater security to the public in the circulation of country bank notes under 5*l.* And we may expect that no efforts will be spared, and no sophistry left untried, in the ensuing session, to prevent the suppression of that class of notes. I have little doubt that if such a measure had been proposed and carried last spring, during the apparently prosperous state of the country, the recoil of prices, the rise in the rate of interest, and the general stagnation that have recently taken place, would have been ascribed to the actual or prospective operation of that measure. If the measure should be proposed in the ensuing session, it will be pertinaciously objected that the country is already suffering under all the effects of reaction; and it will be said that we ought not to aggravate the distress arising from a contracted circulation by perpetuating that contraction. And of this we may be assured, that whenever this salutary alteration be made, as sooner or later it must be, the effects of it will be grossly exaggerated, and whatever, coincidently with, or soon after, may be untoward in the aspect of finance, commerce or agriculture, will be wholly ascribed to that alteration*.

* It is, in my view of the subject, a matter of great and

The principal source of exaggeration as to the effects of the suppression of the small notes, is in supposing that such a measure would have a great and permanent influence in reducing the price of agricultural produce, and of commodities in general. That prices could not have risen so high as they did in the two last years, without, as with, that class of notes, I am perfectly ready to admit, but neither, on the other hand, would they now have been so low. It is only a greater range of fluctuation, and not a higher permanent level of prices, that can be produced by the substitution of paper for gold and silver, in that part of the circulation. To

serious regret that the privilege of the country banks to issue 1*l.* and 2*l.* notes was not suffered to expire at the time prescribed for the cessation of it, by Mr. Peel's Bill. No time, indeed, could have been more fit for its discontinuance than that. Prices had already reached their minimum, as compared with the prices of the rest of the commercial world; and, without any effort or sacrifice, there was already so great a surplus of gold in the coffers of the Bank of England, as to have admitted of its supplying as much as would have fully filled up the chasm created by the withdrawing of the small country notes, without reducing its own circulation of paper. The country banks were, themselves, prepared for the measure, and there seems no reason to believe, that if it had been carried into execution, it would have had the slightest sensible effect in a further depression of prices.



the value of gold, in the rest of the world, our paper must conform as long as it is convertible, although the interval during which it may diverge from that value, owing to a partial excess, may be greater, as I have endeavoured to prove, than is commonly supposed. But exactly, by the same reasoning by which it is shewn that there may occasionally be an enlargement of the circulation of paper beyond what is eventually found to be consistent with preserving an uniformity with the value of gold in the rest of the world, it inevitably follows, that in proportion to the degree of excessive enlargement, must be the eventual contraction of the whole circulating medium *below* the level from whence the excess began; the level, or the average of prices, being still determined by the value of gold.

The only question, therefore, is, how far the value of gold would be raised by the absorption of so much as would be requisite to supply the place of the small notes? The grounds upon which any answer can be given to this question are, of course, vague, as something must depend upon the estimate which may be formed of the quantity of gold which will be necessary for the purpose. The utmost computation of this quantity, however, would hardly raise it to eight millions*, considering that there would be an increased economy in the use of such currency, and that the reserve of the Bank of England need not be so large, when there is no country circulation of 1*l.* and 2*l.* notes. Assuming, as I think I may most confidently, that eight millions of gold is the utmost that would be requisite for the purpose, it can only be an apprehension magnified by the bigotry of self-interest, which could lead to the supposition, that such a sum, taken from the whole amount of the metals in the world, would produce any sensible influence on bullion prices.

However inauspicious in appearance, the present, I am satisfied, is a season, which though not so favourable as 1822, is one, in which the privilege of circulating country notes under 5*l.*

* This now appears to be an exaggerated computation. The Chancellor of the Exchequer in proposing his resolutions to the House of Commons, on the 10th of February, for the eventual suppression of small country notes, stated his belief that the average amount in the three years ending the 5th of January, 1826, had not exceeded six millions, but that the total amount at the present moment was considerably less, he thought not more than four millions. According to this estimate, five millions of gold would, from the consideration mentioned in the text, be the utmost that would be required to supply the void created by the final withdrawing of those notes.



may (after giving due notice) be rescinded with less disadvantage, than probably at any intervening period prior to the time at which that privilege will cease, by the provisions of the existing Act. The circulation of this class of notes is, in consequence of the late failures, now reduced to as low an amount as it is conceivable that it can be, at any time hereafter, before its final extinction. And to replace it, therefore, with coin, will probably require a smaller absorption of gold and silver than at any later period.

With regard to any remedy as specifically applying to the existing state of distress, I have none to propose. The evil arose out of an excess of paper and credit. The only cure is in the removal of that excess. The operation of removal, however salutary in the end, is painful in the process; but I am not aware of any other mode of arriving at a sound state. The sole object of the suggestions which I have ventured to offer, is to diminish the chance of a recurrence of the disorder.

# POSTSCRIPT.

# POSTSCRIPT.

In the short interval which has elapsed since the first publication of the preceding pages, events of considerable importance, in their influence on the actual and prospective state of the currency, have taken place.

Parliament has met. The derangement of the currency, and the propriety of restoring the circulation to a more secure footing, were among the prominent topics in the King's Speech, and have been the objects which engaged the earliest attention of the legislature.

The measures now in progress through Parliament, founded upon resolutions brought forward by ministers, and sanctioned thus far by a great majority of both Houses are,—

The relaxation of so much of the privileges of the Bank of England, as prevented the establishment of banks having more than six partners. This relaxation, however, not to apply to places within sixty-five miles of London, nor to admit of the formation of joint-stock companies with a limited liability.

The prohibition of the circulation of country notes under five pounds, after April, 1829, and the cessation from this time of the issue of any stamps for that class of notes.

The prohibition of the dating of Bank of England notes under five pounds, originally fixed to take place from the 5th February last, but since extended to the 10th October next; the circulation of them to cease coincidently with the country small notes, in 1829.

Of these measures, the most important is that which relates to the country notes under five pounds; and the resolution of the House of Commons for the suppression of that most objectionable description of our paper currency, having been passed by a triumphant majority, was considered as the earnest of a settled purpose, on the part of government and of the legislature, to proceed, as far as circumstances would permit, in a progressive amelioration of our present very defective monetary system. But some degree of doubt has been raised as to the firmness, if not the sincerity, of the resolution to that effect, by the extension of time which has since been granted to the Bank of England for the dating of one and two pound notes, till the 10th October next.

It may be, as it has been, said in defence of this departure from the principle which dictated the immediate cessation of the issue of stamps



for the country small notes, that an extension of the Bank of England one and two pound notes is urgently called for, to supply the vacuum in the country circulation, occasioned by the discredit of the local notes. Allowing the utmost to this plea, it may be observed that the urgency of the purpose must be answered long before the 10th October next, while, by granting such a length of time to the Bank of England, for preparing and issuing their small notes, the circulation may be so saturated with them, as to render the eventual substitution of coin for those notes a matter of great difficulty. It is possible, and even probable, that the bank may not abuse this power; but why grant such power, when the mere liability to the abuse of it may serve to cast a doubt upon the practicability of a return to a metallic basis for that part of the circulation? If this modification had been a part of the original plan, although the same objection would have applied to the length of time proposed, it could not have been made a ground, as it now unfortunately may be, for imputing to ministers a wavering in the course which they had undertaken to pursue.

With regard to the concession by the bank, of allowing more than six partners in places beyond sixty-five miles from London, it is an improvement, as far as it goes, and the public must be thankful to that establishment for even this relaxation of its privileges; but I am inclined to think that the sacrifice likely to be entailed upon the bank, and the benefit to be derived by the public from that concession, are alike insignificant. The fact, that among all the country banks there were, according to the last Parliamentary returns, only twenty-five which had so many as six partners, appears to be decisive against the probability of any material addition of partners or accession of capital to the provincial banks, in consequence of this alteration of the law. For if, previous to this alteration, while the motives to form, and the facilities for extending, banking establishments were at their height, there was so little inducement to individuals to risk their whole fortune, by entering into partnership even to the number of six, is it likely that, now that the facilities are so much diminished, and the hazard attending all banks of circulation so much more apparent, there should be a disposition to unite in more extensive partnerships? The more numerous the partnership, the smaller must be the share of profit to each, and the smaller, therefore, the inducement to any person of large property to risk it in such a business. The more numerous, too, the partners, the



greater would be the difficulty to all but those in the immediate management, of preserving perfect accuracy in the accounts, and of enforcing a prudential regard to safety in the mode of conducting the business.

I have already had occasion to state my opinion of the difficulty of regulating any circulation which includes a large proportion of promissory notes issued through the medium of credit; but in as far as such a circulation may be necessary, which, to a certain extent, I believe it is, under the circumstances of this country, I have no hesitation in saying, that the only tolerably secure footing on which the issue of promissory notes, performing the functions of money, can be conducted, is that of joint-stock companies. Whether these companies should have charters or not is immaterial. The essential points are, the limitation of the responsibility of the proprietors to their respective shares, and the restrictions and regulations to which the companies might be subjected by the legislature, as the condition of the privilege to be granted. The exemption from liability beyond the subscription, would operate as an inducement to many persons of respectability and property to join in such establishments as subscribers, who would not, on any consideration, risk their fortunes as partners; and the presumption is, that in every district sufficient numbers might be found for the formation of establishments fully adequate to supply the neighbourhood with a convenient medium of exchange.

At the same time, the legislature, in granting the privilege of forming a company with a limited responsibility, might prescribe such conditions as would ensure the constant solvency, the regularity, and the prudent management of the concern.

The first point, which is that of the solvency, would be secured by requiring in the first instance a minimum, greater or less according to the probable extent of the circulation, of subscribed capital, a certain proportion of which to be actually paid up and invested in securities to be pointed out, with a certain latitude to the managers in the selection of such securities. It might be further prescribed on this point, that, in the event of losses reducing the invested capital below what might be deemed a sufficient security to the holders of the notes, an additional call should be made, not exceeding the sum subscribed. Or if the whole sum subscribed had already been invested, and this were insufficient, then to provide other obvious measures to the same end.

