DIGEST

OF

FACTS AND PRINCIPLES,

ON

BANKING AND COMMERCE,

WITH A PLAN FOR

PREVENTING FUTURE RE-ACTIONS.

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INTRODUCTION.

THE design of this publication is simply a Digest of the Facts and Principles growing out of the late and similar revulsions in our commercial history.

The last has been a remarkable crisis, distinguished from its predecessors by new incidents, and now, towards the close, it seems desirable to have a record of its nature and extent, of the new principles it may have developed, and of the old ones it may have confirmed or exploded. We have evidently been among rocks and breakers; it behoves us, therefore, after the storm has abated, and we have neared the haven, though with a shattered bark, and some of the company missing, carefully to mark down their position and bearing, so that our future navigation may be performed in safety.

I have carefully considered what has been written and said on the subject; and my object has been to form an impartial deduction from the whole; to ascertain what amount of blame ought to be justly ascribed to the Country Bankers—what to the system of credit among individuals—and what to the Bank of England, and the Government.

With the view of rendering it more useful to the general reader, I have introduced a short account of the origin of country banks and private banks in London—of the mode in which business is conducted—the general principles of banking—and of the laws which govern the extension and contraction of a paper currency. I claim no novelty in this part; the object was utility and general information.

I might have extended the historical notice of similar periods of commercial re-action; but my object has been to compress facts and principles, not to make a book. I found abundant examples, in the early part of the last reign, to show that over-trading and revulsion had resulted from causes wholly unconnected with paper currency, and that was sufficient for the principle I wished to establish.

For reference and illustration, I have

added a careful selection of public documents, in which I have had a peculiar advantage from the work not appearing till after the meeting of Parliament.

My conclusions on the whole question of our commercial difficulties are, that no great blame can be justly ascribed to any class or party; though, undoubtedly, much remains for preventive legislation to the State, and of future caution to individuals.

We may feel some sympathy, but certainly cannot greatly reproach the Country Bankers;—good, easy men! they were too liberal and confiding!—to assist the enterprise of others they have ruined themselves.

Again, as to the Bank of England, it ought not to be forgotten that, in one sense, it is only a great commercial establishment, a leading object of whose institution is to increase the amount of its wealth. The Directors are often placed in an awkward dilemma, in which their duty to the proprietors, whose servants they are, prescribes one thing, and the interest of the public another; it is not surprising, then, if it some times happen that the common weal suffers, in order that the dividends may be augmented. The fault is not theirs, but of the power by which they were first instituted, or of that which, under such an *immoral* system, still allows them, unreformed, to exist.

Neither does the conduct of Ministers, whose measures tended to augment the redundant capital already existing, appear to merit severe reprobation. If they endeavoured to lower the rate of interest—why, it was *pro bono publico!* They wished to reduce the amount of the public annuities, and thereby, it is to be hoped, to lessen the public burdens. Perhaps, they attempted the experiment at an unseasonable time, or in an unreasonable manner:—granted; but did any one warn them of their error? If not, let us be silent; for after-wit is too common and cheap an article to be cried in the streets or carried to the market.

Ministers, in my opinion, have evinced great wisdom and firmness in a very trying and unlooked-for crisis. Perhaps it will be said, hereafter, that they yielded too much to the emergencies of the moment: but they

were beset with difficulties, the amount and pressing nature of which they alone could duly appreciate. Where, it may be asked, could we have found men in their situations—and, of course, desirous of keeping them—who would have shown a more inflexible adherence to general principles, when pressed, by powerful and influential classes, (at the eve, too, of a general election,) to adopt plausible expedients, which, though ultimately injurious, would have afforded a transitory and popular relief?

One principal source of the mischief, I apprehend, may be found in the community, in those principles of commercial enterprise and confidence that have been established amongst us. But, even here, something may be said in extenuation. Individuals did not like their money to lie idle; they had much—wanted more; but I cannot bear to finish the proverb. One, indeed, would have thought that antecedent disasters, so recent and similar in their origin, would have been a caution; but it shows how soon evils that are past are forgotten; and I verily believe had a man risen from the dead to warn us from the precipice to which we were hurrying, he would not have been listened to.

One word with the POLITICAL ECONOMISTS. Their principles have had a trial, and received, I think, a slight shock.

First, it cannot now be said that the power to convert paper into gold, at the will of the holder, is an adequate check against over-issue.

Secondly, however great the theoretic advantages of a paper currency, they are far outweighed by practical evils, and the inconveniences to which a great mercantile community, occasionally dependent on other countries for a supply of essential articles of consumption, may be exposed, in not possessing, to a certain extent, at least, a medium of exchange in common with surrounding states.

Thirdly, grave doubts may be entertained of the soundness of the more general principle, that individuals, even in commercial matters, may be safely left to the unaided guidance of their own prudence and views of interest.

Ministers gave full scope to the trial of this dogma, in leaving unchecked the share

speculations; they even went so far as to repeal the Bubble Act (6 Geo. I. c. 18), which afforded some protection to the fatuity of the multitude. What has been the result? Why a few artful knaves—noble lords—honourable members—bankers and merchants, of *irreproachable character*—solicitors—editors of newspapers—directors of fire offices, charitable institutions, &c. sly dogs all of them!—have been enriched, and their credulous dupes filed in the Gazette!

It may be said that posterity will benefit by the example. I deny the fact. There is in every age a flock of grown children,—they form a link in the creation, very useful in their sphere,—but, if they are not watched and taken care of, they are duped and ruined,—and then come upon the parish for assistance. Now it is not those who will benefit by recent experience: their memories are short, they never read, nor reflect, nor make syllogisms; they may be always taken by the same bait, generation after generation, to the end of time. The class who will really profit by events are the rogues themselves. They will learn new devices from experience of the old, and success will add to their boldness and effrontery.

Now, I contend, it is the duty of the supreme power, in every state, to watch over the *unfortunates* I have described, not to abandon them to the care of their own slender faculties, still less to the tender mercies of Scotch philosophy. They are properly *wards* of the social compact. To neglect them is to vacate the functions of government, which impose on rulers not less the obligation to protect the weak from the aggression of the strong, than to shield innocence and credulity from becoming the victims of reckless and unprincipled cupidity.

Such a degree of legislative interference is not liable to the common objection, that it would impose restraints on the whole community, merely that a few imbeciles may be protected. It would only check the pursuits of the vicious and fraudulent, while the rest of society, as before, might pursue honourable and legitimate courses; and be, at the same time, relieved from the contingent necessity of having to provide

for those who, without such precaution, had become victims to their folly and shortsightedness.

Before concluding, I must make my acknowledgements to Mr. Tooke, Daniel, Hardcastle, and several authors of anonymous publications, for facts and information. As I have not had an opportunity of perusing the celebrated article, so long announced, in "the forthcoming number of the Edinburgh Review," I do not know what new lights I might have collected from that source. With Mr. Tooke's facts and reasoning on the causes of the late extraordinary crisis, I generally agree; with this difference, that I think he has ascribed too much importance to the enlargement of the issues of the provincial banks and of the Bank of England, and too little to the extension of private paper and transactions on credit.

Credit, not Bank notes, has been the main cause of commercial embarrassments. The power of government to mitigate the evils from this source, or to prevent their recurrence, is extremely limited. They may remove the obstacles which prevent banks being established on more solid foundations; they may prevent the issue of small notes; but this does not extend to the chief seat of the disorder. Nine-tenths of the mischief have flowed from an excess of mercantile confidence, which opened the door to thoughtless and headlong speculation on fictitious capital. The preventive of this can only come from individuals, not the state.

In a word, more caution must be introduced into commercial transactions, and the term of credit must be abridged. Bankers, merchants, and traders, too, must be aware that no one ought to trade to the full extent of his circulating capital. That mortgage-deeds, titles, pledges of buildings, and even stock, are matters either of too inconvertible a nature, or of too uncertain a value to be depended upon, to meet those unforeseen emergencies to which the pursuits of commerce must ever be exposed.

DIGEST

OF

FACTS AND PRINCIPLES.

SECTION I.

Origin of Private Banks in London.

It appears that, prior to the year 1640, the Royal Mint had been used as a kind of bank or deposit for merchants to lodge their cash in. But Charles I. having, in that year, made a forcible application of the money, under the pretext of a loan to assist in the war against the Scots, the Mint lost its credit as a bank of deposit. After this, the merchants and traders in London generally trusted their cash with their servants till the breaking out of the civil war, when their clerks and apprentices frequently left their masters to join the contending parties. Upon which, in such unsettled times, merchants, not daring to confide in their servants, began, about the year 1645, to deposit their cash with the goldsmiths, both to receive and pay for them: until then, the business of goldsmiths had been solely confined to dealing in plate and foreign coins.

The goldsmiths gradually assumed the more regular functions of bankers; they began to discount bills, to make advances to necessitous merchants, weekly or monthly, and to receive the rents of gentlemens' estates, remitted to town, allowing interest to all who entrusted them with money, however short the period of deposit. This was found a great convenience; their transactions extended, and they rose in reputation till the year 1667, when the Dutch burnt our ships at Chatham, which caused a sudden *run* on the bankers, and impaired their credit and resources.

It was not, however, till the year 1672 they were entirely broke up. In that year, Charles II. was so ill-advised as to shut the Exchequer and seize the treasure deposited there, intended for the payment of the interest and loan advanced by the bankers to government. As the payments came weekly from the Exchequer to the bankers, they were thereby enabled to answer the interest and other demands of their creditors; which now failing, they could neither pay principal nor interest to the crowds of creditors by whom they were besieged. By this tyrannical act of Charles, ten thousand families were involved, and many of them entirely ruined. The king was afterwards necessitated to pay an interest of

6 per cent. for this debt out of the hereditary excise; the principal was never paid; though a moiety of it was subsequently incorporated into the national debt, and, finally, subscribed into the South-Sea capital stock in the year 1720.

From this period, the business of private banking in London appears to have been separated from that of the goldsmiths, and carried on as a distinct pursuit, nearly upon the principles of modern bankers, with the exception, that they received interest on deposits.

In 1694 the Bank of England was established, and the national bank of Scotland in the following year. These great chartered bodies were formed upon the model of those in Italy, Spain, and the Low Countries; but, as their principles and history have been frequently before the public, we may pass on to the origin and progress of the country banks.

SECTION II.

Progress of the Country Banks.

Banking in the country, like that in the metropolis, first originated among the more opulent and respectable class of traders and merchants.

In every town, and in many villages, there existed, prior to what were afterwards termed banks, some trader, manufacturer, or shopkeeper, who acted, in many respects, as a banker to the neighbourhood. The shopkeeper, for example, being in the habit of drawing bills on London, and of remitting bills there, for the purpose of his own trade, and receiving, also, much money at his shop, would occasionally give gold to his customers, taking in return their bills on the metropolis; which were mixed with his other bills and sent to his London correspondents.*

Persons who were not customers being, also, found to want either money for bills, or bills for money, the shopkeeper was led to charge something for his trouble in accommodating them; and the trade of taking and drawing bills being thus rendered profitable, it became an object to increase it. For the sake of drawing customers to his house, the shopkeeper, having yet, possibly, little or no view to the issuing of Bank notes, printed "The Bank" over his door, and engraved these words on the checks on which he drew his bills.

It may be assumed, also, to have been common, before country banks were established, for the principal trader in a town to take at interest

* Thornton on Paper Credit.

some of the money of his neighbours, on condition, however, that he should not be required to pay it back without notice. The money thus deposited, or borrowed by him, might either be thrown into his trade or employed in discounting bills soon to become due; but the latter would evidently be the most safe and prudent way of investing it.

The transition from this capacity to that of the modern country banker is so obvious that it is not necessary to trace it through the different grades by which it was made. It was sometime, however, before the practice of issuing notes payable to bearer on demand was adopted, and which only became general in the interval between the American and French war. The country was then in a state of great prosperity; confidence was high, commerce and trade had greatly extended, the income and expenditure of individuals had augmented, and every branch of the banking business naturally enlarged itself. An increase had been made in the number of London bankers; and some of them took active measures to encourage the formation of small banks in the country, with a view to the benefit expected from a connexion with them.

These new establishments having taken place, various country traders, who had before made use of their own correspondents in London, fell into the practice of transacting their business with the metropolis, through the medium of the country bankers with whom they kept their cash. The country banker drew largely on a London banker, on the account of the country trader, and the London banker was willing to execute the extensive country business which he thus acquired, in consideration of a much lower commission than had before been paid by the several country traders to their separate correspondents in London, who had been, for the most part, London merchants.

The number of country banks in 1797 is estimated, by Mr. Thornton, to amount to 358. In 1800, they had increased to 386. From this period they appear to have increased rapidly; for the number of licenses granted in 1809, to issue promissory notes, amounted to 735. In 1812, they amounted to 878; and in 1814 and 1815, to about 1000.

The circumstance which chiefly operated in procuring circulation to the country paper was that participation of the benefit resulting from it which was enjoyed by the customers of the country banker; for he lent among them the capital which was acquired by the issue of his paper, and they became his instruments in sending it into circulation, by accepting it as a ready-money payment in return for bills discounted. In consideration of their obligations to the banker, and of the interest which they had in

his stability, they were forward, on most occasions, in the support of his credit.

Such are the most material facts in the origin and progress of the provincial banks, and the general substitution of paper for a metallic currency. They naturally grew out of the circumstances of the country, and are an effect of the division of labour, which takes place in every opulent community. If they have been productive of some evils, their advantages have been great and undeniable. They have accelerated the progress of national wealth, by giving an impulse to industry, manufactures, and commerce. They are the machinery of circulation, economizing and facilitating all its operations; and have become almost as essential a part of our commercial and manufacturing system as our canals, highways, and steam-engines.

SECTION III.

Mode of economizing the Use of Money by Credit and Commercial Paper.

In all commercial states, where commerce is widely extended, various expedients have been adopted for the purpose of economizing the use of the precious metals, and facilitating the exchange of commodities.

First, by means of debit and credit in open account, where goods are purchased and sold, and, after a given time, the payment of a single balance closes the account. This is the practice of insurance brokers, who, instead of payments on each policy, credit the underwriter for the premium, and debit him with the losses, and settle the whole at the end of the year, by receiving or paying the balance by a draft on a banker.

Second, by means of bills of exchange, checks, and promissory notes, by which merchants and dealers are enabled to purchase commodities from others, who circulate those bills with additional securities, by indorsement, in the payment of debts and other commercial engagements.

By means of bills of exchange, circulated among the different bankers, remittances are made to the most distant parts with perfect security, and at an inconsiderable expense. The respective debts and credits of the great commercial towns, in place of being settled in detail, or by remittances in specie, are, by the agency of bankers, collected into one general account, which is brought to a common balance; and, in this way, the most extensive commercial transactions are settled with a comparatively small quantity of specie.

If we suppose, for example, one of the two trading towns of Glasgow and Manchester to export to the other goods to the amount of £2,000,000 annually, and to receive a return to the value of £1,900,000, these transactions, through the medium of bankers, being brought into one general account, there remains only an undischarged balance of £100,000. But, for this balance of £100,000, it may not be necessary to send a remittance of specie, seeing that it may be transferred by a draft on some third place, to a more general fund of debt and credit, where it may be finally met and liquidated by opposite balances to the same amount: thus, we may suppose the balance of £100,000, due from Manchester to Glasgow, to be ultimately discharged by a draft on London.

