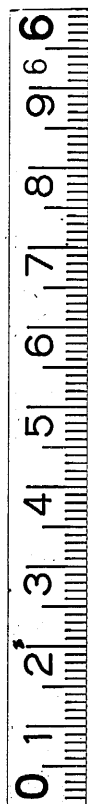


60-15



2138

A
LETTER
TO
WM. HUSKISSON, ESQ. M.P.
ON HIS
LATE PUBLICATION.

==
BY A PROPRIETOR OF BANK-STOCK.
==

PRINTED FOR J. M. RICHARDSON, 23, CORNHILL,
OPPOSITE THE ROYAL EXCHANGE.

1811.

Printed by J. M. Richardson, 23, Cornhill, London.

PREFACE:

HAVING last winter ventured to publish my sentiments on the state of our currency, in a pamphlet entitled "The real Cause of the Depreciation of the National Currency explained," I was not a little surprised to find myself censured, particularly by the monthly reviewers, for ascribing the depreciation of money *entirely* to the restriction-act. As it was a notion which I never entertained, I could with difficulty persuade myself that any passage in my publication conveyed an idea so different from my real sentiments ; till, on re-

Galabin and Marchant, Printers,
Ingram-Court, London.

ferring to it, I found I had expressed myself so loosely that it was natural enough for the reader to put such a construction on my words. The mistake arose from my not making a necessary distinction between the depreciation of money with respect to the price of commodities, and that of the present currency with respect to bullion. It was in this latter sense *alone* that I meant to represent it as ascribable *solely* to the suspension of payments in specie. I am very sensible that, though the currency were restored to a par with bullion, it still might continue in a state of depreciation in its exchangeable value with other commodities; but, if it consisted of guineas or paper convertible into gold, it could not be depreciated with respect to bullion, because however gold may fall in exchange with other commodities it cannot be depreciated with respect to itself; and the price of

bullion would have sustained the value of guineas as unavoidably as the high price of corn raises the price of bread. In another publication of mine, which came out about twelve years ago, I laboured hard to explain the tendency of taxes to raise the price of commodities and consequently lower the value of money; but, as it was anonymous, and probably better known to myself than to the public, it would be in vain to refer them to a pamphlet which perhaps none of them ever read and which is now out of print. The following quotation extracted from that work will show that I was not inattentive to the operation of the taxes.

“ Our author admits that a uniform rise
 “ in the money price of things would argue
 “ a depreciation in the value of money.
 “ Let me appeal to every man’s experience
 “ whether a general rise has not taken

“ place. . . . Now if a general depreciation
“ has taken place, and is not owing to the
“ increase of taxes, it remains for my op-
“ ponents to show me from what cause it
“ proceeds.”

LETTER,

Sc. Sc.

SIR,

IF you should conclude, from the title-page of this publication, that the writer who has the honour to address you is going to enter the list as a champion for the new claims, broadly insinuated, if not openly avowed, by the advocates and partisans of that Bank, of which he is one of the proprietors, you will form a very erroneous opinion of the motives which induce him to come forward on this occasion. As deeply sensible as you can possibly be of the magnitude of the evil which you have so ably stated, as well as of the necessity of recurring to the only remedy adequate to its removal, I have read the clear and perspicuous statement of facts, the judicious inferences, and irrefragable arguments,

which so eminently distinguish your late publication, with greater pleasure and satisfaction than I ever experienced from the perusal of any production of a similar nature.

Having constantly reprobated the political system of those administrations in which you have borne a part, and a total stranger as I am even to your person, I cannot, in doing justice to the merits of the work, be suspected of being biassed by personal attachment, or party prejudices, in favour of the author. But, having been myself a humble labourer in the same vineyard, I confess I felt no small gratification when I found those principles so clearly explained and ably demonstrated, to which I had endeavoured to draw the attention of the legislature, in a pamphlet published previous to the appointment of the Bullion-Committee, under the title of "The real cause of the Depreciation of the national Currency."

But the greatest satisfaction I felt on the perusal of your book arose from the hope to which it has given birth, that facts so undeniable, reasoning so incontrovertible, under the sanction of a name so well known in the political world, will have sufficient weight with the legislature to induce it to put an end to a system so evidently ruinous in its consequences.

When men, free from the influence of interest

or prejudice, consider a question of this nature with no other view but the investigation of truth, it will sometimes happen that, though they agree in their general principles, some shades of difference will arise between them when they come to reduce them to practice. As no other difference is likely to exist between us, I trust that, in the following discussion, I shall never lose sight of the manners of a gentleman, nor of the deference which is due to a man of your abilities and experience in public business.

There are three points, sir, in which you and I are perfectly agreed, and those points constitute almost the whole of the subject under consideration: they are,

1. That the currency is depreciated.
2. That this depreciation is owing to the suspension of payments in specie.
3. That nothing can remedy the evil but a resumption of those payments.