The next point, that of regularity in the proceedings and in the management, might be



enforced by rendering it imperative upon the company to adopt a set of rules for its constitution, formed upon the most approved models, subject to modifications which any local peculiarities might suggest.

And, finally, the prudent regulation of issues, and a general propriety in the conduct of the concern would be ensured by a measure which I have before suggested, and which I am since sanctioned by the highest authorities in thinking should be an indispensable condition in the establishment of any Joint-Stock Banking Company.

The condition to which I allude, is that of rendering accounts half-yearly, of the result of all their transactions, and of the actual state of their funds and engagements; such accounts to be rendered in the first instance to the proprietors, and then to be published for the information and satisfaction of the holders of the notes. This publicity would afford the only security that the case admits of against undue issues or over-trading of any kind; and the information thus to be derived would be of great advantage, as well to government with reference to its financial arrangements, as to the Bank of England with reference to the regulation of its issues.

Banks subject to such regulations might be established in every great town or district, varying in number and extent according to the wants of each neighbourhood, and would administer as sound a currency as is consistent with any circulation of promissory notes.

But the privileges of the Bank of England are still opposed to this great improvement in our system. Since, however, the directors and proprietors of that establishment have shewn a disposition to defer so far to public opinion as to relax a part of their privileges, where such a relaxation did not entail any great sacrifice of their interests; it is to be hoped that they may yet go a step further, and extend the relaxation so far as to admit of the formation of Joint-Stock Companies.

If, indeed, the Bank of England were to be satisfied that it could establish branch-banks of its own with profit and security, and were, in pursuance of that conviction, to proceed to the formation of them, this would be a sufficient answer to any claim on the part of the public for the further relaxation proposed, because such branch-banks would, of course, be materially interfered with by Joint-Stock Companies in the same neighbourhood.

But there is reason to doubt whether the Bank of England will find it expedient, consistently with a due regard to its safety, to



establish branch-banks, unless in some one or two districts*, by way of experiment. The objections to such branches, as regards the Bank of England, are, that great trust must be reposed in the agent, both as to integrity and ability; a failure in either requisite might be followed by great loss to the Bank, and by considerable local derangement; instances of this kind have been known to occur in Scotland to a considerable extent. The Bank of England is, in its present state, a very unwieldy machine, difficult to set in motion, and when at length it is brought to operate in any given direction, is not easily regulated to any other which altered circumstances may require; and if it is already thus unwieldy, and requiring all the attention and attendance which can be expected from its directors, it is no small objection both as regards the public and themselves, that the plan of branch-banks would add to the extent of a concern whose dimensions are already beyond what can be managed with security to the one, or with convenience to the other.

If from these or any other considerations the Bank of England should forego the intention of establishing branch-banks, it is not clear that

* In Lancashire, for instance, where Bank of England notes already form a considerable part of the circulating medium.

it would sustain any loss by withdrawing its opposition to the formation of banks with limited responsibility, in those parts of the country at least in which its notes do not at present circulate. It is still, therefore, possible, that the directors and proprietors may yield this further point to the strongly-expressed feeling of the public, thus removing the only obstacle to the greatest improvement of which the country-paper-circulation of England is susceptible.

Among the suggestions which in the late discussions have been thrown out for the improvement of the system of our currency, one which has excited a considerable degree of attention is that of introducing silver as a standard concurrently with gold. The President of the Board of Trade has expressed himself not altogether adverse to such a measure, and has intimated that he has in contemplation the introduction of a plan founded upon that suggestion.

Of any plan emanating from or countenanced by the President of the Board of Trade, I am always predisposed to entertain the most favourable impression. And it is very possible that the details of his plan, when made known, may go far towards removing the objections which strike me as applying to the proposal of a double standard upon any footing that has hitherto been made public.



Without therefore entering very fully into the question, for which indeed I have not materials, nor time, nor space, I will briefly touch upon the few general considerations which occur to me upon it. And I have to premise that all the plans or suggestions that I have heard of for the introduction of silver as a general tender, profess to take it either in the old mint proportion to gold of *5s. 2d.* to *3l. 17s. 10½d.*, or in the actual proportions which prevail in the market.

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One of the professed objects of the proposal is to give a larger basis of the metals to the circulation, and in as far as that object would be unattainable without this plan, I should be disposed to entertain it favourably. Or if the alternative were presented of this double standard, or of the continuance of the small note circulation, I would accept of the double standard by way of compromise. But as the legislature has determined to suppress the small notes, the question is to be considered with reference merely to the advantages or disadvantages of either or of both metals in a general point of view.

If the footing on which the silver were to be established, either singly or as a concurrent standard, should be in the proportion to gold of *5s. 2d.* to *3l. 17s. 10½d.*, being the mint proportion, without the deduction for seignorage on the coin; and if this were the proportion in the market, as likewise the relative rate at which any given quantity of either could be imported, it is clear that there would be as great a sacrifice in obtaining the one as the other. And there would, in this case, be no relief whatever from the present commercial difficulties, nor any saving in a national point of view, nor any inducement to extend the metallic basis of the circulation by the substitution of silver for gold, nor to retain a larger amount of the two collectively than of either singly.

But, at the same time, while the equality here supposed between the mint and the market value subsisted, there would be no practical inconvenience from both metals being indiscriminately a legal standard. It is not, however, in the nature of things, nor conformable to the conclusions to be derived from experience, that this equality of market value should continue; and, upon the first divergence, an inconvenience would arise, and increase in proportion to the degree of divergence. All pending contracts would be discharged by the debtor in the cheapest medium; and a great degree of uncertainty, beyond that which is incidental even to a single standard, would occur in all leases, mortgages, and contracts of every kind.



The example of France has been cited as one in which the two metals circulate with perfect convenience and harmony, upon the footing of a double standard; but this, though nominally correct according to the mint regulations, is not true in the real meaning of the terms. Silver is there *the only actual* standard, while gold constantly fetches a premium, varying from 1 to 10 per mille, or from $\frac{1}{10}$ to 1 per cent. No practical inconvenience has therefore been suffered from their mint regulations, which make both metals a legal standard, simply because silver has been rated in such a proportion to gold that it has been, for a considerable time past, the interest of the debtor to pay in silver. And as the market price of standard silver, in this country at present, is 5*s*. 1*d*. the ounce, if silver were made a tender in unlimited quantities at 5*s*. 2*d*. there would be an advantage of about $1\frac{1}{2}$ per cent. to every debtor in paying in silver instead of gold; and the latter would go out of circulation, or pass current only at an agio or premium. In this case the price of silver would rise to 5*s*. 2*d*. and of gold to 3*l*. 19*s*. 2*d*. The substitution, 15.322 therefore, of silver, would be a degradation of the standard to this extent, and this degradation would be the measure of the increased facility, which is the professed object of the proposed plan.

If degradation of the standard be not the object, the power of tender of the silver must be adjusted according to the actual relative value of the metals.

There is, therefore, this alternative: either the value of the currency is to be reduced, or in other words, degraded, by allowing an unlimited right of tender in silver at *5s. 2d.* while it is worth in the market only *5s. 1d.* or the right of tender is to be adjusted according to the actual relative values in the market, in which case there will be no relief, nor consequently any immediate object for the alteration.

But supposing an adjustment to be made of the right of tender to the present proportion of market value, and that this proportion were declared to be permanent; it might be said to be in favour of the plan, that without immediate debasement, it holds out the prospect of an eventual depreciation of the standard by the probability of a great increase in the quantity of silver, from the extensive mining projects now in operation, which are likely to affect silver in a more considerable degree than gold. In this view, the recommendation of the plan would be that of a prospective instead of an immediate depreciation of the standard; and how far the one, if entering into the contemplation of the legislator, is more to be justified, in a conscien-



tious point of view, than the other, I leave to more learned casuists than myself to determine.

I suspect, however, that, in this case, the anticipated gain to the debtors, under pending contracts, from this prospective depreciation, would not occur in any thing near the degree which I have heard commonly computed.

The grounds of my suspicion on this head are, that, as far as my information extends, although great improvements in the application of machinery, and scientific processes, to the operations of mining in America, are in progress, a considerable length of time, not less than four or five years, is likely to elapse before the annual produce can reach what it was on an average of the ten years prior to 1810. But that increased produce would have, in the first instance, to supply the vacuum created by the diminished produce of the last sixteen years; a vacuum now exceeding, according to the grounds of computation in the supplementary section of my last work*, 80,000,000*l.* And it may be doubted whether, even after this vacuum has been filled, the rate of increase will, for many years, do more than compensate for the increased demands, arising from the progress of civilization and wealth, and the consequent

* Thoughts, &c. p. 282. Second Edition.

wants of an increasing population, in the commercial world.

If, however, neither actual nor prospective degradation, as compared with a gold standard, be the object of the present plan, there must be a periodical, and perhaps a frequent, re-adjustment of the proportions, according to the varying proportions in the market; and it is difficult to conceive how any mode can be adopted, which shall not be liable to great practical inconveniences.

Supposing, then, as I do, that some inconvenience, hence resulting, must exist, the question is what are the advantages in view from the proposed alteration.

One of the proposed advantages is the greater security which it would afford to the Bank against a sudden drain, (the transport of silver being so much more cumbersome and expensive than that of gold), and the consequently greater facility and accommodation which the Bank could afford to trade. Facility and accommodation are bewitching terms: they mean neither more nor less, however, than a greater latitude for the Bank to make an over-issue, before the check arising from an export of the metal would operate, than in the case of gold. But in exactly the same degree in which the Bank might extend its issues with a silver standard, beyond what it could do with a gold



standard, supposing the value of each in the same proportion, would be the necessity for an eventual contraction, and the difficulty of restoring the requisite amount of the metal to the circulation. In short, there *cannot* be an increased facility on the one hand, without an eventual compensating difficulty on the other.