Under this system, the wealthy and populous towns naturally draw, as to a common centre, all the cash-transactions of the neighbourhood; the insulated balances arising on the commerce of the surrounding country are formed into new accounts by the money dealers of these towns, who, by a simple transfer of debt and credit in their books, bring them to a general balance. This balance they afterwards carry to a still more general account; and thus, at length, all the scattered debts of the country are collected into one common account by the bankers of the metropolis, which is then brought to a final balance. The metropolis, the centre of intercourse and trade, is the centre, also, of the vast system of money-dealing. Here, as to a point, all the cash-transactions of the country converge; and here the account is finally closed by payments in cash.*

The payments of London, originating in its own extended commerce, and in its great wealth and population, are of themselves immense. These are still further increased by the payment of the interest of the national debt, which is issued half yearly from the Bank of England; and London having, also, in the course of the late wars, grown up in some degree to be the commercial metropolis, both of America and Europe, it has been found convenient to transfer the payment of foreign bills to it from all parts. In consequence of these extended transactions, London has its debtors and creditors in every part of the kingdom. It is the general centre of all money-dealing; and there being, on this account, a greater demand in the country for money on London than there is in London for money on the country, bills on London are invariably sold in the money-market of the country for a premium.

The currency of every other bank is limited in its circulation within particular districts,

* Supplement to the Encyclopædia Britannica, article Banking.

and cannot, therefore, be employed in the payments of distant places. But money in London is a commodity in universal request, and bills for its payment constitute a medium of exchange common to the whole country. All the various banks dispersed throughout the kingdom, require to be provided with a stock of this common currency, in order to carry on their business, and, for this purpose, they find it necessary to establish a credit on the metropolis, on which, for a suitable premium, drafts may be obtained at all times.

SECTION IV.

Mode of Banking in London and in the Country. Banking in Scotland and its relative Advantages to English Banking.

Banks were primarily established—*first*, to form places of deposit, where money might be kept in safety, until wanted by the owner. *Secondly*, to economize the use of specie, and facilitate the payments, remittances, and cash-transactions of individuals, as described in the last section. *Thirdly*, to aid mercantile pursuits by advances on credit, on personal or other securities. The business of maintaining a currency, for the convenience of the retail transactions of the community, belongs to the State, rather than to individuals; this power the former has usually retained, or entrusted to particular persons, prohibiting others from issuing money, or the representatives of money, below a limited sum.

In order that the late commercial crisis may be better understood, it may be proper briefly to describe the mode in which banking in London and in the country is conducted. And, first, of

LONDON BANKING.

The banking business in the capital is carried on by the Bank of England, and about seventy private banks; and, except so far as the former is connected with the government, its affairs are conducted in the same manner as the latter. It may suffice, therefore, to explain the ordinary operations of the London private banker, and, in doing this, I shall not, at present, notice the innovations in their regular practice, adopted, during the extraordinary state of the money-market, prior to the re-action at the close of 1825.

Every person, or company, opening an account with a London banker is, as an understood condition, obliged to deposit with the establishment a certain sum of money, and, during the continuance of the account, always to let a

greater or less sum remain in the banker's hands, as a balance. The deposits are made either in cash or approved bills, not having more than two months to run, and the latter are discounted by the Bank for 4 or 5 per cent. for their unexpired term. By these discounts, and the profitable employment of the balance just mentioned, for which no interest is allowed, the banker is compensated for his trouble.

The London bankers do not issue their own notes, but pay all drafts upon them either in gold or Bank of England paper. They, however, accept bills for their customers, according to circumstances, and otherwise afford accommodation consistent with the general principles of their trade. Their transactions with country banks are analogous to their transactions with private individuals. The notes, or bills, of the provincial houses are equivalent to checks, to meet which deposits must have been previously made, leaving a suitable balance always in hand as in other cases.

From this statement, the nature of *runs* upon banks in London may be conceived. The customers all hasten to draw out their balances, which must be paid in gold or Bank of England notes. Meanwhile, perhaps, many of the bills, and other securities, upon the strength of which the balances are formed, may not be payable or convertible into cash, and thus the banker is called upon to advance to others upon what no one will advance a shilling to himself at the moment of alarm. He is, besides, called upon to afford accommodation to his provincial banking customers, by obtaining money for their securities at the same time, and thereby pressed at once by demands for aid, and demands for payment, the latter of which prevent compliance with the former.

In settling their daily transactions, the London bankers adopt a mode which tends greatly to economize among them the use of cash; and in which they act on the principle of collecting the insulated transactions of individuals into one common account, and the account is brought to a general balance.

For this purpose, a clerk is despatched from each banker, at an appointed hour in the afternoon, and a meeting of the whole having taken place, in a room provided for the purpose, each clerk exchanges the drafts on other bankers, received at his own house, for the drafts on his own house, received at the houses of other bankers. The balances of the several bankers being transferred from one to another in a manner which it is unnecessary to explain in detail, the several accounts are finally wound up by each clerk into one balance, and it is only for this single balance that each clerk has to provide specie or Bank of England notes.

By this contrivance, so great a saving of cash is effected, that, though the daily transactions of these bankers are calculated to amount to nearly £5,000,000, about £220,000 of Bank notes is found sufficient to discharge the several balances due at the settlement of the account.

Other contrivances are put in practice for economizing the use of money. Many bankers are allowed to have a general cash-account with the Bank of England, in which if they are careful to keep a supply of good bills, they may always procure whatever cash they require on a day's notice.

For the same purpose, also, accredited brokers are in the habit of walking Lombard-street, and of borrowing the superfluous cash of one banker and lending it to another for a day, a week, or any longer period, to be repaid when called for; and so nicely is the scale adjusted by these various devices, that the most opulent houses are frequently accommodated with a supply of cash before three o'clock, to be repaid by a draft at the general balance of accounts which takes place in the afternoon.

BANKING IN THE COUNTRY.

Most banks in the country transact business differently from those in town. A merchant, manufacturer, or trader, who opens an account with a provincial banker, sends his mixed receipts, consisting of private bank notes, checks, bills of exchange, generally within three months' date, and of coin, if there be such, to the banker. The accounts are kept half-yearly, and the customer is credited with the whole amount, and with interest at 4 per cent. upon it from the day it is deposited to the end of the current half year; the interest, however, upon that part of the deposit, consisting of bills, being calculated from the period at which they become due. All deposits made from day to day are treated in the same manner. The drafts of the depositor are paid out of this fund, and he is debited with them, and with the current interest at 4 per cent. to the end of the six months, on their respective amounts. The general understanding, however, is that payments shall not be made in *gold*, but the private paper of the Bank, or in drafts on London, or in endorsements of private bills in the banker's coffers. Thus, a manufacturer who has a large sum to pay his workmen weekly, draws out of the bank, on Friday or Saturday, as many of the banker's notes as will meet the occasion, and disburses them to his operatives, who pay them away to the several tradespeople with whom they deal.

It is in this way, and by similar payments to country people, that the country banker gets his notes into circulation.

The profits accruing from these transactions

being, in a great measure, from bankers charging 4 per cent. interest on issues of their own notes, must be considerable; but they, besides, charge ¼ per cent., and, also, what they call postage, by which they are enabled to bear the stamp-duty of 5*d.* on each £1 note, and of 1*s.* 3*d.* on each £5 note they put into circulation.

It is usual for the country bankers to make considerable advances to their customers, on the recognized understanding that every customer is entitled to an advance not exceeding *one-tenth* of the total annual amount of his money-transactions with his banker.

A *run*, from the want of confidence, operates much in the same way in the country and in London; in both, the balances are forthwith withdrawn, and in the latter the banker's issue of local notes is returned to be immediately paid in gold.

BANKING IN SCOTLAND, AND ITS RELATIVE ADVANTAGES TO ENGLISH BANKING.

The practice of banking in Scotland is, in many points, similar to that of the country banks in England; especially in the mode of getting their paper into circulation, by means of what they call *cash-credits*, the nature of which is thus described by *Malagrowther*. A person, either professional, engaged in commerce, manufactures, or otherwise so situated as to render an occasional command of money convenient, obtains a cash-account, to an extent proportioned to his funds, either by pledging his house, shop, or other real property, or by giving the Bank two sufficient sureties, to be answerable for the balance, if any, which shall be due to the company when the account is closed. The holder of the cash-credit is then entitled to draw on the banker for such sums as he may occasionally need within its limits. He lodges, on the other hand, with the Bank, such cash as he may, from time to time, receive from the returns of his business, or otherwise; interest is calculated on the advances drawn from the Bank, at 5 per cent.; on the customer's deposits, at 3 per cent. only, and the account is finally balanced twice a year.

The nature of this transaction is, obviously, of the same kind as that which has been described as taking place between the English banker and his customers, and establishes no superior excellence in the Scotch banking system. In two respects, however, the Scotch banks may justly claim a superiority over the English banks; *first*, in the greater stability they derive from the more extended basis upon which they are established; *secondly*, from a sort of corporate spirit and watchfulness which subsist among them, and not only operate as a natural check upon the conduct of each, but

give them a common interest in opposing any new firm, without the requisite capital, or conducted on improper principles.

The chief defect of the English banks is the narrow basis of capital and individual responsibility upon which they are instituted. In 1819, the number of banks which took out licenses to circulate promissory notes amounted to 587; the total number of partners comprised in these 587 firms was 1776, giving only an average of three partners to each establishment.* The commissions of bankrupt issued against bankers from the year 1816 to the 27th of February, 1826, amounted to 158, which number of firms contained 330 partners, giving an average of ONLY $2\frac{1}{11}$ partners to each establishment.† Of these 158 bankrupt firms, fifty-one contained only *one* proprietor; fifty-five had two partners each; forty had three partners; nine had four partners; two had five partners each; but not one bank had strengthened itself by the admission of the full complement of partners which the charter of the Bank of England allowed.

Upon what a different system the Scotch banks are established. There are thirty-three

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* Appendix, F. 9, to the Lords' Report, on Bank-Payments, in 1819.

† See the Appendix, No. viii.

banks in Scotland, three of which are chartered, the remaining twenty-nine banks comprise a body of 3231 partners, giving an average of 111 partners to each establishment.* Only think of the influence of this body of individuals, in their respective districts, in supporting the credit of their banks. They have all a direct interest in their stability,—in silencing suspicion—in checking alarm—in watching over their management—and, in short, in guarding against all these mishaps which have usually been fatal to the English bankers.

Cash-credits, too, undoubtedly strengthen them; but this circumstance, which has been made a *feature* of triumph by *Malagrowther*, I cannot see gives them any superiority over the English banks. Advances by an English banker are of the same nature as the cash-credits of the Scotch, and create in his customers a similar interest in maintaining the credit of the company, from the liability to which they would be exposed, in case of a run upon the bank, to be called upon for the re-payment of the advances with which they have been accommodated.

The *second* advantage I have assigned to the

* See the Appendix, No. IX.

Scotch banking system, arising from the corporate spirit, or clanship which prevails among them, is thus set forth by *Malagrowther*, in the Letters on the Currency ascribed to Sir Walter Scott.

"No new banking institution can venture to issue notes to the public till they have established a full understanding that these notes will be received as cash by the other banks. Without this facility, an issue of notes would never take place, since, if issued, they could have no free or general currency. It is not the interest of the established banks to raise rivals in their own profession, and it is directly contrary to that interest to accept payment in the notes of a new company, to whose responsibility there occurs any shadow of doubt. They, therefore, only agree to give currency to the new issues when satisfactory information has been obtained of the safety of affording it. The public have, in this manner, the best possible guarantee against rash and ill-concocted speculation from those who are not only the best informed on the subject, but, being most interested in examining every project of the kind, are least likely to be betrayed into a rash confidence, and have the power of preventing a doubtful undertaking at the very onset.

"The circulation of a Scottish banking company, when once established, cannot maintain itself a week without redeeming its pledge to the banks which receive its notes, by *taking them up*, and replacing the value either in the notes of such banks reciprocally, or in specie. A check is thus imposed, which is continually in operation, and every bank throughout Scotland is obliged to submit its circulation *twice a week*, in Edinburgh, to the inspection of this Argus-eyed tribunal. Satisfactory information that any distant banking companies were leaving the safe and moderate walk of commerce, and embarking their capital in precarious speculation, would very soon draw upon them the suspicion of the moneyed interest at large, and certainly put a period to their existence before it could injure the public."

The advantage here claimed is rather in *degree* than in *fact*; the London bankers settle their mutual transactions *daily*; the country bankers, *weekly*; and in both reciprocal balances must be paid in cash, or the paper of other banks, otherwise suspicion is excited against defaulters.

The smaller number of the Scotch banks give them an advantage in the matter of *surveilance*; since it is more difficult for the one thousand banks in England, maintaining the circulation of a population of twelve millions, to watch over their mutual conduct and transactions, than it is for the thirty-two Scotch banks, maintaining only

the circulation of a population of two millions, and of greatly inferior wealth, commercial activity, and enterprise.

Upon the whole, some advantages must be conceded to the Scotch banks; though the example of the East-Lothian bank, and some others, show that they are not infallible, yet, in proportion to their number, there has been somewhat fewer failures among them than the English banks.

If, however, they possess greater solidity, they are positively inferior to the English banks, in the guarantee they afford against the *over-issue* of their paper. The concert which subsists among them, and the mutual interest they have in assisting each other, in case of a run, dispenses with the necessity, as well as the expense, of making any provision against such emergency. "Thus," as *Bradwardine Waverley* observes, "the most effective checks which operate to prevent the over-issue of an English local bank are all wanting in the case of a Scotch one. The notes are issued without value in the first instance; they may be forced into circulation to any amount the banker pleases, for he never, I suppose, can want borrowers; they are kept in circulation as long as possible for the sake of the interest; and when, finally, the fragility of the material forbids its further circulation, and it comes back to the bank, it turns out to be your *true Phœnix,* which rises again from its own ashes, and takes a new flight, as bold and extensive as *its lately deceased self!*"

In conclusion, it must be admitted, that the Scotch banking system is far from perfect. It rests on the most delicate foundation, — the "breath of opinion" in the multitude; for, so long as the small note currency is continued, it is exposed to all the chances of a national panic; and, were such an emergency to occur, from whatever cause, the Scotch banks would be found in a state more helpless, and more totally unprovided, than any bank in the world. If, however, they prefer this precarious system, the wisest policy, perhaps, would be, to delay its reform till a more favourable moment, when events have occurred which demonstrate its practical defects. The Scotch appear extremely tenacious of their "rags," and, I think, they ought to be allowed to keep them, provided Ministers can devise measures to prevent their crossing the Tweed. With an amusing spirit of braggadocio, after the manner of their kinsfolk in the West Indies, they have begun even to talk of "claymores and rebellion!" apparently forgetting Culloden, and 1745; but though, heretofore, we have been foolish enough to wage war about the balance of power, the boundaries of wastes, and even for a few score of cat-skins, Heaven forfend! I say, that we should ever quarrel with our neighbours, even for a *whole* buck-basket of dirty linen.

SECTION V.

General Principles of Banking.—Deviations from these Principles by the Country Banks and the Bank of England.

After the preceding detail of the practice of country banks and of private banks in London, it will be easy to comprehend the general principles upon which their business ought to be conducted.

First, it is apparent that the profits of both chiefly arise from trading with borrowed capital, founded either on the issue of local paper, and the deposits of individuals, as in the case of the country banks, or on deposits only, as in the case of the London banks.

Secondly, as the capital so created is not vested in the power of the banker for any stipulated period, but is always liable to be demanded, according to the fluctuations of trade, of public confidence, or the wants of individuals, it is incumbent upon him so to conduct his business as to be always prepared for the contingencies to which he is exposed.

From these two facts, the general principle is deduced, that a banker ought always to have by him an unemployed fund, proportioned to the extent of his business, and founded either upon his own private capital, or such securities as are, at any time, readily and safely convertible into money. It follows then, first, that a banker ought never to lend but on short credits. Secondly, he ought not to make advances upon any securities but such as are not only readily convertible, but, also, on such as are of certain and unchangeable value. Hence the discounting of bills of long date, the making advances on mortgage, on mining, canals, roads, or other doubtful speculation, are foreign to the proper business of banking.

As a banker trades with the money of others, it imposes upon him, especially, the utmost caution in ascertaining the character and dealings of persons to whom he lends, since upon their solvency depends in a great measure his own. If a banker lend the whole, or even a considerable part of the balance entrusted to him, he breaks faith with his creditors, who deposit their money on the assurance that it shall not be put to hazard, and may, at all times, be had on demand. It is only, therefore, to the regular trader and merchant, not to adventurers and speculators,

that a banker is justified in trusting his capital.

Two of the chief objects for which banks are instituted are to receive deposits and make advances; it follows, from the first, that bankers ought to be men of first-rate character and integrity; and, from the second, that they ought to have a large private capital of their own, independent of the funds they derive from the deposits of individuals.

For a country or town bank to be always prepared *suddenly* to pay all demands upon it in cash is impossible. If the former were to keep such a quantity of coin as would be equal to the whole number of its notes in circulation, it is obvious that it would lose as much by the hoarding of cash as it would gain by the circulation of its paper. If a town bank were not to employ the deposits of its customers, for the safe custody of which it receives no remuneration, it would sustain a positive loss equal to the expenses of the establishment, in rent, salaries, insurance, &c. While, therefore, banking is conducted upon the system of affording a gratuitous accommodation to individuals, by taking care of their spare capital, and, in the case of country banks, of even allowing a premium, they must, in return, submit to some risk, in order that the banks may be indemnified, either by the issue of their paper or the use of the money of their customers. All that can be reasonably expected of them is that their reserves be adequate to meet ordinary emergencies; that they exert great caution as to the individuals to whom, and the securities upon which, they make advances; and, lastly, that they be established upon such a basis of respectability and property, that suspicion cannot easily arise, either as to the prudence with which they are conducted or the extent of their resources.

In comparing the principles of banking here set forth with the practice of some of the country banks involved in the late failures, and, also, with the measures of the Bank of England within the last four years, a wide deviation from the proper business of banking is observable. Some of the country banks appear to have been established, and carried on to an enormous extent, with scarcely any capital at all belonging to the partners. That of Edmeads and Co. at Maidstone, was a flagrant instance. The outstanding debts exceeded £90,000, to meet which the extreme *calculation* of assets did not exceed £40,000. At their last examination, the partners produced £140, and their watches, as their joint stock, to be set off against a deficit of £50,000. No estates, no freehold or chattel property, to fill up the hiatus.

Others have made advances upon securities which ought never to have been recognized by

a respectable banking establishment. Wentworth and Co. had been in the regular practice of making advances on mere adventures, in building, and other speculations. A person wishing to build a new factory, or enlarge an old one, if he thought his capital inadequate to the undertaking, went to the Wakefield bank, stated his design and his wants, and, did matters appear satisfactory, on depositing or mortgaging the title-deeds of his premises, or other securities, the requisite means were supplied in the notes of the establishment.

But the Bank of England has evinced the most signal departure from the legitimate principles of banking, and which must have been fatal to any company not protected by peculiar privilege. This great corporation has shown an eagerness for gain, and desire of profitable employment for their capital, which could hardly have been exceeded by a private establishment. In 1822, with a view of extending their discounts, they lowered the rate of interest from 5 to 4 per cent. and extended the term of discount from ninety-five to ninety-six days. In 1823, they contracted for a portion of the "*Dead Weight*," by imposing upon themselves the obligation of advancing an annual loan for several years; which was, certainly, not in accordance with correct banking principles. At the close of the same year, they announced their intention to lend money on mortgage, which was a deviation from one of their oldest and most fixed principles. In 1824, they came forward with a proposition to lend money on Government securities, and upon their own stock. Lastly, they have been reproached with being too lavish in their advances to Government to assist in the reduction of the 4 per Cents. and other financial objects, by which their resources were tied up, so that they were unable to discharge their proper functions as bankers.

In conclusion, it may be observed that, if a great corporation like the Bank, which is looked up to as an example and a beacon to others, and whose plans of business may be supposed exempt from hazardous and short-sighted views of profit, could so far deviate from old established maxims, one can hardly wonder at the aberrations of the minor establishments.

SECTION VI.

Causes which govern the Increase and Diminution of Bank Paper and Credit.

THE causes of the increase and diminution of paper and credit are co-relative with those which indicate an improvement or deterioration

in the circumstances and prospects of individuals. The relation between bankers and their customers is usually that of lenders and borrowers; whatever, therefore, denotes improvement in the situation of the former adds directly to the confidence of the latter, and the contrary.

Suppose there is a tendency to rise in the price of corn, and other agricultural produce; this betters the prospects, and adds to the speculative activity of all persons engaged in the culture of the soil, and of all persons who deal in its products. The farmer is desirous of extending his cultivation, he increases the amount of his stock and the number of his labourers; the corn-dealer, the miller, and retail trader are eager to purchase beyond the usual rate, in order to profit by the probable rise in prices. Before, however, these operations can be effected, more money is required to pay wages, make purchases, &c.; the farmer, the corn-dealer, the miller, and trader, are all, therefore, eager to borrow; they resort to their banker, whose views and interest coinciding with their own, there is on his part an increased confidence and disposition to lend. The consequence of this mutual agreement is an increased issue of bank-notes, in discounts and advances, by the banker, to his customers.

The same causes operate exactly in the same way among traders and merchants. There is a scarcity of cotton, wool, sugar, or other commodity, or probable increase of the demand, from the opening of new markets; a rise of price is the consequence, which generates a disposition to speculate; in other words, to buy beyond the actual wants of the purchasers; upon this more capital is requisite, which the banker affords by enlarging his discounts and advances, to which he is always ready, not only from the spirit of competition with other banks, but the interest he has in the extended issue of his own paper.

While such is the extended operations between the banker and his customers, a similar and contemporary effect is produced among individuals themselves. The probable success of every enterprise augments confidence among all classes, from the producer of the raw material to the manufacturer, merchant, and exporter: bills, acceptances, drafts, and transactions on credit are reciprocally multiplied and extended: the fictitious capital thus created by bankers and others, augmenting the resources of purchasers, forces up prices beyond the point they would have naturally attained, in consequence of the deficient supply or the opening of new channels of consumption.

But, when prices have attained a certain point, two effects necessarily follow; — *first*, a diminution, greater or less, of the consumption, according as the article is more or less necessary, or admits of substitutes; — *secondly*, an increased

supply, as far as increased efforts can produce it. Thus, a rise of prices, like the ascent of a body on an inclined plane, is always accompanied with a counteracting power, which tends to draw them down to the point, or below it, from which they started.

Now this fall of prices produces exactly the opposite effects to those caused by their elevation; in the latter case, the prospects of producers and dealers are improved, as in the former they are deteriorated; confidence, which had been augmented, is diminished; and the bankers, who had enlarged their issues and accommodations, now begin to contract them. The effect of this re-action is so well described by Mr. Tooke that I cannot forbear extracting it.

"The most adventurous of those who had bought most largely at the highest prices, are, most commonly, those who have traded on the largest proportion of borrowed capital. Upon the first decided decline of the market, they become unable to fulfil their engagements; the country banker takes the alarm, and calls in his advances, or, at least, declines to renew them; those who had borrowed of him, and who had previously been but just solvent, cease to be so, in consequence of not being able to realize the prices at which they had bought. The weakest of the country banks become themselves insolvent, in consequence of a few losses of this kind, and there is a consequent distrust of the more solid establishments, which are, therefore, exposed to a run, and compelled to contract their issues. All bills of exchange, or acceptances for goods, are scrutinized, and few, but those with first-rate names, become convertible. Purchases on credit are made with difficulty, and not only is there a diminished inclination to advance money on loan, or on the security of goods, and to sell on credit, but there is less disposition to borrow, or to buy, among those who are most deserving of credit; for, as the prospect of lower prices, in consequence of returned abundance, becomes more clear, there is less inducement among such persons, who are generally among the most prudent, to add to their stock of goods, beyond the absolute wants of their trade; or to be enabled, by borrowed means, to keep on hand any surplus stock. The London bankers, on such occasions, participate in the alarm, and increase their reserves of cash. Thus a complete inversion may easily be conceived of the process by which the previous increase of paper, and activity in circulation, had been produced."*

It is, perhaps, unnecessary to add any thing to the above, in elucidation of the principles which

* Thoughts and Details on High and Low Prices, pp. 92-4.

regulate the extension and contraction of paper and credit; their importance will be seen in the following sections, in tracing the causes of commercial re-action and vicissitude.

SECTION VII.

Periods of Commercial Distress, unconnected with a Paper Currency.

AMONG the causes of the commercial crisis, of the present and former periods, an undue importance is ascribed by many to the general introduction of Country Banks and a paper currency. That the distress of particular periods has been aggravated, and their recurrence rendered more frequent, by the modern system of banking, I shall point out in the next section; but that it has been the sole or even general cause of that distress is entirely controverted by the commercial history of the last sixty years. It was only in the interval between the American war and the French war of 1793 that country banks became generally established; yet, prior to that period, both in this country and on the continent, commerce was subject to sudden and extraordinary vicissitudes. These vicissitudes were wholly unconnected with the state of the currency; they arose from the spirit of speculation, aided and fostered by an extensive system of private credit. To show that this was really the case, I will cite two periods of mercantile re-action which were prior to the introduction of a paper currency, and were as wholly unconnected with political or other causes, except those arising from the enterprise of individuals, as the re-action of 1825–6. The first I shall notice are the extensive failures on the continent in 1763, of which I find the best description in Anderson.

"In the summer of this year, a very uncommon number of bankruptcies took place at Amsterdam, Hamburg, and several other principal towns of Germany. They began at Amsterdam, the latter end of July, by the failure of two brothers of the name of Neuville, for between three and four hundred thousand pounds; and that of a Jew, for a very considerable sum. These two bankruptcies occasioned, or, at least, hastened a stoppage of payment by no less than eighteen houses in that city: they were followed by a still greater number of failures at Hamburg, and other places, which gave such a blow to *private credit* as almost wholly to interrupt, for some time, the course of commercial transactions. But the Lombard houses at Amsterdam and Hamburg stood forward on the occasion, and, by advancing large sums of money to such as

could give a proper security, restored credit to its former functions, and liberated commerce from the oppression, beneath which it had struggled."*

The commercial failures of 1763 were confined entirely to the continent, and England was so far exempt from the calamities of the time that she was enabled to render the most effective assistance to the merchants and bankers of Hamburg, Berlin, and Amsterdam. About nine years after, another crisis occurred, which involved both England and the continent.

The number of bankruptcies in England, in 1772, amounted to 525; in the year 1773, to 562, nearly double the usual number of antecedent years. This increase of commercial failures obviously arose from the commercial activity of preceding years, and the subsequent re-action, as is evinced in the fact that the export-trade of Great Britain reached a height in 1771 and 1772 which it did not again attain till the year 1787.† Of the distress and consternation which prevailed, both in England and Europe, on the temporary overthrow of commercial credit, Macpherson gives the following description:—

"The spirit of launching into *rash* and *bound-*

* Origin of Commerce, vol. iv. page 8.
† Macpherson's Annals of Commerce, vol. iii. p. 524.

less projects in commerce, which were to be supported by *artificial credit,* and the madness of *towering speculation* in national funds, which carry the adventurers out of the proper sphere of trade into the unfathomable *abyss of gambling,* had now spread through the commercial world in most parts of Europe; and even some of the cautious and phlegmatic merchants of Holland were infected with it. The evil, which had reached its height in England in the summer of 1772, burst out on the continent at the end of that, and the beginning of the following year, with such an extensive crash that there seemed to be an *universal wreck of credit* throughout Europe, to the amount, as was supposed, of ten millions sterling. But, as the greatest part of it was upon *airy speculations,* if those individuals who were *innocently* drawn into the vortex could have been exempt from the general ruin, it would have been, perhaps rather, upon the whole; advantageous to the moderate and sober part of the commercial world that such *ideal* transactions should be expunged and annihilated."—*Annals of Commerce,* vol. iii. p. 533.

Every day's experience shows that there is nothing, or, at least, not much that is new under the sun: the passage I have quoted might very well pass for a lucubration in the "Times" newspaper, in January, 1826, instead of the description of a commercial crisis which happened more than half a century since. Nearly

the same words, and certainly the same causes are assigned for the revulsion of one period as the other: "*towering speculation,*" and "*ideal transactions*" by "*artificial credit,*"—dupes "*innocently drawn into the vortex,*" are ideas as strenuously urged as the source and accompaniments of the distress of 1773 as they have recently been of the distress of the last and present years. Country banks, however, were scarcely known in the former period; paper did not form the circulating medium; yet commerce was subject to sudden fluctuations, and periods of prosperity were succeeded by those of the deepest distress and embarrassment, arising, too, from the same causes as those we have witnessed,—a spirit of over-trading, on the basis of credit, without real capital or resources.

It is necessary that this truth should be clearly established; for, unless we ascertain correctly the causes of these commercial vicissitudes, which, like a plague or a pestilence, visit the country at regular intervals of five, seven, or nine years, we cannot adopt the precautions by which they may be averted. It were a fatal delusion, indeed, to suppose that the withdrawal of the small notes, or other alterations introduced into the banking system, would avert such calamities. The real source of the mischief is far more widely and deeply diffused; it is in the enterprising and impatient cupidity of individuals, who, on the least prospect of profitable ventures, rashly launch into speculation vastly disproportioned to the occasion, and hence the subsequent distress and embarrassment. Until, therefore, a more cautious and wholesome system of commercial policy be acted upon; until bankers, merchants, and traders have learnt forbearance, from the experience of former transitions; until real capitalists have learnt neither to be the victims of their own sanguine expectations, nor the dupes of mere adventurers; the history of commerce abundantly proves that we shall continue exposed to the recurrence of those miseries and depressions which invariably accompany every retrograde movement in the national capital and industry.

That over-trading upon credit, and not on paper currency, is the main source of mercantile re-action, is more fully shown by the events which took place at Hamburg, in 1799, and cited by Mr. Tooke.