Another reason that has been assigned as having great weight in favour of a silver standard, is, that this metal is the standard of the currency of all the other commercial states in the world, and that while ours is gold, we cannot have a perfectly accurate par of exchange. As a matter of convenience in calculation, this consideration may weigh a little. But there is a counterbalancing consideration, which is this: as silver is the standard of other states, any necessity for a sudden importation into this country would operate more violently upon their currency than an equal amount of gold, which, not being the medium of their internal commercial transactions, would be more readily parted with at a trifling increase of agio. This consideration is likewise applicable as an answer to an argument in favour of silver, derived from the supposed difficulty of obtaining an adequate supply of gold, without greatly enhancing its value. In the question of the effect likely to be produced on the value of gold by an extra demand for it, for the purpose of extending the metallic basis of this country, the value of the quantity thus to be abstracted is not to be estimated upon a comparison with the supposed value of the gold only, in the world, but with that of the aggregate value of gold and silver, in as much as gold, circulating everywhere as a mere convenience at a small premium, would be readily parted with upon a trifling rise in the premium or agio, thus conferring an additional value on the silver coin, which would then have increased functions to perform.

It has further been urged, in favour of allowing silver to pass, in some shape or other, as a legal tender for unlimited sums, that, by excluding it as we now do from entering as a part of our monetary system, except for the purpose of subsidiary coins, we deprive our merchants, who trade with South America, of the advantage which they would otherwise derive from the returns received in silver against their shipments of British manufactures. That they can now only import the silver as merchandise for exportation, whereas they ought to be allowed to take their bullion to the mint or to the Bank, and to obtain for it immediately a certain fixed price, as may be done by the importers of gold. And it is contended that the difference between what on an average, they do get, and what, if the



metal were admitted to form a large part of our circulation, they might get, is a loss to them, and consequently to the nation. The obvious answer to this argument is, that any increased value which might be conferred on silver by the proposed alteration, would not, except at the moment of the change, be for the benefit of the importing merchant, but would eventually go to the mine proprietors in the shape of increased profit or rent, or to the American governments, in the shape of an increased tax, if it should enter into their policy to extend their revenue from that source. To the importing merchant it would make no difference in the remittances received by him; the exchange in America on this country would be regulated by the consideration of the price at which silver was a tender here, and bills or dollars would be remitted by a reference to that consideration. As to the greater readiness with which a remittance of silver could be realized by the merchant here, in one case, compared with the other, the difference is the most trifling possible, as a sale can always be made at a sacrifice of $\frac{1}{4}d.$ or $\frac{1}{2}d.$ per ounce below the nominal quotation; and such sacrifice, whatever it may occasionally amount to, must necessarily be considered and allowed for in the remittance.

These considerations, which I have hastily thrown together, are, I am sensible, very far from embracing the whole question, but as far as they go, they strike me as rendering doubtful, at least, the advantages to be derived from the proposed alteration.

Thus far, as relates to the plans in progress, or in contemplation, for the improvement of the system of our currency, and I will now only add a few lines on the present commercial distress, and on the measures adopted or suggested by way of relief.

After the great panic which prevailed in the money-market in December last, and which was characterized by a run upon nearly all the bankers, both in town and country, there was a pause and an abatement of the alarm. It was then a matter of remark and surprise that, in the midst of so much distress, by the failure of bankers, and by the disturbance of the country circulation and while so many small traders were unable to fulfil their engagements, there were, down to the middle, or nearly the end of January, comparatively few failures of mercantile establishments of any extent or importance in the metropolis. The answer, however, which then presented itself to that remark was, that while bankers were liable, upon the slightest breath of suspicion, to be run upon, and their solvency immediately put to the test, mercantile houses



might go on for some length of time, under more or less of discredit and difficulty. The essential difference is, that the engagements of bankers are to pay on demand, while those of merchants, are payable only after a certain date. A merchant may therefore have very large engagements which, in consequence of a fall of markets, or loss from other causes, it may become evident to himself, and suspected by others, that he will not be able to discharge when due: but till they are due, he may take the chapter of accidents in his favour, and not declare his inability. Under such circumstances, too, his earliest acceptances may be renewed by creditors who may think favourably of his chance of overcoming his difficulties.

Among the proximate causes of the overtrading, was the facility with which merchants obtained discounts of long paper, at six, nine, and twelve months, not only from town bankers, but from the country banks, and particularly from the Scotch banks; such bills being readily renewed, while the money-market continued to be abundant, and while the solvency of the parties was unquestioned. These long-dated bills contributed to the difficulties of the banks, from not being readily available when the banking panic occurred, while they account for the delay in the appearance of mercantile derangement. There is another large class of bills which have been, and are about, falling due during January, the present, and the next month, having been drawn from abroad, against the unusually large shipments of produce which have been made to this country.

A large proportion of this mass of both inland and foreign bills was discounted by the Bank of England in December, and the early part of January last, and the extent to which this accommodation was afforded gave relief in a double point of view, both by enabling the holders of those bills to make their immediate payments, and by serving as the medium for an extended issue of bank-notes, which went some way towards supplying the chasm occasioned by the failure of private credit.

But when the bills become due, and there is no longer a facility of renewing them, the acceptors are unable to meet their payments, either because they have not received the remittances which they expected from abroad, and although possessed of property, cannot immediately convert it by sale or pledge, or because, although solvent when they gave their acceptance, they have ceased to be so by the further fall of prices, or by the failure of their debtors. The failures of mercantile firms have accordingly, for some weeks past, occurred to



a great and alarming extent. Many, if not most, of these houses have been large shippers of goods, for which they had given their acceptances to the manufacturers. The losses thus sustained by the manufacturers are aggravated by the great fall in the price, and the stagnation of demand for their goods, resulting from the over-importation of the raw material, and from the previous excessive speculative exports of the manufactured articles with which the foreign markets have been glutted. The speculative demand, too, in last spring, occasioned our own shopkeepers, both in town and country, to stock themselves more largely than usual. Many of these have contributed of late to swell the lists of bankrupts, and such of them as have not failed are, both from necessity, and from the opinion of future cheapness, going in the opposite extreme of running their stocks to the lowest amount, consistent with the preservation of their business.

The reduced demand experienced by the manufacturers from these combined causes, disables them from employing the same quantity of labour, and either the wages are reduced, or smaller numbers of workmen are employed. And this reduction of employment and wages of the labouring classes (the price of food continuing relatively high) forms a great aggravation of the sufferings which the labouring classes have sustained from losses by the failures of the country banks, and by the discredit of the local notes, of which they have, in too many instances, been holders.

This last feature of the present distress is distinct from and over and above that which existed in 1793. Until within the last two or three weeks, it seemed to be a matter of doubt whether the extent of commercial distress and discredit in the crisis through which we are passing was equal to what prevailed in that period. But I am now inclined to think that the present derangement will be found greatly to exceed that of 1793, both in extent and intensity, independently of the aggravation which is now experienced from the losses sustained by the discredit of the small country notes.

For the alleviation of this wide-spreading distress, the most obvious expedient, certainly, is to extend the issues by the Bank of England as far as can be done without incurring the danger of a renewed drain upon their coffers, and a consequent risk of suspension: an event which, both in its immediate and remote consequences, would be pregnant with evils infinitely outweighing the consideration of the mere temporary relief to be derived from an extra issue of notes.

Now surely it must be the interest, as well as



the obvious policy of the Bank, to issue as much of its paper as the circulation will bear, without a prejudicial pressure on the exchanges. It is difficult to conceive, therefore, why it should have required the interference of government, and an express arrangement for the purpose of inducing the bank to make an increased issue by the purchase of two millions of exchequer-bills in the market, under the guarantee of government.

If the increased issue of notes can, in the opinion of the directors, be made with safety, why has it not been made without the interference of government? If the increase does in the opinion of the directors endanger the convertibility, upon what ground, consistently with the declaration of ministers, which I believe to be perfectly sincere in favour of preserving the convertibility at all hazards, can such interference be justified?

The dilemma involved in this alternative is, that either the system by which the Bank when not under the control or direction of government regulates its issues is erroneous, or the government in thus urging an enlargement of issue endanger the convertibility to which they stand pledged. Still, as far as it goes, this extended issue must administer immediate relief. By supplying so much additional monied capital without any corresponding increase in the number of borrowers, it tends to effect a temporary reduction in the rate of interest, and thus to give additional facility to borrowers; and by adding so much to the circulating medium, it tends to raise, or to prevent the further fall of, prices. Thus the remedy is immediate and effectual, and in so far as it can be administered without hazard to other and higher considerations, is not only justifiable, but imperatively called for.

But this remedy alone has been deemed insufficient by those who consider that it is the duty of government to interfere for the purpose of administering direct relief to the sufferers under a commercial revulsion, from whatever cause arising; and accordingly, strong recommendations have been urged upon government to propose to parliament a large issue of commercial exchequer-bills, by way of relieving the present distress.

How far the commercial community are entitled to claim the interference of government, and how far the precedents of 1793 and 1811 would apply in justifying a similar interference at present, are questions which I will not now discuss; but I think it right to offer one or two considerations which lead me to think that the nature of the relief to be looked for from an issue of exchequer-bills is misunderstood, and the probable effects of it greatly overrated.

The cessation of commercial distress, soon after the issue of exchequer-bills in 1793 and 1811,



has been generally considered as a direct consequence of those issues. Of the little influence which the issue of exchequer-bills in 1811 had in removing the commercial distress of that period, I have, on a former occasion *, expressed my opinion, when referring to it historically, without having any particular theory in connexion with it to support. And while I think that there is strong ground, from a careful reference to the state of things in that period and in 1793, to infer that the interposition of parliament did not even hasten, and much less originate, the return of confidence and credit on those two occasions, it appears to me that, upon grounds of general reasoning, it may be questioned whether such a measure was calculated to produce the effects which have been ascribed to it, and which are now expected from it.