At Hamburg, the currency is purely metallic; no paper whatever is current as money; yet, under circumstances favourable to speculation, there was a great increase of the general circulation, through the medium of private paper and transactions on credit, in 1797 and 1798. Holland was then in the occupation of the French; and Hamburg formed the great entrepot between the interior of Germany, this country, and the United States of America. Prices rose from an apprehended scarcity of

foreign commodities; transactions on credit readily multiplied from the prospect of successful speculation—and what followed? Why, the speculators were deceived in their calculations,—there was abundance, in lieu of scarcity; prices fell in consequence, and the adventurers were ruined by the re-action,—by the destruction of that ephemeral credit which their sanguine anticipations had momentarily created. Eighty-two houses failed to the amount of £2,500,000. Discounts rose to 15 per cent. This was in 1799, so that, in the short space of two years, the Hamburgers felt the summer and winter of commercial speculation.

It is not necessary, however, to resort to examples abroad, or to history, to establish the position of this section; late events among ourselves are amply sufficient. The chief seat of the failures has been in London, Manchester, and Liverpool. In the former, the small note currency has been withdrawn for years; in the latter, only Bank of England paper circulates, which, having maintained its convertibility through the whole crisis, may be considered equivalent to coin. Country bank paper, therefore, cannot be charged with the commercial distress of the metropolis, or in Lancashire. The distress of these districts must have originated in the more general causes, which have produced embarrassment throughout the whole kingdom,—namely, the headlong spirit of speculation, on the basis of private credit, and unconnected with the Country Banks, and their issues of paper.

SECTION VIII.

Periods of Commercial Distress aggravated by the Banking System.

THE most solid and philosophical objection to an unlimited paper currency is, that it is a medium, of too great power of expansion and condensation. Like the atmosphere we breathe, it is susceptible of a sudden and almost indefinite extension, and of a not less rapid and proportional compression. Possessing this elastic property, however plausible it may appear in theory, experience has repeatedly shown it to be injurious to the steady growth of national happiness and wealth.

Men's first impressions generally require modifying and regulating by subsequent reflection; though not absolutely false, they are of exaggerated magnitude, and their anticipation of good or evil vastly disproportioned to the reality. This is more particularly the case in commercial pursuits, where the desire of gain—one of our

most ardent passions—is the stimulating motive. On the first opening of new markets, or new mines, or a probable deficiency in the supply of any commodity; we invariably find the extent of the demand, of the profit to be realized, or the deficiency to be supplied, vastly exaggerated. Subsequent examination may correct the error, but the eagerness of gain, and the spirit of competition, leave no time for sober inquiry and investigation. On this rock, all great commercial speculations, have foundered, from the memorable South-Sea year to the present time; and it is because paper, and the credit it facilitates and establishes, is too ready an auxiliary for leading adventurers to this precipice, that it becomes objectionable; for it is productive of the two-fold calamity of creating, with too much facility, the resources for embarking to excess in new ventures, and of aggravating the evils of the subsequent disappointment and re-action, by the suddenness with which it may be withdrawn from circulation.

From the causes here indicated, it will be seen, in this section, that, since the general introduction of the banking system, and a paper currency, commercial distress has not only been of more frequent occurrence, but of far more aggravated amount.

The yearly average number of bankrupts, from 1700 to 1773, was 241. In 1773, which was a year of commercial distress, they amounted to 562, double the usual number. In the year 1778, they increased to the unusual number of 675,* which augmentation, doubtless, arose from the disasters and stagnation resulting from the war with the American colonies. From this period to the year 1782, the difficulties the country had to grapple with were solely of a political nature, arising from the war in which we were engaged. In 1783, peace was concluded, and from this time to the great mercantile crisis in 1793, the agriculture, commerce, and manufactures of the country made an astonishing progress. It was in this interval that the country banks rapidly multiplied through the kingdom, and that the vast fabric of private credit and paper was established.

Mark the result! In 1793, came the re-action; the paper and credit system had been strained to the utmost—it exploded, and the bankruptcies of that year amounted to the unprecedented number of 1956, though in no similar period had they amounted to one-third of that number.

Allowing for the progress of population and commerce, the enormous addition to the number of bankrupts over the amount in former periods of re-action can only be ascribed to the

* Those numbers are taken from Chalmer's Estimate, page 291, edition 1804.

progress of the banking system, and the private credit established upon it. But what confirms this view of the subject is the fact, that of the 1956 bankrupts in 1793, no less than twenty-six were bankers. Until this period, such a thing as a banker appearing in the gazette was quite a phenomenon; except in two instances, it had scarcely ever been heard of before. We can, therefore, only ascribe the fact of its occurrence to the great increase of their number in late years, and the extent to which they had mingled in the mercantile transactions and speculations of the period. To the same cause as the increase in bank failures, may be ascribed the sudden augmentation, in the total number of bankruptcies; credit and speculation had been facilitated by means of the banking system, and hence the proportional increase of the commercial distress and embarrassment in the re-action of 1793.

The crisis of 1793 forms a remarkable epoch; it was the first of a series, which were repeated in 1811, in 1816, in 1818, and, lastly, again in 1825-6. All these mercantile tornados may be shown to have originated in similar causes—namely, a spirit of speculation on baseless credit, aided and facilitated by the paper and banking system. What must excite the astonishment of posterity is that, with the experience of the three catastrophes of 1793, 1811, 1816, and 1818, so similar in their origin and disastrous termination, no preservative from similar revulsions should be found, either in the prudence of individuals or the wisdom of the legislature; but that exactly the same round of causes and effects should be suffered to overwhelm the country, for the fifth time, in distress and embarrassment. That this has been the case I will show, by briefly adverting to the commercial crises I have mentioned. I purposely omit all notice of the Bank Stoppage in 1797, and of the scarcity in 1801, for they bear no analogy to the present and similar revulsions; one originated in political causes, the other in adverse seasons, unconnected with over-trading, or any particular excess of private credit or paper,—points in which all the others coincide.

CRISIS OF 1793.

The distress of this period solely arose from over-trading on an extensive system of credit. It had no connexion with the approaching war, though such has been asserted on high authority.* The storm had been gathering during the previous years, and burst forth shortly after Mr. Pitt, with the ominous foresight of another

* Lord Liverpool, at the commencement of the present Session, and the Chancellor of the Exchequer, on the 14th of February.

great statesman, in 1824, had been felicitating the country on its present state and future prospects.

Peace had lasted nine years; and of the wealth accumulated during that time, a very considerable proportion had been invested in buildings, machinery, and inland navigation; objects slow in their return, and the success of which depends on the general prosperity of trade. The concerns of merchants and manufacturers were much more widely extended than at any former period. In the midst of the great activity, banks multiplied; the vast business in the country created these banks; and these banks, by their facilities, created vast business. Eager to enlarge their issues, they wished to engross the circulation both of the country and the metropolis. For this purpose, many of them issued notes, optional, to be paid in the country or in London. In consequence of these operations, the circulation became overcharged; credit of every kind was strained to the utmost; and all the circulating capital locked up in inconvertible undertakings.

The catastrophe which followed naturally resulted from the previous over-exertion. No funds were in reserve to meet the ordinary wants of trade; and it only required a puncture to destroy the aerial and attenuated fabric.

The blow came by the failure of one or two great houses. Suspicion, alarm, and panic followed, in rapid succession. The unusual number of bankruptcies in November, 1792, increased, in 1793, to 105 in March; 188, in April; 209, in May; 158, in June; and 108, in July.

"Many houses," says Macpherson, "of the most extensive dealing, 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 money upon the security of machinery, or shares of canals; for the value of such property seemed to be annihilated in the gloomy apprehension 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 unem-

ployed and locked up in their coffers. Amidst the general calamity, the country banks, which had multiplied greatly beyond the demand of the country, for circulating paper currency, and whose eagerness to *push their notes into circulation* had laid the foundation of their own misfortunes, were among the greatest sufferers, and, consequently, among the greatest spreaders of distress and ruin among those connected with them; and they were, also, the chief cause of the drain of cash from the Bank of England, exceeding any demand of the kind for about ten years back. Of these banks, above one hundred 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.—*Annals of Commerce*, vol. iv. pp. 266–7.

Chalmers furnishes a few additional facts of this memorable crisis, entirely refuting the notion that it was connected with approaching hostilities. After stating that war was declared, by the French, against Great Britain and Holland on the 1st of February, 1793, he observes, that "the unusual number of bankruptcies in the month of January preceding can hardly be attributed to this subsequent measure. The first bankruptcy which created suspicion, from its amount, was the failure of Donald and Burton, on the 15th of February, 1793. They were engaged in the most uncertain of all traffics,—in the trade of corn; in speculations in American corn; but they had sustained no loss from the war. On Tuesday evening, the 17th February, the Bank of England threw out the paper of Lane, Son, and Frazer, who had never recovered the shocks of the American war; and, next morning, they stopped payment, to the amount of a million of money. This great failure involved the fate of several very substantial traders. But none of those houses had sustained any damage from the war. Suspicion was now carried up to alarm; and every merchant, and every banker who was concerned in the circulation of negotiable paper, met with unusual obstruction in their daily business. Yet it was not till the 16th of March that the long-established house of Burton, Forbes, and Gregory, stopped, which was followed, on the 18th, by the failure of their correspondents Caldwell and Co. of Liverpool, to the amount of nearly a million. Still neither of these great circulators of paper had sustained any loss from the war."—*Estimate*, pp. 294–5.

Among the failures were only a few foreign merchants. The country bankers and country traders were those who chiefly swelled the list of bankruptcies. "And this comparison," says Chalmers, "is, also, sufficient to show that the cause of our commercial maladies arose at home, without infection from abroad; that it arose

from the *fulness of peace*, without the misfortunes of war."

The whole period of this commercial fever, panic, storm, or by what other figure it may be expressed, did not last much more than three months, when credit and confidence were restored. The greatest number of bankruptcies we have seen were in May; they greatly decreased in June; they decreased still more in July; they continued further to decrease in August, and in September they fell, to be nearly on a par with the numbers in September, 1792.

What contributed most to restore credit and confidence was a loan of Exchequer-bills, to the amount of £5,000,000. The whole number of applications for loans were 332; of this number, 238 were granted; forty-five applications were withdrawn, or not pursued by the claimants; forty-nine applications were rejected, either as not coming within the intention of the act, or on account of the inability of the parties to give the requisite security. Of the persons thus assisted, only two became bankrupt, and the whole sum advanced was repaid.

Scotland was not exempt from the distress of this period, though the storm did not rage there with the same violence as in England, either from the less commercial enterprise of her merchants, or the superiority of her banking system.

The following statement from Chalmers, page

299, of the amount of Exchequer-bills advanced to different places, will show the districts visited by this commercial pestilence:—

Glasgow	£319,730
Leith	25,750
Banff	4,000
Perth	4,000
Dundee	16,000
Edinburgh	4,000
Paisley	31,000
London	989,700
Liverpool	137,020
Manchester	246,500
Bristol	41,500
Other places	310,000
Total sum advanced	£2,129,200

A parliamentary paper of this session, [No. 31,] makes the advance of Exchequer-bills amount to £2,202,200, which is no great discrepancy.

CRISIS OF 1811.

For the reasons already assigned, I pass over the intervening periods of difficulty from 1793, as unconnected with the spirit of speculation, aided by a contemporaneous extension of paper and credit. The stoppage of the Bank of England, in 1797, arose entirely from the drains of money for foreign loans, enormous advances to the government, and a vague apprehension of invasion. The difficulties of 1801–2 originated in the bad harvests of these and the preceding years. But, in the crisis of 1811, we have the exact counterpart of that of 1793. Speculation, excited by the prospect of high prices and new markets, with the expansive power of paper and credit, carried, to excess, and the consequences, revulsion, general distress, and embarrassment. Let us, however, briefly indicate the historical facts which led to the commercial mania of this period, and, in so doing, I shall chiefly follow Mr. Tooke, unquestionably the most acute and judicious observer of the events we are considering.

The events of the war, in the interval between 1807 and 1809, threatened greatly to abridge, or entirely cut off, our supplies of many articles of foreign production. From a great portion of the continent, the anti-commercial decrees of Napoleon had already interdicted all intercourse; and, after the attack on Copenhagen, Russia and Denmark joined the league against this country. The orders in council, on our part, and the non-intercourse acts and embargoes on the part of the Americans, destroyed all traffic with the United States. Here, then, was opened a wide field for speculation, by the prospect of an advance in foreign commodities. Hemp suddenly rose from £58 to £118.—Flax, from £68 to £140.—Tallow, from 54*s.* to 110*s.*

per cwt.—Spanish wool, from 2*s.* 6*d.* and 5*s.* to 13*s.* and 18*s.* per pound.—Silk, from 30*s.* to 90*s.*—Cotton, from Georgia, advanced from 9*d.* and 1*s.* to 2*s.* and 2*s.* 6*d.*—and Virginia tobacco, from 4½*d.* and 8*d.* to 1*s.* 4*d.* and 2*s.*

While such were the rapid advances in foreign products, other causes were operating to cause a rise in our own produce and manufactures. The harvest of 1807 was not one of general abundance; that of 1808 was decidedly deficient; and that of 1809, still worse; got in late, and in a damp sprouted condition; deficient in quantity, and inferior in quality. Here, then, was ground for speculation in corn.

Another field for adventure opened in South America. The transfer of the seat of government from Portugal to the Brazils, and the emancipation of the colonies from the control of the mother country, opened the whole trade of South America, in 1808. Shipments were made much beyond the amount of capital which the adventurers could fairly command, and still more beyond what the consumption of the places, for which the investments were destined, could absorb, upon the condition of making adequate returns.

With these causes of over-trading, coincided, as a natural and necessary accompaniment, an extension of private paper and transactions on credit. Confidence was created by the prospect of successful ventures; the money-dealers advanced freely to the speculators, and the issue of country-bank paper was greater within the two years 1808 and 1809 than ever before known within a similar period.* The Bank of England, too, at the close of 1809, had extended the amount of its issues by nearly two millions.

Having briefly shown how the commercial atmosphere was charged, it remains to exhibit the process by which it was cleared; and here again it will be proper to follow Mr. Tooke, whose correct statement of facts, and able exposition of causes and effects, is so satisfactory.

The circumstances which led to the fall of prices and destruction of private paper, were a restoration of comparative abundance of commodities for home consumption, and a re-action from the speculative shipments of the two preceding years. As real or apprehended scantiness of supply and an exaggerated anticipation of demand had led to high prices and an enlargement of the circulation of private paper, so returning abundance and postponed demand occasioned a recoil of prices and a reduction of private paper to the level whence both had risen; stagnation and despondency succeeded

* Considerations on High and Low Prices, p. 103.

overtrading and speculation; and, in the latter months of 1810, the effects of the previous excitement appeared in the great increase of failures. The bankruptcies which, in December, 1807, amounted only to ninety-seven; in 1808, to 100; in 1809, to 130, swelled to 273 in December, 1810, besides stoppages and compositions to an incredible amount. Five houses stopped at Manchester to the amount of two millions; and failures were said to happen not only every day, but every hour. Credit and confidence, of course, were entirely suspended.

In contrasting the re-action of 1810–11 with that of 1793, there are several curious points of coincidence. The bankrupts in 1793 amounted to 1956; in 1811, they amounted to 2500; which, allowing for the increase of population and commerce in the interval, may be considered an equivalent proportion. The number of bankers gazetted in 1793 was twenty-six, which is exactly equal to the number gazetted in 1811.* Lastly, the continuance of the mercantile fever, or panic, was nearly the same in both cases; in both, it broke out in the autumn of one year, and began to abate in the spring of the year following.

* See Appendix, No. VII.

CRISIS OF 1815–16.

The suffering state of commerce, as already observed, did not continue beyond the spring of 1811. With the view of relieving the immediate pressure, a bill passed both houses of parliament for a loan of Exchequer-bills, to the amount of six millions, to be repaid by equal instalments, from three months to three months: its beneficial effects, however, were not equal to what had been expected, many of those embarrassed not being able to furnish the required security; whence the sums applied for were considerably less than the provision made.* The circumstances which chiefly led to a revival were the expulsion of the French from Portugal and the progress of the British army in Spain, which opened nearly the whole Peninsula to a commercial intercourse with this country; the glut of our exports to South America and the West Indies being carried off by low prices, a brisk demand had succeeded; the intentions of Russia to resist France became manifest, so that new markets, and a prospect of higher prices, were again opened to the avidity of speculation. The agricultural distress was relieved by the bad harvests of 1811 and 1812, and con-

* Aikin's Annals of George III. vol. ii. p. 317.

sequent rise in the prices of agricultural produce. In short, the interval from 1811 to 1814 held out all those temptations to over-trading and its consequences, an extension of paper and transactions on credit, which, only two years before, had produced such disastrous results.

The distress and embarrassments which followed were precisely of the same character in both periods. The markets abroad being glutted with our commodities, prices fell ruinously low, and English manufactures were sold on terms which scarcely paid insurance and shipping charges. In Holland, which the overthrow of Napoleon had opened to us, the market had been so overstocked with our manufactures that they were actually cheaper than in England, and merchants bought in our goods for home consumption.

The abundant harvest of 1813 had operated a not less sudden vicissitude in agricultural prosperity. Prices, which had been forced up by two bad harvests, were again depressed. Wheat, which, in July 1813, sold at 140*s.* a quarter, fell, in the same month of 1814, to 67*s.* per quarter.

It only now remains to collect the new crop of failures and bankrupts from this third commercial crusade. Many retail tradesmen who failed in 1814–15, were, upon disclosure of

their accounts, found to have entered largely into the prevailing spirit of speculation, by shipments of sugar, coffee, &c. to the continent. The number of bankrupts in 1815 was 2284, of which number twenty-six were bankers. The number of bankrupts, in 1816, was 2731, of which number thirty-seven were bankers. The amount of stoppages and compositions cannot be estimated, but the number must have been immense, and considerably greater than the number in 1811.

In closing the account of this crisis, no particular observation appears necessary. It is precisely of the same nature as those of 1793 and 1811, originating in similar causes, and terminating in the same disastrous consequences. A prospect opens of higher prices and more extended markets; with the aid of paper and credit, purchases are made and goods exported; the seasons change—markets are overstocked—prices fall—and the adventurers, and all those who assisted them by their credit—bankers, manufacturers, and tradesmen, fail or become bankrupt.

CRISIS FROM 1816 TO 1819.

Although the transactions were not so great as on former occasions, yet, even in this short interval, prices made a complete revolution, and, after attaining considerable elevation from the state to which they had fallen in 1816, were again depressed by the beginning of 1819.

"The exports," says Mr. Tooke, "from the country in 1815 and 1816 had been made with great prudence and forbearance, because every class of merchants was at that time suffering from too great eagerness of adventure; this forbearance was, of course, attended with a large profit on what was sent, and the consequence of the favourable result of shipments on a small scale was, as usual on such occasions, not only that some of the regular houses extended their shipments, but that fresh adventurers embarked to considerable extent."

Speculation thus accelerated its march, and, in consequence of the increased demand, again forced up prices. By the end of June, 1817, wheat and several other descriptions of agricultural produce had advanced 100 per cent. and several other articles attained their greatest elevation by the end of the year. In the retrograde movement which followed, Mr. Tooke does not admit that Mr. Peel's bill for the resumption of cash payments had any thing to do with the fall of prices at the close of 1818 and beginning of 1819, and shows, I think, satisfactorily, from the amount of imports, that the impulse downwards arose from the great previous excess of supply.

The transition from high to low prices was

followed by the usual concomitants—destruction of credit and private paper, which the momentary inducement to speculation had created, and consequent increase in the amount of failures and bankruptcies. Importers, speculators, and manufacturers were successively ruined, by having embarked too largely on anticipation of maintaining the high prices. The fall in the price of agricultural produce was more slow than in 1815 and 1816; and, consequently, the failure of country banks was not so extensive.

GREAT CRISIS OF 1825–6.

As this is, by far, the most remarkable crisis which ever happened in the commercial world, I shall endeavour to state, as precisely as I can, from a careful consideration of what has been written and said on the subject, the causes by which it has been produced.

In its general principles there is nothing to distinguish the re-action of 1825–6 from that of former periods. A spirit of speculation, aided by the expansive power of paper and credit, were on this, as on former occasions, the general operating causes. But, in addition, it must be admitted, that there were some circumstances, peculiar to the late crisis which added materially to the amount of evil by which it has been accompanied. The circumstances to which I allude were a more than usual facility, on the part of bankers, in their advances to individuals, as is shown in the increased issues, both of the provincial banks and the Bank of England; the object of the former was, doubtless, to forward the hopeful enterprises in which the community appeared then engaged; the object of the latter was not only to assist the commercial enterprise of individuals, but also to assist their best customers, the Ministers, in the accomplishment of the financial measures which they, also, under the flattering aspect of the times, had been tempted to enter upon. The direct tendency of both, however, was to add fuel to the wild spirit of speculation already existing, and, by augmenting the amount of unemployed capital in the market, not only give additional impulse to the spirit of over-trading already manifested, but also assist in bringing forth the numerous brood of absurd and fraudulent schemes for the employment of money which at once distinguished the period immediately preceding and announced the subsequent catastrophe. Of this I shall say more in the sequel; at present let us attend to the *ordo* of the causes which led to the late explosion; these, I think, may be comprised under the following heads:—

1. *Those ordinary causes of over-speculation, arising from low prices and a prospect of higher, which were common to the late and former periods of commercial enterprise.*

2. *The impulse given to the spirit of over-trading and speculation by the unusual increase in the issues of the Country Banks and the Bank of England, and which were peculiar to the late crisis.*

3. *The influence of Private Paper and transactions on Credit.*

4. *The* immediate *causes of the re-action in the Autumn of* 1825.

It were easy to write a dissertation under each of these heads, but I shall be very brief. My object being only a digest of facts and principles—to exhibit clear ideas—and form a compendium of reference, by which the reader may be able to comprehend the nature of the present and similar epochs in our commercial history.

First, *then, of those ordinary causes of over-speculation, arising from low prices and a prospect of higher, which were common to the late and former periods of commercial enterprise.*

The prices of most commodities were generally depressed by the abundance in 1821 and 1822, and this depression held out the ordinary inducements to speculation by the prospect of an advance. The immediate cause of speculations in agricultural products appears to have been occasioned by the preceding unfavourable harvests. The price of cattle and sheep had been unusually low in 1822; it now rose, from the great slaughter which then took place, and by the extensive rot among the latter by the wetness of the autumn of 1824.

Contemporary with these inducements to an outlay of capital in agriculture and agricultural products, other causes were in operation to excite an unusual spirit of adventure in other branches of industry.

Mr. Tooke says that, at the close of 1824, the stocks on hand were below the usual supply at that period of the year; and, in addition, as to two articles—cotton and silk—there were confident reports on the failure of crops. The consequence of this state of things, and of the representation made of it by the brokers, was an unusual eagerness to buy not only by the regular merchants and importers, possessed of spare capital, but of all who, by credit or otherwise, could raise the means of purchasing. Thus, all the great articles of importation—wool, silk, cotton, timber, tallow, &c. became objects of speculation, carried beyond all reasonable bounds, and beyond almost what had ever before been witnessed.

That this was really the case, is now placed beyond doubt, by official returns of the imports in the period under discussion. From these, it appears that the excess in the imports of various articles in 1825, above the average of the three

preceding years, amounted to 48, 56, 90, and as high as 98 per cent. The following is a statement.

	Average Imports of Three Years.	Imports in 1825, to October.	Increase per Cent.
Thrown Silk .....lbs.	404,423	800,501	98 per ct.
Wool ....lbs.	20,341,076	38,705,682	90 —
Wine ....gals.	7,796,259	12,272,085	56 —
Indigo ....lbs.	5,077,878	7,530,534	48 —
Deals 100	41,102	58,605	42 —
Tallow ....cwt.	771,963	1,089,256	41 —
Cotton ....lbs.	161,206,751	222,457,616	38 —
Raw Silk ......lbs.	2,608,527	3,431,172	31 —
Square Timber ..loads	551,496	664,186	20 —
Ashes..........cwts.	252,101	276,497	9 —

It is thus apparent that, in every one of the articles enumerated above, the importation, in the year ending 10th of October, 1825, exceeded the average of the three preceding years to a very considerable amount. Of the inconsiderate spirit which produced this excess the article of *thrown silk* is a striking example; in this the excess is nearly double the average of preceding years, notwithstanding circumstances had occurred which tended to check rather than promote the demand for the manufactured article.

The fact of *over-trading* being established, let us next attend to the consequences. The *first* was a locking up, in accumulated stocks beyond the regular demand, much of the surplus capital that previously existed. The *second* was the creation of a mass of private paper and transactions on credit which were to be provided for within a limited time. The operation of both in producing the subsequent embarrassments will be shown hereafter; at present let us say a word or two more on the causes which produced the over-trading which is now universally admitted to have prevailed.

In addition to the circumstances of low prices and probable scarcity, as favourable to speculation, there were others resulting from the previous state of the money market, and the difficulty experienced by individuals in finding profitable employment for their capital. The rate of interest had fallen nearly one-third from the commencement of 1823 to the same period in 1824, as is indicated by the rise in public securities. Three per Cent. Consols, which, on the 3d of April, 1823, were at $73\frac{1}{2}$, had advanced, on the 2d of April, 1824, to $94\frac{1}{4}$. In the spring of 1825, interest had fallen still lower, and, in the commercial world, did not exceed $2\frac{1}{2}$ per cent.* Exchequer-bills, yielding only $2\frac{1}{4}$ per cent. were at 50*s.* or 60*s.* premium. Money, in short, was quite a drug; the lenders exceeded the borrowers, and bankers and others were more ready to afford discounts than merchants were to solicit them. Under such circumstances, it did not require any great temptation to induce individuals to speculate; any project which held out the least chance of profitable investment, appeared preferable to suffering their money to lie idle in their coffers. Superabundance of capital, then, being admitted among the causes of the over-trading in 1824 and 1825, and of the numerous schemes for its employment; the next inquiry is the means by which this excess of capital, and consequent low rate of profit and interest, was created.

* Mr. Baring, House of Commons, Feb. 10th.

The primary causes of the accumulation of capital, *prior* to 1824, it is not necessary to investigate:—they, doubtless, arose from the previous general prosperity, and the cessation of the war-loans and other outgoings, which had absorbed the spare capital of the country. These causes of surplus wealth, however inconvenient, cannot be justly made a subject of complaint. What is justly reprobated is the creation of an immense mass of fictitious capital, when there was already more than enough for all the purposes of legitimate trade, by an enormous addition to the issues of the Country Banks and the Bank of England. The extent of these it is our next object to inquire, which brings us to our second head:—

The impulse given to the spirit of over-trading and speculation, by the unusual issues of the Country Banks and the Bank of England: and which were peculiar to the late crisis.

First, let us advert to two difficulties that have been started. It is denied by some that there is any evidence of an *excess in the issue of paper*, and for this they refer to the state of the exchanges. Without troubling the reader with the state of the exchanges, I would ask what is meant by an *excess* in the issue of paper? If it is meant that the issue of paper did not exceed the wants of individuals to enable them to carry through the various speculative enterprises in which they had engaged, in the purchase of commodities, in foreign loans, in mining shares, in buildings, in manufacturing, and other projects, then I grant the fact; but if, on the other hand, it is meant that the issue of paper did not exceed the fair and legitimate demands of trade; that the banker did not issue paper and make advances on other than fair mercantile transactions, and *bonâ fide* securities, I deny the position altogether, and appeal to the disclosures that have been subsequently made of the concerns of individuals, and into which it is not necessary more particularly to enter.

The position of the bullionists, and many able economists, that paper never would be issued to excess while it remained convertible into gold

at the will of the holder, has been entirely controverted. The failures of the country banks, whose paper was payable, on demand, in gold or Bank of England notes, has shown that a vast superstructure of paper may be erected without any foundation on real property or securities. If such be the case, and late events afford convincing proofs that it may be, then I think it must be conceded that the fact of convertibility is not an adequate check against over-issue.

Paper is not *value*; it is only the representation of value; if that value does not exist in some available and convertible shape, then it is a fiction, a cheat: it is in excess, according to the only standard by which excess can be measured, or the term rationally understood.

The second difficulty started is, whether the issue of paper was the *cause* of, or only the *effect*, or auxiliary, to over-trading. That over-trading, or, at least, a desire to over-trade, was the moving cause of an increased issue of paper may, I think, be shown by one general observation. Allowing that money was extremely abundant, that the country bankers were desirous of pushing their "flimsy bits" of paper into circulation, yet to suppose that the lenders were the first to solicit borrowers, is such a complete inversion of commercial practice, and of all one has seen and experienced in the world, that I think we may safely infer the *first* advances were made by the latter. They (the borrowers) had entered into a little venture, and required the aid of the banker; the latter, finding the times favourable, and the undertaking likely to be successful, had no hesitation: whether too much facility on the part of the banker led to subsequent applications, which tempted the borrower to widen his undertaking and become a speculator, is another question, which, perhaps, it is not very material to answer. The mischief is now done, and to indulge in mutual recrimination would be as foolish as the conduct of two lovers, who having, with reciprocal good-will, committed a *faux pas*, afterwards reproach each other with being the first to lead into temptation.

Having settled these preliminary points, we may come to the fact, the extent and effect of the issue of paper by the provincial banks and the Bank of England. The rise in the prices of agricultural produce in 1824, tended to enlarge the issues of the country banker, by the confidence it gave him in the improved situation and prospects of the farmer; and an addition to the circulation was also rendered necessary by the increased value of commodities. Other causes of extended issue arose from the prosperous state of commerce and manufactures, the consequent full employment of all classes, and the enterprises entered upon in building, manufac-

ries, roads, canals, &c. The effect of these causes on the progressive increase in the circulation of provincial notes will be seen from the following statement of the value of country bankers' notes, issued in the several years from 1819 to the 5th of January, 1826, as indicated by the number and value of the stamps issued from the Stamp-Office.

YEARS.	AMOUNT.
1820	£3,493,901
1821	4,438,548
1822	4,293,164
1823	4,479,448
1824	6,724,069
1825	8,755,307*

The period when the country banks began to extend their issues corresponds exactly with the period when the tendency to over-trade began to manifest itself. In 1824, when the disposition to speculate appeared, the country banks enlarged their issue, above the issue of the preceding year, to the amount of £2,246,621; in 1825, to the amount of £4,275,859; making a total excess of issues, in the two years, from 1823, to the amount of £6,522,470. It cannot be doubted that an addition to the provincial circulation, to the amount of six millions and a

* See the Appendix, No. III.

half, must have aggravated the evils already existing from superabundant capital, and contributed, in no slight degree, to encourage the extravagant spirit of over-trading, which has led to such disastrous results.