Two of the great characteristics of the commercial distress, which it is the object of the measure to relieve, are, the want of lenders, and the want of buyers; as it is from not being able to borrow or to sell that the holders of goods or other property, upon which the advances are to be made, are unable to raise money enough to meet their engagements. Now, an issue of commercial exchequer-bills, upon the footing on which

* Thoughts, &c., p. 88 Second Edition.

they were before and would again be advanced, would supply neither of these desiderata; they would, indeed, add the guarantee of government; or, in other words, render unquestionable and negotiable the security of the person to whom they were advanced; and they would, which is an important point, enable him to avoid the operation of the usury law, because by the sale of the exchequer-bills he might raise the money at a rate of 7 or 8 per cent. per annum, whereas, however good his security had otherwise been, he could not have obtained an advance upon it at the legal rate of 5 per cent. Thus far, therefore, the advance would operate as a direct relief to the person obtaining it, supposing him not otherwise to have been able to borrow the money, or to sell his goods. But as the amount of monied capital seeking investment, or, in other words, the number of lenders, has not been increased by the issue of exchequer-bills, whatever relief is obtained by this person, is at the expense of some other; and if one person is saved from bankruptcy, another may be plunged into it by the same operation. Neither, it is evident, unless the exchequer-bills are considered as currency, or circulating medium, will they operate in the way of relief, by affording a more ready vent for the goods which were previously unsaleable. But exchequer-bills are the objects



and not the medium of exchange, inasmuch as they are bought and sold at a variable price, through the intervention of whatever constitutes the circulating medium. If then the commercial exchequer-bills do not add to the number of lenders or of buyers, while the borrowers and sellers remain the same, it is difficult to conceive how they can operate in the way of general relief; they may alter the direction or distribution, but cannot diminish the mass of distress. Some of the advocates, however, for the proposed measure may possibly admit, as some of them have done, that unless these exchequer-bills were the means of bringing more money into circulation, they would not produce relief; but they contend that the effect of this measure will be to bring more money into circulation, by inducing or enabling the Bank to issue more of its notes, and, further, by inspiring confidence, which will diminish the disposition to hoarding or keeping back money. Now certainly if these exchequer-bills were the means of bringing out more bank-notes than would otherwise be issued, they would operate as a relief to exactly that extent, upon the grounds already stated.

But the utmost amount of notes which the Bank can issue, is limited by a consideration of the exchanges. If the amount issued is short of this limit, there are other means of extending it by discounts, or by purchase of exchequer-bills in the market; or if there be no adequate means for such extension, it argues a vice in the system, which should be remedied without calling for the interposition of government on totally different grounds.

On the other hand, should the Bank, in order to give effect to the issue of commercial exchequer-bills, by buying them, extend its issues beyond that limit, the temporary accommodation thus afforded would be dearly purchased by the alternative of suspension, or of such a degree of subsequent contraction as might renew the distress in an aggravated form. It appears, then, that, in this view, the proposed advance of exchequer-bills, unless it be necessary as a remedy for a defect in the system of the Bank issues, which it would be more simple to correct in the first instance, or as a pretence for an over-issue, would be nugatory as to the object proposed.

There remains, then, only one ground, and that is the restoration of confidence, which, it is alleged, would have the effect of drawing out hoards and affording a greater facility of credit. That an effect of this kind would be equivalent to an increase of money, and thus afford a relief from so much of the pressure as arises from



stagnation and alarm, I am ready to admit. The effect here to be produced, however, is from a moral cause, the operation of which is a matter of uncertainty and depending wholly upon opinion. If the present state of suffering and distress, therefore, arose *wholly* from opinion, and if a salutary direction could with certainty be given to opinion by the measure proposed, some sacrifice of principle might be justified in favour of parliamentary interference.

But nothing is more unsafe than to attempt to operate upon the public opinion, in a direction or in a degree which is not likely to be borne out by correct reasoning. There might, upon such an attempt, be a momentary rise in the funds, and an appearance of revival in other respects; but in proportion as it was discovered, which it inevitably would be, that no essential alteration could be effected by it in the tendency to a subsidence in the rate of interest, and in the prices of commodities, to the level which they would otherwise have attained, the recoil would be in proportion to the artificial improvement, and would operate as a fresh and aggravating cause of disturbance. It is only in the event of the experiment coinciding with the tendency, from other causes, to a revival of confidence and credit, that a mere operation upon opinion would not be productive of mischief; but according to this, which is the most favourable supposition, it would at best be only superfluous.

In as far, therefore, as it may be admitted that the interference by parliament in affording the assistance proposed, would act only through the medium of opinion, it may be a question how far such interposition could be justified by an object so vague and uncertain.

In thus expressing my doubts whether the interference of parliament has on former occasions been, or would in the present instance be productive of the relief ascribed to, or expected from it, I hope that it will not be imputed to me that I am insensible of the actual state of suffering, or indifferent to the means of alleviating it. As well might a physican be charged with inhumanity, because he would not admit as evidence of the efficacy of an empyrical medicine, the casual coincidence of recovery in one or two instances of its application, when the cure could be traced to other causes; and because from a knowledge of its properties, which might lead him to feel confident that it could do no good, he should hesitate to sanction the use of it, in a case in which he had reason to doubt whether it might not, in its ultimate consequences, prove injurious to the constitution of his patient.



All that I have in this instance ventured to do, has been to question the efficacy of the remedy suggested. At the same time I can only repeat that I have none of my own to propose. I have the utmost reliance on the soundness of the constitution of the great commercial and manufacturing interests of this country, and have merely to deprecate any quackery that might retard and disturb the remedial process which is provided in the natural course of things.

Of this at least I feel intimately persuaded, that were it not for the state of the corn trade, which presents a most formidable prospect of difficulty and danger arising out of a high price of food while the demand for labour is greatly reduced, we should, before many weeks have elapsed, witness a complete restoration of confidence and credit, whether any commercial exchequer-bills be issued or not, although if they be issued they will have the merit of the recovery which would equally have taken place without them.

# APPENDIX.

# APPENDIX.

## A. (1)

*Extract from the Report of the Select Committee on the State of Commercial Credit.*—April 25, 1793.

A spirit of commercial speculation and commerce had been for some time increasing in every part of the kingdom, and had now got to such a height, as to threaten public credit with very serious danger. The circulating specie being by no means sufficient to answer the very increased demands of trade, the quantity of paper currency brought into circulation, as a supplying medium, was so great and disproportionate, that a scarcity of specie was produced which threatened a general stagnation of the commercial world. In consequence of this alarming state of public credit, on the motion of Mr. Pitt, a select committee was this day appointed, to take into consideration the present state of commercial credit, and to report their opinion and observations thereupon to the House.

*April* 29.—The Lord Mayor reported from the said committee, That the committee had made a progress in the matter to them referred, and had directed him to make the following

REPORT.

Your committee have thought it incumbent on them, in proceeding to execute the orders of the House, to direct their attention to three principal points:

1st.—Whether the difficulties at present experienced, or the probability of their continuance and increase, are of such urgent importance to the public interest, as to require the interposition of the Legislature?

2d.—On the supposition that such interposition should be deemed necessary, what is the most practicable and effectual plan which can be adopted for giving relief?

3d.—What means can be suggested for preventing the renewal of similar inconveniences?

The consideration of the first and second head, appeared, in some measure, blended together; and the third, though of great importance, appearing to be less urgent in point of time, your committee have thought it proper to submit to the House such considerations as occurred to them upon the two first points, reserving the latter for a separate report.

Under the first of these heads, the notoriety of failures to a considerable extent,—the general embarrassment and apprehension which has ensued,—the consideration of the necessary connexion between different mercantile houses, and their dependence on each other,—and the influence which the state of commercial credit must have upon the trade, the revenue, and general interests of the country, appeared sufficient, without minute examination, to satisfy your committee, that the present situation strongly called for an immediate and effectual remedy, if any practicable plan could be suggested for that purpose.

In addition to this, the committee had an opportunity of collecting from several of their own members, information, grounded either on their general observation upon the subject, or on their own immediate and personal knowledge.

Your committee, understanding that some suggestions on this subject had been laid before the Chancellor of the Exchequer, on the part of several persons of great eminence and respectability in the city of London, were of opinion, that a communication of these suggestions would be very material to the objects of their inquiry, with a view of ascertaining the opinion of persons of this description, both with respect to the necessity of some remedy, and to the particular mode in which it might be applied.



The Chancellor of the Exchequer accordingly laid before the committee a paper which had been delivered to him on the 23d instant by the Lord Mayor and Mr. Bosanquet, which is inserted in the Appendix to this Report. He also stated to the committee the circumstances which had led to this paper being drawn up.—That he had received representations from many different quarters, which induced him to believe, that the failures which had taken place had begun by a run on those houses who had issued circulating paper without being possessed of sufficient capital; but that the consequences had soon extended themselves so far as to affect many houses of great solidity, and possessed of funds ultimately much more than sufficient to answer all demands upon them, but which had not the means of converting those funds into money, or negotiable securities, in time to meet the pressure of the moment.—That the sudden discredit of a considerable quantity of paper which had been issued by different banks, in itself produced a deficiency of the circulating medium, which, in the ordinary course of things, could not be immediately replaced; and that this deficiency occasioned material inconvenience in mercantile transactions.—That in addition to this immediate effect, these circumstances also were represented to have induced bankers and others to keep in their hands a greater quantity of money than they thought necessary in the usual train of business; and that large sums were thus kept out of circulation, and great difficulty arose in procuring the usual advances on bills of exchange, particularly those of a long date.—That many persons were said to be possessed of large stocks of goods, which they could not at present dispose of; and on the credit of which they could not raise money.—That this occasioned an interruption of the usual orders to manufacturers, which circumstance, together with the interruption of the means by which they were enabled to make their weekly payments, tended to prevent the employment of a number of persons engaged in different manufactures. That these evils were represented as likely rapidly to increase to a very serious extent, if some extraordinary means were not adopted to restore credit and circulation.—That in consequence of these representations, he had desired a meeting of different gentlemen, in order to obtain the best information in his power respecting the extent of the evil, and the possibility and propriety of any measure to remedy it.—That after much discussion, all the gentlemen present seemed to agree in a very strong opinion of the extent of the evil; though many objections at first occurred to any plan for remedying it.—That in the result, it was agreed to desire the gentlemen whose names were mentioned in the paper now delivered, to meet, the next day, at the Mansion-House, to consider more particularly the proposal for the issue of Exchequer-bills to a certain amount, to be advanced under proper regulations, for the accommodation of such persons as might apply for the same, and likewise the objections to which such a proposal might be liable; and that the paper which he had laid before the committee contained the opinion of this second meeting.

The Lord Mayor informed the committee, that in conformity to the statement mentioned by the Chancellor of the Exchequer, eleven gentlemen met at the Mansion-House on the 23d, selected principally from that part of the preceding meeting who had expressed the greatest difficulty in finding out a remedy; and, after a long discussion upon the subject, they unanimously were of opinion, that the interposition of Parliament was necessary, and that an issue of Exchequer bills, under certain regulations and stipulations, was the best practical remedy.



*Macpherson's Annals of Commerce*, p. 266.—
A.D. 1793.

At this time also, the concerns of both merchants and manufacturers were much more widely extended, and were much greater than at any former period; a natural effect of increasing prosperity, and, sometimes, a cause of ensuing calamity. From the operation of causes, which I shall not pretend to explain, the unprecedented number of bankruptcies in November, 1792, was prodigiously exceeded in number and amount by those which took place in the spring and summer of this year; 105 in March; 188 in April; 209 in May; 158 in June; and 108 in July. Many houses of the most extensive dealings and most established credit, failed; and their fall involved vast numbers of their correspondents and connexions in all parts of the country. Houses of great respectability and undoubted solidity, possessing ample funds, which actually did, in a short time, enable them to pay every shilling of their debts, were obliged to stop payment; and some bankers, who, almost immediately on recovering from the first panic, resumed the regularity of their payments, were obliged to make a pause. Many whom the temporary assistance of even a moderate sum of money would have enabled to surmount their difficulties, could not obtain any accommodation; for, in the general distress and dismay, every one looked upon his neighbour with caution, if not with suspicion. It was impossible to raise any money upon the security of machinery or shares of canals; for the value of such property seemed to be annihilated in the gloomy apprehensions of the sinking state of the country, its commerce and manufactures; and those who had any money, not knowing where they could place it with safety, kept it unemployed and locked up in their coffers.

Amidst the general calamity, the country banks, which were multiplied greatly beyond the demand of the country for circulating paper currency, (there being about 288, or, according to other accounts, 400 of them in England and Wales,) and whose eagerness to push their notes into circulation had laid the foundation of their own misfortunes, were among the greatest sufferers, and, consequently, the greatest spreaders of distress and ruin among those connected with them; and they were also the chief cause of the great drain of cash from the Bank of England, exceeding every demand of the kind for about ten years back. Of these banks, above 100 failed, whereof there were twelve in Yorkshire; seven in Northumberland; seven in Lincolnshire; six in Sussex; five in Lancashire; four in Northamptonshire; four in Somersetshire, &c.

In consequence of an interview of several of the principal merchants and traders with Mr. Pitt, the Prime Minister, a meeting was held at the Mansion-House, (April 23d,) to concert measures for putting a stop to this terrible calamity; when the Lord Mayor, and Messrs. Anderson, Bosanquet, Forster, Chiswell, Baring, Thornton, Harman, Winthrop, Boddington, and Hunter, after much deliberation, drew up the outlines of a plan for the revival of commercial credit, and the restoration of confidence, by a Parliamentary advance of Exchequer bills, under proper regulations, to houses of real capital; a copy of which was immediately laid before Mr. Pitt, by the Lord Mayor and Mr. Bosanquet.



## A. (2)

*The following fragment was written in* 1822, *with a view to insertion in my former work, entitled "Thoughts and Details of the high and low Prices of the thirty Years, ending* 1822. Part I."

### ON THE EFFECTS OF ALTERATIONS IN THE CURRENCY.

Having stated the grounds on which I consider the utmost effect on prices that may be ascribed to the bank restriction to be the difference between paper and gold, or in the absence of any quotations of gold, the depression of the exchange below par; it strikes me that there is one view in which it may be a question whether prices were affected by the restriction quite to that extent. There is no doubt that the measure would be quite accurate, supposing that the bank directors, if the restriction had not taken place, would or could have so regulated their issues, as to have preserved the price of gold constantly at or below the mint-price and the exchanges at par. But, in point of fact, there were previously to 1797 some occasions when the price of gold in the market was above the mint-price, and there were many more when the depression of the exchanges was to a still greater degree than would be inferred from a reference to the price of gold only.

From August 7, 1795, to June, 1796, no price of gold is quoted in any of the lists laid before Parliament; but, it appears by the evidence of Mr. Abraham Newland, (Report of Lords' Committee of Secrecy, 1797, p. 49,) that in that interval the market-price was considerably above the mint price of gold.

Q. "Has the price of gold at any time within the last two years been as high as 4 guineas per ounce, when guineas could be purchased at the rate of $3l.$ $17s.$ $10\frac{1}{2}d.$ per ounce; and was there not, at that time, reason to apprehend that they would either be melted or clandestinely exported?

A. I believe that gold, within the last two years, has been at a higher price than $4l.$ $4s.$ per ounce, which is a great inducement for persons to melt the guineas which are circulated at $3l.$ $17s.$ $10\frac{1}{2}d.$

Q. Does the bank ever pay more in their purchase of gold than the mint price?

A. Frequently.

Q. Do the bank in such case carry their gold to the mint to be coined?

A. They do.

Q. What is the highest price you ever knew the bank pay for gold per ounce.

A. $4l.$ $1s.$, $4l.$ $2s.$, $4l.$ $6s.$, and as high as $4l.$ $8s.$, but very seldom at those prices.

Q. State to the committee at what time the bank gave so large a price as $4l.$ $8s.$, and what were their reasons for giving a price so much above what they give at present.

A. I believe it was about two years since the bank gave so large a price as $4l.$ $8s.$ per ounce for gold; it was but a small quantity, it was soon stopped on account of its price; the bank at that time thought it expedient to obtain gold from Portugal, which their agent could not do at a less price than $4l.$ $8s.$"

During the interval referred to by Mr. Newland, the exchange on Hamburg fell from $36s.$, which it had been at in February, 1795, to $32s.$ $4d.$ in August, and continued on an average under $33s.$ till February, 1796. The price of silver rose from $5s.$ $1d.$ in February, 1795, to $5s.$ $5\frac{1}{2}d.$ in



September following, and was as high as $5s.$ $6d.$ in July, 1796.

This rise in the price of bullion and depression of the exchanges may be easily accounted for by the combined effect of a large government expenditure, and considerable imports of corn; but still it is material to bear in mind that the market-price of gold and silver, and the foreign exchanges, were liable to no inconsiderable degree of fluctuation, even in a convertible state of the currency and a perfect state of the gold coin.

A still more remarkable instance of fluctuation in the exchanges, and in the price of silver and foreign gold, is observable in an anterior period. The period to which I allude is from the latter part of the American war of independence, viz., from January, 1781, till the close of 1783, which was twelvemonths after the signing of preliminaries of peace.

The exchange on Hamburg for two years preceding 1781, had ranged from $36s.$ to $34s.$, the price of silver from $5s.$ $2d.$ to $5s.$ $5\frac{1}{2}d.$; and the price of foreign as well as standard gold had been mostly at $3l.$ $17s.$ $6d.$, in no instance exceeding $3l.$ $17s.$ $10\frac{1}{2}d.$ In January, 1781, the price of standard and foreign gold were both at $3l.$ $17s.$ $6d.$; silver $5s.$ $5\frac{1}{2}d.$ and the exchange on Hamburg, $34s.$ $1d.$ At the close of 1782, the standard gold was quoted at $3l.$ $17s.$ $9d.$, foreign gold was at $4l.$ $1s.$ and $4l.$ $2s.$; the price of silver $5s.$ $9\frac{1}{2}d.$ and $5s.$ $11\frac{1}{2}d.$; and the exchange on Hamburg, from $32s.$ $11d.$ to $31s.$ $8d.$ In June, 1783, foreign gold was at $4l.$ $2s.$ $3d.$, standard silver $5s.$ $10d.$, and the exchange on Hamburg, $31s.$ $5d.$ And it was not till the spring of 1784 that all these resumed the level from which they had departed in 1781, making an interval of upwards of three years, in which, while the paper was strictly convertible, and the gold coin perfect, the currency was of a diminished value compared with the currencies of other countries.

It might naturally be inferred, that there would be a considerable efflux of the metals; and there is direct proof that the drain of bullion from the bank for exportation was very great; for it is stated, in the Evidence before the Lords' Committee of Secrecy, 1797, that the cash in the bank was lower in 1783 than at the memorable period of February, 1797. The fact, and the reason assigned for the fact, are so curious, that I cannot resist making the following extract from the examination of Mr. Bosanquet, Minutes of Evidence, p. 20:—

Q. "Was you a director of the bank in 1783?

A. I was.

Q. It appearing, by the scale of cash in the bank, in 1783, that it was much lower than on the 26th of February last, can you state to the Committee what measures were then pursued by the bank?

A. I cannot answer that question, without taking notice of the very different situation the country was in at the two periods of 1783 and the beginning of 1797. In the first period, the drain of cash proceeded from the great extension of commerce which followed the peace, and which occasioned so considerable an export of the commodities of this country, that the circulation was hardly sufficient to support it. It was evident that if this drain could be supported for a short time, the influx of wealth that must follow, from the return of the amount of the exports, would amply compensate for the preceding drain, and so it turned out. The bank directors, therefore, without opening the state of their affairs to the then administration, took a bold step of their own authority, and refused to make the advances on the loan of that year*. This answered the purpose of making a temporary suspension in the amount of the drain of their specie. The time at which they had most ground of alarm was not when their cash was at the lowest, but about April or May, when they refused to advance on the loan; and although in October their cash was lower than before, yet they had such reason to expect a sum in their favour by a favourable alteration of the exchanges, that they were under much less apprehensions than they were in the spring.