Six millions and a half, however, do not express the full extent of the paper and credit created by the country banks. That is only the excess of their issues in notes, as indicated by the returns of the Stamp-Office. What other advances they made to individuals, by means of bills and drafts on the London bankers, who, in in their turn, met these demands by advances from the Bank of England, there is no means of correctly estimating; that it was considerable may be inferred from the disposition they evinced to accommodate their customers by the extensive issue of their own paper.

While the country banks were filling the channel of circulation to overflowing, the Bank of England was pouring a contemporary stream into the same reservoir. The progressive increase in the issues of the Bank appears, from the weekly returns for the three years preceding the 6th of April, 1825, as under:—

April 5th, 1823	£16,845,840
April 3d, 1824	19,313,989
April 2d, 1825	20,328,979

Thus, it appears, the Bank augmented its circulation upwards of three millions, when the

country was resorting to all manner of frantic projects for the employment of redundant capital, and which had been partly created by the increased issues of the country banks, and partly by the extension of private paper and credit transactions among individuals. In September 1824, the exchanges became unfavourable; notwithstanding this circumstance, and the excess of our internal circulation, the Bank continued to increase the amount of its paper till the following March, when it began to contract its issues. Either the Bank was ignorant of the true state of the country, or it was more intent on augmenting the profits of the establishment than the public welfare, appears the only inference that can be made. In either case, its conduct is deserving reprobation. As the great banking company of the public, invested with exclusive privileges, its duty is to watch over the circulation; not only to maintain the foreign exchanges from depression, but preserve the balance between the currency and the amount of exchangeable commodities and real mercantile transactions.

Combining the increase in the issue of the Bank of England with the increase in the issue of the Country Banks, amounting to about ten millions, we have the measure of the impulse given to the spirit of speculation by bank paper. I frankly confess, this result is wholly inadequate to account for the effect produced. Ten millions of bank paper, added to a previous circulation of sixty millions, will never account for that immense system of speculation, in foreign loans, in foreign mines, in imports, in buildings, in manufactures, and other ventures which distinguished the period prior to the re-action. We must, then, discover some other cause, and that, I think, may be found in the vast extension of commercial paper and transactions on credit. Private credit, not bank paper, has, in my opinion, been the source of nine-tenths of the evils under which we have suffered. The truth of this position it will be necessary to investigate, which brings us to our third position.

The Influence of Private Paper and Transactions on Credit, in producing the late Crisis.

The favourable state of the country, which tempted the banks to enlarge their issues and advances would, also, tend to augment the mutual confidence of individuals, and induce them to extend among themselves their private paper and transactions on credit. Instances are not uncommon of persons commencing business within the last three years on the basis of a few hundreds, rearing a fabric of credit to the extent of a hundred thousand. If such feats could be performed by men unknown to the commercial world, what might not be effected by houses of long-standing and reputed

capitalists. To estimate the increase of private paper and credit would require the arithmetical powers, as well as the boldness, of the late Mr. Colquhoun. We have, however, authentic data for calculating the increase in bills of exchange, from the returns of stamps on bills issued from the Stamp-Office. The following statement exhibits the progressive increase of stamps on inland and foreign bills, from 1822 to 1825.

YEARS.	
1822	£519,203
1823	535,847
1824	556,919
1825	597,080*

Returns, up to 1826, of the stamps issued in the busy period of 1825 have not yet been published. The increase in the amount of stamps in the three years preceding is £77,871, making, in that period, an increase in the circulation, by bills, to the amount of more than one-sixth of the whole quantity previously in circulation.

Mr. Lloyd, the agent, in London, to several country banks, stated, in his examination before the committee of the House of Lords, on the resumption of cash payments in 1819, that the proportion between the circulation of bank notes and bills of exchange was as one to

* See the Appendix, No. VI.

ten.* Admitting, then, that the circulation of the country consists of one-tenth of bank notes and nine-tenths of bills, we may at once arrive at the total augmentation in the currency, in consequence of the increased issues of the country banks and the Bank of England. These increased issues, we have seen, amounted to ten millions, and supposing a contemporary increase of bills to nine times that amount, it follows, the total addition to the circulation, from the year 1822 to 1825, was not less than 100 millions.

This sum alone is almost adequate to explain the phenomenon produced, and account for that prodigious mass of unemployed capital with which the country was oppressed in 1823, 4, and 5. Independent, however, of bills and bank notes, the money-market was filled from other sources. General confidence extended private credit in open account; the scrip of the various foreign loans, and the shares of the different joint-stock companies circulated like commercial paper, and added immensely to the circulation. After this statement, we cannot feel surprised at the amount of capital invested in foreign loans, in excess of imports, in mining, insurance schemes, and other joint-stock speculations.

* Minutes of Evidence, page 82.

An attempt has been made to estimate the amount of capital engaged in different pursuits; the amount of foreign loans contracted for is stated to have been, in

1822	£22,450,000
1823	11,578,000
1824	18,700,000
1825	8,700,000
Total	61,428,000

The amount actually remitted on foreign loans in 1824 and 1825, in money or produce, is calculated, by Mr. Hume,* at £18,865,273.

The sum actually paid on the forty-one principal mining schemes—Anglo-Mexican, Anglo-Chilian, Anglo-Peruvian, &c. is estimated at £3,097,000.

The investment of capital in the excess of imports, above the average of preceding years, was probably not less than 10 or 15 millions.†

Capital was, also, absorbed to a great extent in other speculative ventures; but these formed the principal, and I have no wish to fatigue the reader by too much detail. What I have said will enable him to form some idea of the immense capital created, and the principal objects in which it was invested.

* House of Commons, February 20th.
† Appendix, No. I.

I have thus briefly stated the principal circumstances which either primarily caused or accelerated the great speculative impulse in 1824 and 1825, and which laid the train of the subsequent disasters. The first cause assigned is the increased issues, and advances of the country banks and the Bank of England; the second, and more effective cause, a vast extension of private paper and credit, aided by the fictitious capital created by loans, and the transactions of the share-market.

Another cause has been assigned by Lord Lauderdale; namely, the operation of the Sinking Fund in the purchase of stock, by which a quantity of revenue was converted into capital. Allowing such conversion to have been made, its agency in the late crisis must have been too inconsiderable to be taken into account. It bears scarcely any proportion to the effect which must ultimately be produced by the new principles of banking adopted by the Bank of England. The resolution to lend on mortgage and Government-securities had, indeed, a tendency to convert an immense mass of revenue into active trading capital, and would alone, in my opinion, have been sufficient, in time, to produce that surplus of money, and consequent low rate of profit and interest, which led to the subsequent over-trading and embarrassments.

Before concluding, it may be proper to explain that I have throughout used the term *credit* as synonymous with *capital*. Credit is not capital, in the language of economists; but, for all the purposes of trade and speculation, it is equivalent to capital, and in that sense I have employed the term.

Fourth. *The* immediate *Causes of the Re-action in the Autumn of* 1825.

The facts detailed under the preceding heads must have partly apprized the reader of the immediate causes of the re-action in the autumn of 1825, which was nothing more than the successive explosion of the various elements with which the commercial hemisphere had been excited and distended. When paper and credit had exerted their utmost force, and these springs of enterprise began to relax, a corresponding depression and embarrassment were communicated to all the branches of trade and speculation which they had stimulated into unnatural activity. It will be sufficient, therefore, for our purpose, briefly to enumerate the causes which either drew off the redundant capital in the market, or invested it in objects which placed it out of the reach of individuals in the moment of emergency.

The first, in order of time, of the re-acting causes was the contraction of the issues of the Bank of England. I have before observed that the Bank continued to augment its issues until March 1825; in that month, they saw, from the previous fall in the exchanges, combined with the rapidly increasing issues of the country banks, the necessity that was pressing upon them, and they contracted their issues to the amount of £1,300,000. Between the 15th of March and the 15th of May they made a reduction to the extent of £700,000 more. Between August and November, they farther contracted their issues, making, altogether, a reduction of £3,500,000.*

This abstraction of currency was felt throughout the kingdom; for the Bank, by its extensive accounts with individuals and bankers in London, and, through them, with the provincial banks and their customers, holds the strings of the whole circulation, and the moment it begins to pull them, the operation is felt through the community by a general narrowing of discounts and advances.

Accordingly, in the month of September, the first germ of the disease, and symptoms of approaching scarcity of cash were manifested. Reports were circulated of discounts being refused to extensive loan-contractors, and the paper of one entire branch of traders being rejected; transactions in the funds become heavy, which were succeeded by considerable fluctuations, and, finally, by extensive sales at reduced prices.

* Weekly Issues of the Bank, Appendix, No. II.

Meanwhile, other causes, more powerful than the contraction of issues by the Bank, had come into operation. The stocks accumulated from the overwhelming imports of the previous months, added to diminished exports, in consequence of the rise in prices, kept locked up, beyond the period anticipated by the speculators, a vast amount of capital, on which they had mistakingly hoped to realize.

The catastrophe of the share-speculations inflicted a severe blow on mercantile credit and reputation. It was found an extensive system of gambling and fraud had been carried on under the auspices of influential individuals, whose names had been *borrowed* or *lent* for the purpose: schemes were put forth for the employment of capital; their advantages magnified by prospectuses, reports, and newspaper-paragraphs; when competition, excited by these artifices, had forced up prices to an enormous premium, the directors, and others in the secret, sold out; afterwards, the shares fell to a discount, and the credulous purchasers suffered. Several members of parliament, first-rate merchants, proprietors and editors of newspapers, directors of fire-offices, and solicitors, were concerned in these nefarious transactions.*

* See *The Times*, February 10th, where one Honourable

It is calculated that between three and four millions were actually advanced on these delusive projects, a great part of which was invested in foreign mining schemes, where, it was remarked, "gold might be sunk, but none extracted." In almost all joint-stock companies, shares fell 60, 80, and 100 per cent. and a great

Member is stated to have been the director of *nine* joint-stock companies. For the share which "the gentlemen of the press" had in these sheep-shearing schemes we have the ingenuous testimony of the *Morning Chronicle.* "The press," says the editor, "for the most part, by taking shares in these schemes when at a premium, (and we blush to say few editors of newspapers in this metropolis are not to be found in the list of those who benefited by them,) had, at all events, no particular interest in opening the eyes of the public."—*Morning Chronicle,* February 3.

Of the other parties in the late *foray* on public gullibility, the reader may satisfy himself by turning to the published lists of managers and directors. The best exposures of the different schemes have appeared in *The Times,* which, through the late crisis, was conducted in a most able and fearless manner. In that journal of the 29th of March is an account of the "Norfolk, Suffolk, and Essex Rail-road Company," from which it appears that two principal items of the out-goings consisted of newspaper-puffs and the payment of legal expenses.

Had the literary *caste* chiefly benefited by the late jobs, perhaps it would not have been a subject of intense regret: for it is the misfortune of this class in general, by too great indifference to pecuniary matters, to be depressed below their proper grade in the social scale.

number of them, after answering the temporary object of the projectors, were abandoned. The collapsing of the bubbles destroyed commercial confidence; the knavery and folly with which they had been *got up* were appealed to, and used as a pretext for withholding that aid which otherwise might have been granted to mitigate the subsequent distress and embarassment.

By the joint operation of these causes, capital was withdrawn, absorbed, and dissipated, and the previous redundancy converted into absolute scarcity. The funds fell, and the rate of interest proportionally advanced. Goods became unsaleable beyond the immediate wants of purchasers. Confidence abated as the signs of real and imaginary wealth disappeared. The general effect of the whole was a vast contraction of the circulation, and pressure upon the bankers in London and the country, either for advances or the repayment of balances. For this retrograde movement many of them were unprepared, either with the necessary reserves of cash or securities readily convertible. It appeared, indeed, that they had been led away by the current, and the favourable aspect of the times had operated upon them in the same way as their customers; tempting them to speculate, by advances and issues of paper, beyond what just principles of commerce and banking would justify.

It is, perhaps, unnecessary to follow up this outline with a detail of events so recent, and which are hardly yet completed. In the month of November, it was evident a mercantile crisis was at hand. The country banks first gave way, and that of Sir W. Elford and Co. and others in the west of England excited general consternation. These were followed by the stoppage, on the 12th of December, of the bank of Pole, Thornton, and Co., which was among the most considerable in London, the firm being agents for no less than forty-seven provincial banks. Alarm was now universal, and a general run commenced on the money-dealers in town and country. Unable to withstand such a simultaneous pressure, the whole banking system appeared likely to be overwhelmed; the failure of Pole and Co. was, next day, followed by the long-established firm of Williams and Co. which was succeeded by those of Scott and Co. Wentworth and Co. Sykes and Co. Everett and Co. Stirling and Co. and a vast number of commercial houses, whose dealings were scarcely less extensive. In the course of the month, between seventy and eighty banks had yielded up the ghost, and closed their doors against all applicants.

It is needless to remark that all pecuniary

accommodation was suspended. A sort of *sauve qui peut* was generated: for while, on one hand, individuals hastened to draw out their balances from the bankers, the latter not only refused further discounts, and held fast all money in hand, but collected through the town, without delay or abatement, all bills that became due. Between the 10th and 16th, the town was swept of cash, and such a dearth of this necessary commodity ensued, that, according to the testimony of one deeply engaged in passing events, few persons had five pounds to spare for any purpose whatever. The evils of scarcity were thus aggravated by the reciprocal defensive measures of the banks and their customers. "Pawnbrokers and money-lenders were resorted to till their capitals were exhausted, and then a general stoppage of payment ensued, though most of the parties were abundantly solvent in their stock in trade, now unavailable, in book-debts not recoverable, or in bills either useless for want of discount, or rendered nugatory by the stoppage of drawer, accepter, and endorser!"

People could hardly believe themselves awake. Such a transition, in the short space of a few months, from redundant wealth to poverty, from enterprise to timidity, from confidence to suspicion, and from the most flattering prospects to the most gloomy anticipations, made the past appear more like the idle dream of Alnaschar (*Spectator*, No. 535) than any thing that had really existed.

The Bank of England, by advances to houses and individuals, made strenuous exertions to stop the headlong ruin which threatened the commercial classes. Post-chaises were hourly despatched into the country, loaded with supplies of gold and paper, to support the credit and prevent the failure of the provincial firms. Such were the extraordinary efforts of the Directors, that, between the end of December and the 14th of January, they augmented their issues to the enormous extent of £8,627,610, making, in that short period, an addition of more than one half to their previous circulation. But so many individuals were involved in the re-action, and their previous transactions had been so extensive, that even these exertions were inadequate to stay the panic; and the storm, which, in the beginning of January, had apparently abated, broke out, in the close of that month, with increased fury, and the bankrupts gazetted on the 28th amounted to the unprecedented number of sixty-nine; — the number of bankrupts in November was 188; in December, 220; in January, 321; in February, 380; and, to the 21st of March, 260. The number of bankrupts on the 4th of March was seventy-three, which was the greatest number

that had appeared, and from that time the plague may be said to have abated.*

* The following are the numbers in each *Gazette* of the current year:—

January	3 32		February	21 29	
	7 26			25 68	
	10 28			28 57	
	14 28		March	4 73	
	17 30			7 31	
	21 46			11 53	
	24 30			14 25	
	28 69			18 36	
	31 32			21 42	
February	4 64			25 35	
	7 32			28 20	
	11 60		April	1 32	
	14 37			4 25	
	18 53				

Lord Kaimes maintained, truly enough, that numerous bankruptcies are a decisive proof of commercial activity and enterprise. He states (Sketch of the History of Man, vol. i. p. 921) that, from 1694 to 1744, there were in Scotland only thirty-four bankruptcies, and thence infers how languidly trade was carried on. From 1744 to 1771, there had been, yearly, thrice thirty-four, which is a proof, he adds, of the rapid progress of trade. Every one, he concludes, is roused to adventure, though every one cannot gain.