Q. Is it to be understood that no measures were taken by the bank at that time to procure cash or bullion?

A. I do not recollect that any particular mode was adopted to procure cash or bullion, nor do I know how any effectual one could be adopted, for if the exchanges (I do not know what they were at that period) would not enable individuals to bring cash into the country, it would answer no purpose for the bank to attempt to do it, which would only make the exchanges still more unfavourable. On recollection, I do not know whether some attempts were not made to bring gold from Lisbon and Amsterdam, at a considerable loss, but think it could not have been to a large amount; certainly when the object was only to gain time, it might answer to bring it in, although at a loss."

Here it is to be observed that the drain of cash was considered as the effect of *extended commerce in consequence of the peace.* It might, however, with more probability be referred to two circumstances unconnected with the peace. The one, a *previous greatly-enlarged issue of bank notes*, and the other, a very considerable importation of grain in 1783, as a consequence of the bad harvest of 1782. But, whatever might be the cause of the depression of the exchanges, so much below even the silver par, and of the consequent efflux of the metals, for so long a period, the fact itself is material,



* It was a bold step indeed, for it reduced the circulation of bank notes at once from about nine millions to six millions, and yet this reduction, great as it was, does not appear to have had the effect of raising the exchange, or arresting the drain of treasure, till nearly six months after.

as proving, that even while the currency was undepreciated, according to its standard in this country, it was liable to considerable fluctuation in value, relatively to the currencies of other countries; and that the extent of this fluctuation of the exchange, *viz.*, from 36*s.* in 1779, to 31*s.* 5*d.* in 1783; and again to 37*s.* 6*d.* in 1793, *viz.*, a fall of about 14 per cent., and a rise of nearly 20 per cent., should be deducted from the effects ascribed specifically to the operation of the restriction on cash payments.

I am perfectly aware that a considerable proportion of the fluctuation of the exchanges, in the period which I have noticed between 1779 and 1793, is referable to alterations in the relative values between gold and silver; but so, likewise, has it been in the subsequent period. Subject to this allowance, it will appear that measuring the value of the currency of this country, either by the exchange with Hamburg, which has the most perfect metallic standard, or by the price of silver, there was not in the whole period of upwards of ten years following the bank restriction, with the exception of very short intervals in the years 1800 and 1801, a greater variation than had occurred in periods preceding 1797, when the paper was convertible and the coin perfect; and the legitimate practical inference is, that if the run on the bank, in 1797, had subsided so as to have precluded the suspension, and that the bank had subsequently, while liable to pay in cash, regulated its issues, as it had done previously, there would not, down to the close of 1808, have been any sensible difference of prices, compared with those which actually prevailed.

*   *   *   *



## B.

MONTHLY AVERAGE taken from the Amount of the Weekly Issues of all the Promissory Notes and Post Bills of the Bank of England, from April 1822, to March 1825, inclusive.

| | | | |
|---|---|---|---|
| | 1822. | 1823. | 1824. |
| April . . . . | £ 18,215,955 | £ 18,567,423 | £ 20,647,449 |
| May . . . | 17,320,347 | 18,288,297 | 19,926,896 |
| June . . . | 16,601,214 | 17,050,415 | 19,141,058 |
| July . | 19,514,806 | 19,700,495 | 21,660,973 |
| August . . . | 18,517,694 | 19,743,656 | 20,775,386 |
| September . . . | 17,071,343 | 18,234,629 | 19,177,783 |
| October . . . | 17,575,968 | 18,681,589 | 20,355,378 |
| November . . . | 17,453,767 | 20,406,565 | 21,123,242 |
| December . . . | 16,396,217 | 17,955,779 | 19.553,772 |
| | 1823. | 1824. | 1825. |
| January . . . | 19,096,477 | 19,800,615 | 21,834,743 |
| February . . . | 18,174,771 | 20,067,549 | 21,383,658 |
| March . . . . | 17,339,538 | 19,093,682 | 19,847,514 |

## C.

COURSE of EXCHANGE on Paris in 1823, 24, and 25.

| The Par is as nearly as possible *F.* 25 15. | | | Rates at which Bills were actually negotiated at Sight. | | | | | Price of Gold. | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | £. | s. | d. |
| 1823 | January | 17 | 25 | 47½ | a. | 25 | 50 | | | |
| | February | 21 | 25 | 55 | — | 25 | 60 | | | |
| | March | 18 | 25 | 70 | — | 25 | 72½ | | | |
| | April | 22 | 25 | 75 | — | 25 | 77½ | | | |
| | May | 23 | 25 | 82½ | — | 25 | 85 | | | |
| | June | 17 | 25 | 67½ | — | 25 | 70 | | | |
| | July | 18 | 25 | 70 | — | 25 | 75 | | | |
| | August | 19 | 25 | 75 | — | 25 | 80 | | | |
| | September | 19 | 25 | 80 | — | 25 | 82½ | | | |
| | October | 28 | 25 | 62½ | — | 25 | 67½ | 3 | 17 | 6 |
| | November | 28 | 25 | 60 | — | 25 | 62½ | | | |
| | December | 26 | 25 | 32½ | — | . . . . | | | | |
| 1824 | January | 6 | 25 | 52½ | — | 25 | 55 | | | |
| | May | 25 | 25 | 35 | — | 25 | 40 | | | |
| | June | 29 | 25 | 35 | — | 25 | 37½ | | | |
| | July | 30 | 25 | 15 | — | 25 | 20 | | | |
| | August | 31 | 25 | 20 | — | 25 | 15 | | | |
| | September | 28 | 25 | 22½ | — | 25 | 25 | | | |
| | October | 29 | 25 | 10 | — | 25 | 12½ | | | |
| | November | 30 | 25 | 05 | — | 25 | 10 | | | |
| | December | 31 | 25 | 05 | — | . . . | | 3 | 17 | 9 |
| 1825 | January | 28 | 25 | 05 | — | 25 | 10 | | | |
| | March | 1 | 25 | 05 | — | 25 | 07½ | | | |
| | April | 5 | 25 | 10 | — | 25 | 12½ | | | |
| | May | 3 | 25 | 10 | — | 25 | 12½ | | | |
| | June | 3 | 25 | 05 | — | 25 | 07½ | | | |
| | July | 1 | 25 | 05 | — | 25 | 10 | 3 | 17 | 10½ |
| | August | 2 | 25 | 07½ | — | 25 | 10 | | | |
| | September | 6 | 25 | 10 | — | 25 | 12½ | | | |
| | „ | 27 | 25 | 17½ | — | 25 | 20 | | | |
| | October | 7 | 25 | 25 | — | 25 | 27½ | 3 | 17 | 6 |
| | „ | 18 | 25 | 15 | — | 25 | 17½ | | | |
| | „ | 21 | 25 | 17½ | — | 25 | 20 | 3 | 17 | 8 |
| | November | 4 | 25 | 10 | — | 25 | 15 | 3 | 17 | 9 |
| | „ | 18 | 25 | 07½ | — | 25 | 10 | 3 | 17 | 10½ |
| | December | 2 | 25 | 12½ | — | 25 | 15 | | | |
| | „ | 6 | 25 | 15 | — | 25 | 20 | | | |
| | „ | 9 | 25 | 20 | — | 25 | 25 | | | |
| | „ | 20 | 25 | 30 | — | 25 | 35 | 3 | 17 | 6 |
| | „ | 23 | 25 | 25 | — | 25 | 27½ | | | |
| | „ | 27 | 25 | 20 | — | 25 | 25 | | | |
| | „ | 30 | 25 | 20 | — | 25 | 25 | | | |



## D.

TABLE I.——Shewing the SCALE of CASH and BULLION in the Bank from 1782 to 1797.

This and the three following Tables are taken from the *Monthly Magazine*, for October, 1797.

| Date. | No. | Date. | No. | Date. | No. | Date. | No. | Date. | No. |
|---|---|---|---|---|---|---|---|---|---|
| 1782 | | | | 1789 | | | | 1796 | |
| March | 602 | December 31 | 1226 | March 28 | 1462 | September 28 | 1032 | January | 558 |
| June | 586 | 1786 | | June 27 | 1634 | December 29 | 868 | March | 490 |
| September | 382 | March 24 | 1178 | September 26 | 1764 | 1793 | | May | 438 |
| December | 352 | June 30 | 1220 | December 24 | 1756 | March 30 | 580 | July | 414 |
| 1783 | | September 30 | 1256 | 1790 | | June 29 | 728 | September | 418 |
| March | 208 | December 30 | 1190 | March 26 | 1712 | September 28 | 1128 | December | 414 |
| June | 136 | | | June 25 | 1652 | December 30 | 1274 | 1797 | |
| October | 78 | 1787 | | September 24 | 1684 | 1794 | | January | 338 |
| December | 116 | March 21 | 1096 | December 31 | 1616 | March 29 | 1420 | February 4 | 340 |
| 1784 | | June 30 | 1140 | 1791 | | June 28 | 1354 | „ 11 | 356 |
| June | 224 | September 28 | 1270 | March 26 | 1516 | September 27 | 1336 | „ 18 | 314 |
| September 25 | 326 | December 29 | 1186 | June 25 | 1552 | December 24 | 1282 | „ 21 | 298 |
| December 31 | 445 | 1788 | | September 24 | 1582 | 1795 | | „ 22 | 284 |
| 1785 | | March 29 | 1124 | December 31 | 1420 | March | 1310 | „ 23 | 268 |
| March 19 | 582 | June 28 | 1240 | 1792 | | June | 1214 | „ 24 | 210 |
| June 25 | 884 | September 27 | 1404 | March 31 | 1236 | September | 956 | „ 25 | |
| September 24 | 1174 | December 24 | 1438 | June 30 | 1132 | December | *660 | | |

* This number has been stated to represent fair cash.

TABLE II.——Shewing the STATE of the FINANCES of the BANK on the 26th February, 1797.

| *Dr.* | | *Cr.* | |
|---|---|---|---|
| Bank Notes in circulation | £ 8,640,250 | Advances on Government Securities | £ 10,672,490 |
| Drawing Account—Audit Roll, Exchequer Bills deposited, and other Debts | 5,130,140 | By all other Credits, including Cash, Bullion, Bills discounted, &c. | 6,924,790 |
| | 13,770,390 | | |
| Balance | 3,826,890 | | |
| | 17,597,280 | | £ 17,597,280 |

| PARTICULARS OF DEBIT ACCOUNT. | |
|---|---|
| Drawing Account | £ 2,389,600 |
| Exchequer Bills deposited | 1,676,000 |
| Audit Roll (or unpaid dividends) | 983,730 |
| Bank Stock dividends unclaimed | 45,150 |
| Dividends unclaimed on East India Annuities | 10,210 |
| Sundry small articles unclaimed | 1,330 |
| Due from Chief Cashier on the loan of 1797 | 17,060 |
| Unpaid Irish dividends | 1,460 |
| do. on the Imperial Loan | 5,600 |
| | £ 5,130,140 |

| PARTICULARS OF CREDIT ACCOUNT. | |
|---|---|
| Bills and Notes discounted, Cash and Bullion | £ 4,176,080 |
| Exchequer Bills | 8,228,000 |
| Lands and Tenements | 65,000 |
| Money lent on Mortgage, on Annuities of £1,200,000 to the East India Company | 700,000 |
| Stamps | 1,510 |
| Navy and Victualling Bills | 15,890 |
| American Debentures, 1790 | 54,150 |
| Petty Cash in the house | 5,320 |
| Sundry articles | 24,150 |
| 5 per Cents. Ann. from Navy | 795,800 |
| 5 per Cents. 1797 | 1,000,000 |
| Treasury Bills paid for Government | 1,512,270 |
| Loan to Government without interest | 376,000 |
| Bills discounted unpaid | 88,120 |
| Treasury and Exchequer fees | 740 |
| Interest due on different sums advanced to Government | 554,250 |
| | £ 17,597,280 |

[*Monthly Magazine* for October, 1797, p. 249, entitled Table II.]



TABLE III.——Being a SCALE of DISCOUNTS from 1782 to 1797 in which unit is the medium.

| Year. | Scale. | Year. | Scale. |
|---|---|---|---|
| 1782 | 1 to 1¼ | 1790, 1791 | 1 to ½ to ¼ |
| 1783 | 1¼ to 1 to 1½ | | |
| 1784 | 1¼ to 1¾ | 1792 | ½ to 1 |
| 1785 | 1¾ to 2, to 1¼ | 1793 | 1 to 3½ to 1 |
| 1786 | about 1 | 1794 | 1 to 1½ to 1 |
| 1787 | 1¼ to 1½ | 1795 | 1 to ½ to 1 |
| 1788 | 1¼ to 1¾ to ¾ | 1796 | 1½ to 2 to 1½ to 2 |
| 1789 | ¾ to ½ | 1797 | 2 to 1½ to 2½ * |

* This is brought down to the 16th of March or thereabouts.

TABLE IV.——Being a MONTHLY SCALE of DISCOUNTS for the years 1793, 1794, 1795, and 1796.

| Date. | No. | Date. | No. | Date. | No | Date. | No. |
|---|---|---|---|---|---|---|---|
| 1793 | | 1794 | | 1795 | | 1796 | |
| Jan. 5 | 214 | Jan. 4 | 101 | Jan. 4 | 104 | Jan. 2 | 179 |
| Feb. 1 | 209 | Feb. 1 | 110 | Feb. 7 | 107 | Feb. 6 | 152 |
| March 2 | 217 | March 1 | 131 | March 7 | 103 | March 5 | 137 |
| April 6 | 320 | April 5 | 137 | April 11 | 187 | April 2 | 131 |
| May 4 | 283 | May 3 | 139 | May 2 | 176 | May 7 | 129 |
| June 1 | 231 | June 13 | 147 | June 6 | 157 | June 3 | 168 |
| July 6 | 178 | July 5 | 149 | July 4 | 220 | July 2 | 165 |
| August 3 | 123 | August 2 | 120 | August 1 | 151 | August 6 | 163 |
| Sept. 7 | 98 | Sept. 6 | 90 | Sept. 5 | 85 | Sept. 3 | 151 |
| Oct. 5 | 102 | Oct. 4 | 92 | Oct. 3 | 79 | Oct. 1 | 189 |
| Nov. 8 | 91 | Nov. 8 | 85 | Nov. 7 | 96 | Nov. 3 | 178 |
| Dec. 7 | 89 | Dec. 1 | 85 | Dec. 5 | 140 | Dec. 3 | 171 |

"By comparing these tables with each other, and also with some parts of the evidence delivered before the committees, it will appear that the truth which they were intended to conceal, is in a great degree capable of being unravelled. I have very good reason for believing (although the circumstance is not inserted in either of the Reports), that one of the directors acknowledged that the Bank, in the course of six days before it stopped payment, had been drained of its cash, after the rate of 100,000*l.* each day. From the 18th to the 25th of February, therefore, the sum of 600,000*l.* was paid, and the fictitious number was, in consequence, reduced from 314 to 210. Hence it follows, that the mean number 660 denotes the sum of four millions, and that the sum of 1,272,000*l.*, represented by the number 210, was very nearly the cash remaining in the Bank on the day in which the directors were prohibited, by an order of council, from the further payment of their notes in money.

In Table II. it appears, that the amount of cash and bullion, and bills discounted on the 26th of February was 4,176,080*l.*; deducting 1,272,000*l.* from thus sum, the remainder, or 2,904,080*l.*, will be the whole amount of the discounts on that day.

In Table III., the scale of discounts in the beginning of the year 1797, is expressed by the number 2; and on the 16th March following, by the number $2\frac{1}{2}$. In February, therefore, it is most probably expressed by the intervening number $1\frac{1}{2}$. Now since unit is the medium, and the amount of the discounts on the 26th February appears to be three millions nearly, it is highly probable that this unit denotes two millions, and consequently that the fraction $\frac{1}{2}$ denotes one million. The truth of this supposition is in a great measure confirmed by the evidence of Mr. Giles *, who acknowledges that, in the course of a little more than a fortnight after the Bank had stopped payment, they had increased their discounts about two millions; and, in consequence, we find the scale is increased an unit, from $1\frac{1}{2}$ to $2\frac{1}{2}$, which accords exactly with this evidence. Comparing the numbers in Table III. with those in the following table, the mean number in the latter, or that which expresses two millions, appears to be 90. If, therefore, the cash and bullion, and the discounts be reduced agreeable to those solutions, their amount compared with the bank notes in circulation, and the advances to government (as stated in the reports of the committees) will be as follows:"

* See the Report of the Secret Committee, p. 54.



| DATE. | Cash and Bullion. | Average of Bank Notes circulated. | Bills discounted. | Average Advances to Government. |
|---|---|---|---|---|
| 1793 March . . | 3,508,000 | 11,963,820 | 4,817,000 | 8,735,200 |
| June . . . | 4,412,000 | 12,100,650 | 5,128,000 | 9,434,000 |
| September | 6,836,000 | 10,938,620 | 2,065,000 | 9,455,700 |
| December | 7,720,000 | 10,967,310 | 1,976,000 | 8,887,500 |
| 1794 March . . | 8,608,000 | 11,159,720 | 2,908,000 | 8,494,100 |
| June . . . | 8,208,000 | 10,366,450 | 3,263,000 | 7,735,800 |
| September | 8,096,000 | 10,343,940 | 2,000,000 | 6,779,800 |
| December | 7,768,000 | 10,927,970 | 1,887,000 | 7,545,100 |
| 1795 March . . | 7,940,000 | 12,432,240 | 2,287,000 | 9,773,700 |
| June . . . | 7,356,000 | 10,912,680 | 3,485,000 | 10,879,700 |
| September | 5,792,000 | 11,034,790 | 1,887,000 | 10,197,600 |
| December | 4,000,000 | 11,608,670 | 3,109,000 | 10,863,100 |
| 1796 March . . | 2,972,000 | 10,824,150 | 2,820,000 | 11,351,000 |
| June . . . | 2,582,000 | 10,770,200 | 3,730,000 | 11,269,700 |
| September | 2,532,000 | 9,720,440 | 3,352,000 | 9,901,100 |
| December | 2,508,000 | 9,645,710 | 3,796,000 | 9,511,400 |
| 1797 Feb. 26 | 1,272,000 | 8,640,250 | 2,905,000 | 10,672,490 |

Thus far is extracted literally from the *Monthly Maga-*

*zine*, for October, 1797, p. 249 to 251. The following Table, No. 5, is made up, as far as relates to the scale of cash and bullion and of discounts, from materials furnished by the foregoing Tables, Nos. 1 to 3. The amount of bank notes in circulation, and of advances to government, from 1782 to 1792, is extracted from the Reports of the Lords' Committee of Secrecy in 1797, p. 96 and 98.