The *Glasgow Chronicle* makes the number of bankruptcies in Scotland exceed the number in England, in proportion to the wealth of the two countries. The total number of bankruptcies in Scotland, for the last seven years and six weeks, is 1183; which, according to the ratio of taxes of 1 to 12½, is a greater number than in England during the same pe-

The extreme scarcity of money and destruction of credit, while the panic was at its height, may be inferred from a few facts which are worth preserving. Government securities or Bank-stock, except at immense sacrifices, were unsaleable. At the Stock-Exchange, Exchequer-bills fell to 60*s.* discount, and a sale of Consols, for money, was made at 76, when the price for the opening was 82; which would yield interest at the rate of 70 per cent. per annum. The number of bills unpaid and protested was beyond all precedent: 3000 are said to have been noted in one day, and 380 for one banker.

About the middle of March, things assumed a more favourable appearance; several of the London and country banks had re-opened;

riod, and this, notwithstanding the marvellous perfection of her system of banking and currency!

Probably, this discrepancy may result from the different composition of the population of the two kingdoms. In Scotland there are few gentlemen, and not many paupers,—at least, parochial ones; in England, there are a great number of both. It follows, that if one country possess a greater number of those who are either too rich or too poor to trade, while the other abounds in an intermediate class, who are neither rich enough to be idle, nor so poor as to be unemployed, that the latter will have a greater number of bankrupts, owing to the greater relative proportion of her people engaged in hazardous pursuits.

the silk trade revived; and accounts were received of improvement in the great branches of the woollen and cotton manufactures. The last great failure was the house of Goldschmidt and Co. which excited attention, not only from the sudden death of the head of the firm but the great extent of its transactions in Europe and America.

While the panic was raging, Government was earnestly solicited, both in and out of Parliament, to afford temporary relief by an advance of Exchequer-bills. Many persons were clamorous for more paper, who had suffered most severely from the previous excess; and, like those unfortunate victims to intemperance, called out, in their agonies, for a few drops of the fatal poison by which they had been destroyed. Ministers resisted these applications with firmness; they contended that the distress had not been occasioned by political causes, but had arisen from over-trading, and that it would be inconsistent with all sound principles of public economy for Government to interfere by any measures which would tend to prop up "rotten foundations," keep up artificial high prices, and, at best, only avert the natural consequences and punishment of individual folly and cupidity.

It was further added, that such interference would be a deviation, in favour of the opulent, from those general principles which, when applied to the working classes, it had been admitted, were founded in consummate wisdom. Alms-giving and poor-rates had been deprecated, as tending to aggravate the evils they were meant to mitigate, by the encouragement they held out to improvident marriages and procreation. If such were the consequences in one case, of mitigating the calamities occasioned by want of foresight, similar results might be anticipated from relieving commercial distress, occasioned by the imprudence of mercantile venture and speculation.

At length the distress of the commercial classes became so acute, and the applications for assistance so general, that Ministers thought it advisable to administer, at least, the *semblance* of relief, and this was done through the medium of the Bank of England. Lord Liverpool made the fortunate discovery that the Bank was empowered by their charter to make advances on goods, as well as bills; and, accordingly, the Directors, in concert with Government, undertook to advance loans to individuals on deposit of goods, and on personal security; these loans to be repaid in three months, or renewable at the discretion of the Bank.

It is impossible that this arrangement can have done much towards the mitigation of the

distress; for, up to the 23d of March, the Bank had not advanced to the amount of £250,000, which is hardly one-fortieth part of the aid it afforded during the first two months of the panic. Indeed, the plan was formed on such a cautious and inquisitorial system that it was evidently intended to discourage numerous applications; and many private bankers came forward to tender advances, on terms less onerous than those proposed by the Bank of England. It probably, however, answered the purposes for which it was dexterously intended; it put an end to further applications from the mercantile body, while it saved Ministers from doing that which they justly considered of evil example, and inconsistent with sound principles of commercial policy.

In short, it may be said that the disease has been left to work its own cure; and, whenever that shall be effected, it may be ascribed to the gradual operation of those natural causes resulting from augmented internal consumption and foreign demand which falling prices invariably produce.

In concluding this account of the *Great Crisis*, I have few remarks to offer in addition to those on preceding re-actions, which the last so much resembles in its period of duration, its causes and termination; differing only from our greater opulence and mercantile transactions, in the extent of loss and embarrassment it has inflicted. An entire decomposition of commercial elements has been effected. Masses of real and fictitious property have been transferred and distributed into new channels. Had this been the only result, its operation might have been considered beneficial rather than injurious. Unfortunately, the nation has sustained an immense loss from the destruction of property, occasioned by the fluctuation in prices, and the sudden change in the direction of capital and industry. A check has thus been given to internal improvements; and, in consequence of the blight on mercantile character and confidence, the legitimate movements of commerce must, for a time, at least, be fettered and embarrassed. It is the nature of all great changes to involve both the innocent and the guilty; and this is the worst result of the late re-action, it has not only swept away the delusive projects of the unprincipled adventurer, but paralysed the operations of real business and commendable enterprise.

SECTION IX.

Conclusions from the Commercial Crises of the last Sixty Years.

THE two last sections include a notice of the commercial crises, unconnected with political causes, which occurred during the last and present reign; and, from this retrospect of our commercial history, the following propositions may be deduced.

First, it is apparent that commerce is constantly subject to sudden vicissitudes; that these vicissitudes are inseparable from it, and grow out of the laws by which it is governed; since every commercial impulse necessarily tends to raise prices; but when prices have obtained a certain height, two effects follow—increased production and diminished consumption, which immediately check the developement of capital and industry, and produce that loss and embarrassment, which is significantly denominated a *re-action.*

Second. Although this is the general law which governs the commercial cycle, yet peculiar circumstances in the situation of a country may tend to render of more frequent occurrence, and of greater intensity, the alternations in mercantile prosperity and depression. Thus, the two crises prior to 1793 were evil dently occasioned, and the distress with which they were accompanied aggravated by the previous over-trading, which grew out of the general peace, and other circumstances favourable to the extension of mercantile transactions.

Third. Though the two last examples of over-trading were prior to the general institution of Country Banks, yet they were distinguished, and, in a great degree, promoted, by a great extension of *private credit*, and it was the destruction of this private credit, in the subsequent re-actions, that chiefly created the accompanying distress and embarrassment.

With respect to the re-actions subsequent to to 1793, and the general introduction of the Banking System, in addition to the above principles, which are common to every commercial crisis, the following peculiarities may be added.

1. That, since the general introduction of the banking system, periods of commercial reaction have been of more frequent occurrence and more aggravated amount.

2. The circumstances which gave rise to the several examples of over-trading from 1793 inclusive, were a mistaken estimate of the probable scarcity of some important articles of consumption, the opening of new markets, or any other source of augmented demand. Such a state of things holds out a prospect of higher

prices, and, consequently, acts as a stimulus to increased activity, confidence, and enterprise.

3. To these general causes of over-trading were super-added, in 1825, other inducements to speculation, from the peculiar state of the money-market, the great redundancy of capital, and consequent low rate of profit and interest.*

4. That, though bank paper cannot be assigned as a cause of these periods of over-trading, in the *first* instance, yet, from the obvious interest bankers have in extending their issues and advances, it follows that, as soon as the spirit of mercantile enterprise is in motion, it aids and accelerates its progress by the facilities it affords, thereby augmenting the calamities of the revulsion which must subsequently follow.

Lastly, though paper has not always been an adjunct to commercial distress, *credit* has; therefore, it may be concluded that the latter is the chief element in producing it, and the principal cause of these periodical interruptions to the gradual advancement of national wealth and happiness.

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* This is the cause which Colonel Torrens assigns for the late crisis, in his able work on the *Corn Trade*. Third edit.

SECTION X.

Measures of the present Session of Parliament, relative to the Banking System.

THE principal measures brought forward by Ministers, in the present session, for the reform of the banking system, are two:—

First, to prohibit the circulation of all promissory notes, for less than £5, payable to bearer on demand, issued by the Bank of England, or by any licensed English banker, after the 5th of April, 1829.

Second, to allow corporate bodies or partnerships, consisting of more than six, to carry on business as bankers at any place, exceeding sixty-five miles from London, in like manner as co-partnerships of less than six now do, provided such persons have no establishment as bankers in London, and that every member of such corporation be liable for the payment of all bills or notes issued, or sums borrowed by the corporation to which he belongs.

Both these measures, so far as they extend, are improvements upon the banking system. The entire withdrawal of the small notes in 1829 restores the currency to the state it was in prior to the Bank Restriction Act, in 1797, and

only anticipates, by four years, an event which, according to the 3 Geo. IV. c. 70, was to take place in 1833. The conduct of Parliament in 1822, in extending the period of circulation of the £1 and £2 notes, is now universally admitted to have been an error; it left subject to the chances of popular alarm the most dangerous elements of future panic, and exposed to cruel distress that portion of the community whose poverty ought to exempt them from the vicissitudes of mere capital, since they derive no benefit from its employment.

But, it is clear, that the withdrawal of the small notes can have little effect in checking the spirit of over-speculation, and, consequently, of averting future commercial re-actions. The issue of small notes is estimated at five or six millions, or one-third of the total amount of country bank paper, or about one-eighth of the issues of the country banks and the Bank of England, and not one-eightieth part of the total circulation of bank paper and bills of exchange.*

* Bank notes are supposed to wear out in three years, so that a banker must annually issue new notes, to the amount of one-third of his issues, to keep out the same quantity of paper. It is upon this principle the circulation of the country banks is calculated; the total quantity of paper in circulation being considered treble the amount of their average annual issues; it follows that, as the average

From this it follows that the small notes form such a diminutive fraction of the circulation that they can have had little share in producing past commercial crises; consequently, the withdrawal of them will have as little tendency to avert those to which we may be hereafter subject.

The *second* measure will be beneficial, or not, according as it is acted upon by individuals and encouraged by the community. The English bankers have hitherto shown no disposition to strengthen their firms by numerous partners; a vast majority of our banking companies consisting of not more than two or three persons.* It is only, therefore, by the public withdrawing its support from establishments on a small scale, and extending it to those on a larger, that any improvement in this respect can be anticipated.

The design of ministers appears to be to en-

issues of the country banks, within the last three years, is between six and seven millions, their total circulation may be taken at eighteen or twenty millions; which, with the issues of the Bank of England, makes a total circulation of bank paper to the amount of forty millions. The estimate of bills of exchange is taken from Mr. Lloyd's evidence, mentioned page 75. These numbers are sufficiently accurate for the proportions mentioned in the text.

* See the Appendix, No. VIII. and page 19.

courage the formation of joint-stock banking companies, and the utility of this is justified by the success of similar institutions, and the authority of the author of the "*Wealth of Nations.*" Speaking of the different trades which may be advantageously carried on by joint-stock associations, Smith includes in the number that of banking.

"Though," says he, "the principles of the banking trade may appear somewhat abstruse, the practice is capable of being reduced to strict rules. To depart, upon any occasion, from these rules, in consequence of some flattering speculation of extraordinary gain, is almost always extremely dangerous, and frequently fatal to the banking company which attempts it. But the constitution of joint-stock companies renders them, in general, more tenacious of established rules than any private copartnery. Such companies, therefore, seem extremely well fitted for this trade. The principal banking companies in Europe, accordingly, are joint-stock companies, many of which manage their trade very successfully, without any exclusive privilege."—*Vol.* ii. *p.* 161.

If to a limited number of joint-stock companies were granted charters of incorporation, they would form a beneficial rivalry and counterpoise to the exclusive power and influence of the Bank of England. At all events, joint-stock companies upon an extensive scale, even without exclusive privilege, will be a vast amendment of the present system;—they will be conducted upon more general and fixed principles—have a greater basis of capital—and a greater number of persons interested in maintaining their credit, and watching over their proceedings.

To conclude, the measures of ministers are, *pro tanto*, real improvements, but not preventives of mercantile distress and re-action. They afford no effective guarantee against future panic, nor the over-issue and insolvency of bankers, neither do they offer any check against speculation on baseless credit. Remedies for these are the chief *desiderata*, and I shall, in the next and last section, submit a plan which, I think, will be an effective panacea.

SECTION XI.

Plan for the Reform of the Banking System and the Prevention of future Commercial Re-actions.

The many disastrous fluctuations to which commerce has been subject within the last

sixty years, afford indubitable proof of the existence of radical defects in the principles and practice of mercantile transactions. To me it seems almost doubtful whether the advantages resulting from banks, bills of exchange, notes, clearing-houses, and other contrivances, by which credit is established, the use of money economized, and the operations of trade facilitated, have not been more than counterbalanced by those fatal shocks, the intensity and number of which they have so greatly tended to augment. Undoubtedly, the benefit conferred by these inventions have been great; in poor countries, they have created capital; in rich ones, given additional impulse to the progress of national wealth and industry. But what a long train of evils may be set-off against these admitted advantages! They have given an undue ascendancy to particular branches of industry—the commercial and manufacturing, for example; they have augmented the influence of mere wealth without accompanying virtue and intelligence; they have multiplied population beyond the means of permanent employment and subsistence; they have created a vast monied interest, whose sole element is speculation, war, and gambling: if to these we add the countless evils resulting from commercial re-action, the endless litigation, the frauds, arrests, insolvency, and bankruptcy—all of which they have so greatly multiplied and aggravated, we shall have, I think, a catalogue of mischiefs which fully counterbalance the advantages which have flowed from banks, credit, and paper.

It would, however, be altogether visionary to think of abolishing the present commercial machinery; such a project would, indeed, be *Utopian;* all that we can reasonably aspire to is improvement, so that we may possess its benefits with less alloy of accompanying evils. For this purpose, I submit the following suggestions for an entire reform in our banking and commercial practice.

First, that there be no longer banks of circulation, but banks of deposit only; that it be made penal, as a breach of trust, for any banker to trade with the balances of his customers; in lieu of which, he should be paid a per centage for the safe custody of deposits.

Secondly, that all bills of exchange be drawn payable to bearer on demand.

Thirdly, that the laws relative to debtor and creditor, arrest, insolvency, and bankruptcy, be abolished.

The *first* would restore banks to the primitive objects of their institution, and make them the safe-keepers of real, not the manufacturers of fictitious money.

The *second* would preserve to bills their negotiability and their advantage as a safe medium for the transfer and balance of payments, without an actual remission of specie; while it would put an end to accommodation paper, and those devices to which individuals resort for the creation of temporary resources for unjustifiable speculation.

The *third* would limit credit to real capitalists, or persons of unsuspected integrity, and remove a source of endless litigation, fraud, and oppression. Under such a system, the payment of debt would be deemed a much higher obligation than at present; for, as compulsory process would be abolished, a person's honour would alone be relied upon, and, consequently, a failure to fulfil his engagements would have the effect of discrediting him in society, or excluding him from social intercourse.

Such innovations, it must be conceded, are much too sweeping to be hastily adopted; and I chiefly submit them, as those general and abstract principles of perfection to which, in commerce, as in other pursuits, we ought, as nearly as possible, to approximate, though we cannot fully realize. They would certainly lay the axe to the root of all speculation on baseless credit, and prevent hereafter any such overwhelming re-action as that we have lately witnessed. The progress of the country would be more slow, but more sure, and might, ultimately, attain greater riches, and certainly a more wholesome distribution of them, than we can expect under the artificial excitements of an extensive system of credit and banking. Revulsions in commerce are like the precipitate retreat of an army,—they discourage, confuse, and disorganize; and inflict permanent evils, whieh far outweigh the benefits resulting from previous success, activity, and enterprise.

APPENDIX.

APPENDIX.

The following documents have been carefully prepared from the Parliamentary Papers of the present and former Sessions; also, from the *Gazette, Price Current,* and *Course of Exchange.* They comprise all the data essential to illustrate the preceding observations, and the nature and history of the late extraordinary re-action in our banking and commercial system.

No. I.

IMPORTS.

ACCOUNT of the total Quantity of each of the following ARTICLES, viz. Wool, Cotton, Indigo, Timber, Silk, Tobacco, Wine, and Tallow, imported in the Years ended 5th January, 1822, 1823, 1824, and 1825; and of the total Quantity of the like Articles imported in the Year ended 10th October, 1825.

YEARS.	QUANTITIES IMPORTED INTO THE UNITED KINGDOM.				
	Sheeps' Wool.	Cotton Wool.	Indigo.	Timber: 8 In. Square or upwards	Timber: Deals.
	lbs.	*lbs.*	*lbs.*	*Loads.*	*C.*
1822	16,632,028	132,536,620	4,063,109	428,900	26,905
1823	19,072,364	142,837,628	2,923,514	486,457	34,746
1824	19,378,249	191,402,503	7,229,150	548,497	38,818
1825	22,572,617	149,380,122	5,080,972	619,520	49,740
1825	38,705,682	222,457,616	7,530,534	664,186	58,605
	Silk: Raw & Waste.	Silk: Thrown.	Tobacco & Snuff.	Wine.	Tallow.
	lbs.	*lbs.*	*lbs.*	*Gallons.*	*Cwts.*
1822	2,201,041	341,154	23,211,463	6,567,801	643,178
1823	2,177,773	502,795	35,313,014	7,384,667	805,238
1824	2,512,164	368,469	34,999,880	8,040,111	830,271
1825	3,135,644	342,005	22,130,939	7,963,999	680,382
1825	3,431,172	800,501	27,864,017	12,272,085	1,089,256

No. II.

Weekly Issues of the Bank.

An Account of all Promissory-Notes and Post-Bills of the Bank of England in circulation at the close of Business on Saturday in every Week from 5th April, 1825, to Saturday, 4th February, 1826, inclusive.

1825.			Sept.	10	£18,517,201
April	9	£20,687,516		17	18,252,170
	16	21,060,103		24	18,009,781
	23	20,717,044	Oct.	1	18,536,561
	30	20,536,632		8	18,173,445
May	7	20,500,259		15	19,686,586
	14	20,046,091		22	19,027,460
	21	19,723,489		29	18,692,227
	28	19,653,011	Nov.	5	18,497,423
June	4	19,298,201		12	18,331,871
	11	18,639,891		19	17,594 301
	18	18,327,735		26	17,464,890
	25	18,372,368	Dec.	3	17,477,294
July	2	19,038,339		10	18,037,966
	9	21,714,839		17	23,942,827
	16	21,763,417		24	25,611,805
	23	21,198,817		31	25,709,425
	30	20,794,729	1826.		
Aug.	6	20,157,200	Jan.	7	24,120,415
	13	19,738,769		14	26,104,904
	20	19,589,055		21	25,013,790
	27	19,290,570		28	25,255,924
Sept.	3	19,028,070	Feb.	4	23,673,737

*** For the yearly issues of the Bank prior to 1825, see page 72.

No. III.

COUNTRY-BANKERS' NOTES.

Great Britain.

Account, showing the Value of Country-Bankers' Notes, of each Description, stamped in each Year, from 5th January, 1820, to 5th January, 1826, and the Total Value of the whole stamped in each Year, during the same Period, in Great Britain.

Years.	£	s.	d.	£
1820.—Not exceeding	1	1	0	1,683,824
———	2	2	0	44,362
———	5	5	0	1,018,365
———	10	0	0	492,800
———	20	0	0	145,000
———	50	0	0	3,350
———	100	0	0	106,000
Total value				3,493,901
1821.—Not exceeding	1	1	0	2,214,623
———	2	2	0	40,360
———	5	5	0	1,274,195
———	10	0	0	512,160
———	20	0	0	214,660
———	30	0	0	1,500
———	50	0	0	20,850
———	100	0	0	160,000
Total value				4,438,548

YEARS.		£	s.	d.		£
1822.—Not exceeding	....	1	1	0	....	1,888,959
——		2	2	0	....	23,400
——		5	5	0	....	1,336,065
——		10	0	0	....	650,320
——		20	0	0	....	275,120
——		30	0	0	....	3,000
——		50	0	0	....	10,300
——		100	0	0	....	106,000
		Total value			....	4,293,164
1823.—Not exceeding	....	1	1	0	....	1,969,758
——		2	2	0	....	50,220
——		5	5	0	....	1,365,920
——		10	0	0	....	742,320
——		20	0	0	....	191,460
——		30	0	0	....	5,970
——		50	0	0	....	14,600
——		100	0	0	....	139,200
		Total value			....	4,479,448
1824.—Not exceeding	....	1	1	0	....	2,501,849
——		2	2	0	....	43,000
——		5	5	0	....	2,210,560
——		10	0	0	....	1,311,960
——		20	0	0	....	443,780
——		30	0	0	....	420
——		50	0	0	....	26,400
——		100	0	0	....	186,100
		Total value			....	6,724,069
1825.—Not exceeding	....	1	1	0	....	3,172,477
——		2	2	0	....	79,022
——		5	5	0	....	2,789,730
——		10	0	0	....	1,583,330
——		20	0	0	....	927,840
——		30	0	0	....	360
——		50	0	0	....	19,050
——		100	0	0	....	184,500
		Total value			....	8,755,307

No. IV.

SCOTLAND.

ACCOUNT of UNSTAMPED SMALL NOTES issued by the Three Chartered Banks of SCOTLAND, in each Year, from 6th January, 1820, to 5th January, 1826; and the total Value in each Year during the same Period.

	BANK OF SCOTLAND.	ROYAL BANK OF SCOTLAND.	BRITISH LINEN COMPANY.
	Not exceeding £1 : 1.	Not exceeding £1 : 1.	Not exceeding £1 : 1.
YEARS.	Value at £1.	Value at £1.	Value at £1.
	£	£	£
1820.	60,000	37,000	21,200
1821.	28,800	65,000	78,000
1822.	9,000	44,000	24,000
1823.	......	55,000	112,000
1824.	8,400	60,500	98,000
1825.	114,000	75,000	108,000

No. V.
Ireland.

Account of the Country-Bankers' Notes stamped in Ireland, in each Year, from 1819 to 1825 inclusive, distinguishing the Notes of £5 and upwards, and under £5; and stating the total Aggregate Amount.

Years.	£5. Estimated Value.	£10. Estimated Value.	£50. Estimated Value.	£50. (Irish.) Estimated Value.	£100. Estimated Value.	Total Value.
	£	£	£	£	£	£
1820	560,539	134,000	273,322	11,077	10,155	989,093
1821	455,827	28,500	86,044	3,462	2,216	576,049
1822	430,758	50,000	123,886	5,539	9,231	619,414
1823	438,013	29,000	82,950	1,385	1,846	463,194
1824	861,112	80,000	170,800	9,230	—	1,122,142
1825	1,562,361	144,070	364,000	23,077	15,000	2,108,508

No. VI.
Bills of Exchange.

An Account of the Amount of all Stamps on Bills of Exchange, issued from the Stamp-Office in each year from 1804 to 1825 inclusive.

Years.	£	s.	d.
1805	384,449	2	11
1806	458,656	8	1
1807	464,417	16	1
1808	454,050	19	10
1809	541,804	16	8
1810	588,753	8	6
1811	530,520	16	7
1812	520,891	16	8
1813	537,239	19	4
1814	560,504	7	5
1815	673,116	5	2
1816	568,431	6	11
1817	552,965	7	0
1818	589,331	9	11
1819	575,782	11	0
1820	544,978	11	5
1821	527,877	2	11
1822	519,203	0	6
1823	535,847	18	4
1824	556,919	13	4
1825	597,080	19	5

The above account includes the foreign with the inland bills of exchange, as no distinct account of the latter can be given, nor can the account be rendered earlier than the year 1805.

No. VII.

Bankruptcies.

An Account of the Number of Commissions of Bankruptcy, issued from 1790 to March 21st, 1826, distinguishing the Commissions issued against Bankers.

Years.	Commissions in each Year.	Commissions against Bankers.	Years.	Commissions in each Year.	Commissions against Bankers.
1790	747	0	1809	1382	7
1791	769	1	1810	2314	26
1792	934	1	1811	2500	4
1793	1956	26	1812	2228	17
1794	1041	2	1813	1953	8
1795	879	7	1814	1612	29
1796	954	6	1815	2284	26
1797	1115	3	1816	2731	37
1798	911	3	1817	1927	5
1799	717	6	1818	1245	6
1800	951	8	1819	1499	12
1801	1199	3	1820	1381	4
1802	1090	8	1821	1238	11
1803	1214	8	1822	1094	9
1804	1117	6	1823	975	9
1805	1129	9	1824	1107	9
1806	1168	5	1825	1231	37
1807	1362	1	1826		
1808	1433	5	Mar. 21	961	28

⁎ This table of bankruptcies for the last quarter of a century exhibits, at one view, a complete picture of commercial fluctuations, and of the degree in which they were shared in by the bankers. Its accuracy may be depended upon. Down to 1818, it is taken from Appendix G 3 in the Lords' Report on Cash-Payments in 1819; thence to 1822, from Mr. Tooke; and, afterwards, to the present time, from the Gazette and the Parliamentary Paper No. 94, of the present session.

No. VIII.

Account of the Commissions of Bankrupt issued against Bankers; also, of the Number of Partners in each firm, from the year 1816, to the 21st of March, 1826.

Years.	Commissions of Bankrupts against Bankers.	Number of Bankers.
1816	37	75
1817	3	9
1818	5	8
1819	12	25
1820	4	9
1821	11	20
1822	9	15
1823	9	11
1824	9	15
1825	37	96
March 21, 1826	28	56

The number of Bankers Gazetted during December last year, and January and February, to March 21st, of the present, amounts to 100. They formed 41 Firms, constituted as under:—

10	having	1 person only
11		2
13		3
6		4
1		5

No. IX.

Banks, Scotland.

Account of the Banks Established in Scotland, distinguishing the Charter Banks, and the Number of Partners in such Banks as are not chartered :—

Names of Firms.	Head Office.	Number of Partners.
Bank of Scotland	Edinburgh	Charter
Royal Bank of Scotland	Edinburgh	Charter
British Linen Company	Edinburgh	Charter
Exchange and Deposit Bank	Edinburgh	1
Carrick, Brown, and Co. or Ship Bank	Glasgow	3
Paisley Union Bank	Paisley	4
Shetland Bank	Leverich	4
Falkirk Banking Company	Falkirk	5
Dundee New Bank	Dundee	6
Paisley Banking Company	Paisley	6
Renfrewshire Banking Company	Greenock	6
Thistle Bank	Glasgow	6
Stirling Banking Company	Stirling	7
Sir William Forbes and Co.	Edinburgh	7
Ramsay, Bonars, and Co.	Edinburgh	7
Hunter's and Co.	Ayr	8
Greenock Banking Company	Greenock	14
Leith Banking Company	Leith	15
Commercial Banking Company	Aberdeen	15
Glasgow Banking Company	Glasgow	19
Fife Banking Company	Cupar, Fife	39
Dundee Banking Company	Dundee	61
Perth Union Bank	Perth	69
Aberdeen Banking Company	Aberdeen	80
Dundee Union Bank	Dundee	85
Montrose Bank	Montrose	97
Arbroath Banking Company	Arbroath	112
Perth Banking Company	Perth	147
Dundee Commercial Bank	Dundee	202
Aberdeen Town & County Bank	Aberdeen	456
Commercial Banking Company of Scotland	Edinburgh	520
National Bank of Scotland	Edinburgh	1238

No. X.

An Account of the Gross Receipt of Revenue derived from Taxation in Great Britain, (Drawbacks and Payments of the nature of Drawbacks deducted; and exclusive of all Loans and of Payments received from Ireland and Austria,) in each year, since the 5th of January 1815.

Years.	Revenue.
1815	£70,422,151
1816	61,437,257
1817	51,183,134
1818	52,717,933
1819	51,385,950
1820	54,058,666
1821	54,638,141
1822	53,823,511
1823	52,561,802
1824	52,685,930
1825	52,044,563

No. XI.

Price of Corn.

Average Price of Corn for the last Six Years.

Years.	Average.	
1820	65s.	10d. per Quarter.
1821	54	5
1822	43	3
1823	51	9
1824	62	0
1825	66	6
Aggregate Average of the Six Years	57	3

No. XII.

Prices of Public Securities and the Course of Exchange, from January, 1825, to the 31st of March, 1826.

Years.	3 per Cent Consols.	Bank Stock.	India Stock.	Excheq. Bills.	Exchange with Paris 3 days' sight.
1825, Jan.	shut	229	shut	59p	25.15
15	93	229	shut	68p	25.15
Feb.	93	233	281	63p	25.15
15	94	237	282	62p	25.15
Mar.	93	238	285	62p	25.15
15	93	shut	shut	55p	25.15
April	—	—	—	—	25.20
15	92	231	280	61p	25.15
May	92	232	—	51p	25.15
15	91	230	279	54p	25.20
June	90	227	277	34p	25.20
15	shut	231	shut	35p	25.20
July	shut	231	shut	64p	25.20
16	90	—	273	35p	25.20
Aug.	89	229	—	26p	25.25
15	89	228	270	21p	25.25
Sept.	87	229	—	7p	25·25
15	88	shut	—	3p	25.25
Oct.	87	—	264	1p	25.35
15	88	226	—	4p	25.35
Nov.	—	—	—	—	25.30
15	85	222	263	1p	25.25
Dec.	shut	217	—	8p	25.30
15	shut	200	shut	0p	25.55
1826, Jan. 2	shut	—	—	34p	25.40
16	80	214	240	2p	25.40
Feb.	79	214	—	1 dis	25.40
15	74	196	—	3 dis	25.70
Mar.	77	201	226	1p	25.70
15	77	shut	shut	3p	25.65
31	79	shut	shut	2p	25.80