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TABLE V.—Shewing the SCALE of CASH and BULLON in the BANK, the Amount of Notes in circulation, of Bills discounted, and of Advances to Government, from 1782 to 1792.

| DATE. | Scale. | Cash and Bullion. | Amount of Bank Notes in Circulation. | | Bills discounted. (Scale of Discounts.) | Advances to Government. |
|---|---|---|---|---|---|---|
| | | Computation at 660 to 4,000,000. | | | Unit supposed to be 2,000,000. | |
| 1782 Mar. . | 602 | 3,648,000 | Mar. | 9,160,470 | | |
| June . . | 586 | 3,552,000 | June | 8,775,680 | 1 to $1\frac{3}{4}$ | 9,991,678 |
| Sept. . | 382 | 2,333,000 | Oct. | 6,371,300 | | |
| Dec. . . | 352 | 2,133,000 | Dec. | 5,994,970 | | |
| 1783 Mar. . | 208 | 1,261,000 | Mar. | 7,338,230 | | |
| June . . | 136 | 824,000 | June | 6,970,660 | $1\frac{1}{4}$ to 1 to $1\frac{1}{2}$ | 9,629,071 |
| Oct. . . | 78 | 473,000 | Oct. | 5,894,520 | | |
| Dec. . . | 116 | 703,000 | Dec. | 6,006,950 | | |
| 1784 June . . | 224 | 1,355,000 | June | 6,716,950 | | |
| Sept. 25 | 326 | 1,976,000 | Oct. | 6,073,480 | $1\frac{1}{4}$ to $1\frac{3}{4}$ | 7,565,853 |
| Dec. 31 | 445 | 2,697,000 | Dec. | 5,948,380 | | |
| 1785 Mar. 19 | 582 | 3,527,000 | | | | |
| June 25 | 884 | 5,358,000 | . . . | . . . . | $1\frac{3}{4}$ to 2 to $1\frac{1}{4}$ | 7,030,200 |
| Sept. 24 | 1174 | 7,115,000 | | | | |
| Dec. 31 | 1226 | 7,430,000 | | | | |
| 1786 Mar. 24 | 1178 | 7,139,000 | | | | |
| June 30 | 1220 | 7,394,000 | . . . | . . . . | about 1 | 6,634,872 |
| Sept. 30 | 1256 | 7,612,000 | | | | |
| Dec. 30 | 1190 | 7,212,000 | | | | |
| 1787 Mar. 21 | 1096 | 6,642,000 | | | | |
| June 30 | 1140 | 6,909,000 | Feb. 25 | 8,688,570 | $1\frac{1}{4}$ to $1\frac{1}{2}$ | 7,144,896 |
| Sept. 28 | 1270 | 7,697,000 | | | | |
| Dec. 29 | 1186 | 7,188,000 | | | | |

TABLE V.—*Continued.*

| DATE. | Scale. | Cash and Bullion. | Amount of Bank Notes in Circulation. | | Bills discounted. (Scale of Discounts.) | Advances to Government. |
|---|---|---|---|---|---|---|
| | | Computation at 560 to 4,000,000. | | | Unit supposed to be 2,000,000. | |
| 1788 Mar. 29 | 1124 | 6,812,000 | | | | |
| June 28 | 1240 | 7,515,000 | Feb. 25 | 9,370,350 | $1\frac{1}{4}$ to $1\frac{3}{4}$ to $\frac{3}{4}$ | 7,347,699 |
| Sept. 27 | 1404 | 8,509,000 | | | | |
| Dec. 24 | 1438 | 8,715,000 | | | | |
| 1789 Mar. 28 | 1462 | 8,861,000 | | | | |
| June 27 | 1634 | 9,903,000 | " | 9,905,240 | $\frac{3}{4}$ to $\frac{1}{2}$ | 7,948,435 |
| Sept. 26 | 1764 | 10,691,000 | | | | |
| Dec. 24 | 1756 | 10,642,000 | | | | |
| 1790 Mar. 26 | 1712 | 10,376,000 | | | | |
| June 25 | 1652 | 10,012,000 | " | 10,217,360 | 1 to $\frac{1}{2}$ to $\frac{1}{4}$ | 7,908,968 |
| Sept. 24 | 1685 | 10,204,000 | | | | |
| Dec. 31 | 1616 | 9,794,000 | | | | |
| 1791 Mar. 26 | 1516 | 9,188,000 | | | | |
| June 25 | 1552 | 9,406,000 | " | 11,699,140 | 1 to $\frac{1}{2}$ to $\frac{1}{4}$ | 9,603,978 |
| Sept. 24 | 1582 | 9,588,000 | | | | |
| Dec. 31 | 1420 | 8,606,000 | | | | |
| 1792 Mar. 31 | 1236 | 7,491,000 | | | | |
| June 30 | 1132 | 6,861,000 | " | 11,349,810 | $\frac{1}{2}$ to 1 | 9,839,338 |
| Sept. 28 | 1032 | 6,255,000 | | | | |
| Dec. 29 | 868 | 5,260,000 | | | | |



## E.

ACCOUNT of PROFIT and LOSS of the BANK of FRANCE, for the Six Months expiring 31st December, 1825.

| *Dr.* | | *Cr.* | |
|---|---|---|---|
| Charges of Management, Salaries, &c. | *F.* 479,000 | Discount on 359 million Bills, discounted at four per cent. | *F.* 2,515,000 |
| Interest on 141 million Bills, discounted, not yet due | 678,000 | Discount on 40 million Bons Royaux | 129,000 |
| Balance, or Profit | 3,978,000 | Six months' Interest on 2,226,000 rentes, 5 per cent. | 1,113,000 |
| | | Interest on Certificats d'Emprunt | 632,000 |
| *Capital*, 67900 *shares*, 1000f. *each.* | | Interest on Advances made against Deposits of Sovereigns and Ingots | 228,000 |
| 1st dividend 30f. | | Discount on 103 million of Bills, discounted previous to July 1, 1825, falling due subsequently | 428,000 |
| 2d do. 19 | | Sundry Profits | 90,000 |
| Reserved 9.50 Invested in Rentes. | | | |
| | *F.* 5,135,000 | | *F.* 5,135,000 |

On the 31st Dec. 1825, the Bank had about 240 millions Notes in circulation,
90 do. Specie,
36 do. Sovereigns and Foreign Coin,
and had 60 millions Francs deposits.

The Bank discounts three days a week, at 4 per cent., Bills from one to three months; the amount discounted each day varies from five to seven up to twelve millions of Francs.

## F.

**COMPARATIVE STATEMENT of the PRICES of the following Articles in the Years 1823, 1824, and 1825.**

| ARTICLES. | | Prices in 1823. (In Bond.) | | | | Prices in 1824. (In Bond.) | | | | Prices in 1825. (In Bond.) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Lowest. | | Highest. | | Lowest. | | Highest. | | Highest. | | Lowest. | |
| | | s. | d. | s. | d. | s. | d. | s. | d. | s. | d. | s. | d. |
| Cochineal, | Spanish . . . . | 20 | 0 | 24 | 0 | 19 | 0 | 20 | 0 | 26 | 0 | 19 | 0 |
| Coffee, | St. Domingo* . . | 82 | 0 | 112 | 0 | 58 | 0 | 75 | 0 | 88 | 0 | 56 | 0 |
| Cotton, | Bowed Georgia . | 0 | 8½ | 0 | 10½ | 0 | 9 | 0 | 9¾ | 1 | 6½ | 0 | 9¾ |
| | Bengal and Surat | 0 | 6½ | 0 | 8¼ | 0 | 6½ | 0 | 8¼ | 1 | 1½ | 0 | 6¾ |
| Indigo, | East India . . . | 9 | 9 | 12 | 0 | 9 | 0 | 15 | 0 | 16 | 0 | 12 | 0 |
| | | £. | s. | £. | s. | £. | s. | £. | s. | £. | s. | £. | s. |
| Iron, | British . . . . . | 6 | 0 | 7 | 0 | 6 | 0 | 11 | 0 | 13 | 0 | 10 | 0 |
| Lead, | British . . . . . | 22 | 10 | 23 | 10 | 23 | 0 | 23 | 10 | 30 | 10 | 22 | 10 |
| | | s. | d. | s. | d. | s. | d. | s. | d. | s. | d. | s. | d. |
| Saltpetre, | East India . . . | 24 | 0 | 39 | 0 | 20 | 0 | 23 | 0 | 36 | 0 | 24 | 0 |
| Spices, | Cinnamon . . . | 6 | 8 | 8 | 3 | 6 | 8 | 7 | 6 | 13 | 6 | 7 | 6 |
| | Mace . . . . . | 5 | 2 | 6 | 3 | 4 | 8 | 5 | 10 | 18 | 0 | 5 | 6 |
| | Nutmegs . . . . | 3 | 1 | 3 | 6 | 2 | 8 | 5 | 8 | 12 | 0 | 3 | 6 |
| | Pepper, black . . | 0 | 5½ | 0 | 7¼ | 0 | 5¾ | 0 | 6¼ | 0 | 9½ | 0 | 6 |
| Sugar, | B.P. Gaz. average | 30 | 10 | 38 | 2¼ | 29 | 2 | 34 | 5½ | 45 | 2 | 36 | 11½ |
| | Havannah, white | 44 | 0 | 48 | 0 | 40 | 0 | 44 | 0 | 57 | 0 | 44 | 0 |
| Silk, | Reggio . . . . . | 11 | 6 | 16 | 0 | 11 | 6 | 15 | 0 | 17 | 0 | 12 | 0 |
| | China, Raw . . . | 20 | 0 | 22 | 0 | 20 | 0 | 21 | 0 | 28 | 0 | 20 | 0 |
| | | £. | s. | £. | s. | £. | s. | £. | s. | £. | s. | £. | s. |
| Spelter | . . . . . . . . | . . | . | . . | . | 20 | 10 | 30 | 0 | 41 | 15 | 26 | 0 |
| | | s. | d. | s. | d. | s. | d. | s. | d. | s. | d. | s. | d. |
| Tallow, | St. Petersb. Y. C. | 31 | 0 | 37 | 0 | 31 | 6 | 34 | 6 | 43 | 0 | 31 | 6 |
| Tobacco, | Virg. ord. & mid. | 0 | 2½ | 0 | 3¼ | 0 | 2½ | 0 | 5½ | 0 | 6½ | 0 | 4 |
| Wool, | German, fine . . | 6 | 6 | 8 | 6 | 6 | 6 | 9 | 6 | 9 | 6 | 6 | 6 |

* In the early part of 1823, Prices of some Articles were driven up by a speculation upon the war-like aspect of politics, in consequence of the proposed invasion of Spain by France, and the apprehension that this country might be involved in the war.

Printed by WILLIAM CLOWES, Northumberland-Court, Strand.

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*Dec. 29, 1825.*

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