I acknowledge, that, in the pamphlet above alluded to, I suggested another expedient; but I declared, at the same time, that I offered it only as a palliative, and that nothing short of a repeal of the restriction could remedy the evil. I was induced to offer that palliative, because I was apprehensive that the difficulties which stood in the way of the resumption of cash-payments were such as to afford no reasonable hope that such a

measure could be carried into effect in the present state of things. And I readily own my obligations to you, for having convinced me, by your admirable reasoning, that those difficulties are not in *themselves* insuperable, nor, indeed, of such magnitude as, from a more imperfect knowledge of the subject, I had conceived them to be. I am now so fully persuaded of the practicability and necessity of the measure, that I entirely agree with you, that nothing short of it should for a moment be listened to.

But, in estimating the difficulties it will have to struggle with, we should not confine our attention to those that necessarily belong to the subject; we must, likewise, take into consideration those that will be started by the *interest* of *some*, and the *weakness* of *others*. All those who derive their opulence from the present ruinous system may be expected to throw every obstruction in their power in the way of any expedient, however salutary, which threatens to diminish their emoluments. We have already seen with what zeal and acrimony the partisans of the Bank of England have scouted every idea of resuming payments in specie.

Perhaps, no fewer obstacles will arise from the weakness of ministers than from the interested opposition of the Bank. I understand, from public report, that Mr. Perceval was one, among the

few members of the Bullion-Committee, who dissented from the resolutions published in their Report. I hope I may have been mis-informed; for, I confess, I should entertain very strong doubts of the possibility of effecting so important a reform in the financial system of the country, in direct opposition to the minister who presides over that department of the state. It was my wish to steer clear of party politics, and confine myself strictly to the subject in discussion; but, in weighing the difficulties we have to encounter, the views, the interests, and abilities, of ministers cannot be left out of the consideration.

That a restoration of the legitimate currency of the kingdom will be as beneficial to the state as to individuals is a truth of which I do not entertain the smallest doubt; but it cannot be denied that the present system of paper-currency affords considerable facilities to government in their loans and money-transactions, though productive ultimately of heavier burthens on the nation. An administration composed of men of weight, talents, and respectability, possessing the confidence of the people and the respect of foreign powers, might be expected to extend their views beyond the exigencies of the moment, and to encourage measures, though attended with some present difficulties, which, by affording future advantages, may contribute to confirm and

prolong their authority: like tenants who enjoy a long lease, they consider themselves as having some interest in the soil, and are not unwilling to be at the expense of improvements of which they are in hopes of reaping the profits.

But, a weak, imbecile, tottering, administration, that is lingering in office, from day to day, without support from the throne, and contemptible in the eyes of the nation, like a tenant who is ready to quit, will not be at the trouble or expense of ameliorations, the fruits of which must revert to their successors, but content themselves with laying hold of every good thing that falls out during the remainder of their lease. But administrations pass away, and it is to be hoped the present is not exempted from the common lot, while private interest endures for ever. It is, therefore, from the machinations of private interest that danger is chiefly to be apprehended. Its influence has manifested itself by the spirit of opposition which the Bank and its advocates have shewn on this occasion. This has not only been rendered evident by the speech of their orator, Mr. Randle Jackson, and several publications, but appears in a still stronger light from the examinations of its late Governor and his Deputy.

Ignorant as I was of the very existence of those gentlemen, till their names appeared in the Report

of the Bullion-Committee, it is impossible I should be actuated by any degree of hostility towards them; neither do I entertain the least doubt of their honour and character as individuals, or of their integrity and unblemished reputation as commercial men. Their habits of life and mercantile experience probably qualify them to manage the concerns of the corporation over which they preside with honour to themselves and advantage to their constituents. Without some, at least, of these qualifications, it cannot be supposed that they would have been raised to the situation they lately held.

It is an observation of Dr. Johnson, that a Scotchman must be a sturdy moralist who does not prefer Scotland to truth. It might, with greater justice, be asserted, that a member of a corporate body must be not only a sturdy moralist, but a man of enlarged views, who does not prefer the advantage of his corporation to the good of the state. Had Mr. Whitmore and Mr. Pearse been examined as private individuals, I should have given myself very little trouble about their opinions; but, when they come before the Committee as organs of the Bank, their examination forms, as you justly observe, the most important part of the evidence; not certainly from the acuteness of their observations, but because “the supply of our circulation being now, with-

“ out controul; in the hands of the Directors, it was essential to ascertain by what rules and principles they were guided in the exercise of their extensive discretion.” And what adds considerably to the value of their evidence is, that, in the course of their examination, they have incautiously betrayed the future views and expectations of the Bank, and their evident reluctance to resort again to payments in specie. However sincere in their endeavours to support the present system, the zeal they have shewn in its behalf “ has o'erleap'd itself,” and has perhaps been more prejudicial to it than the effects of its warmest opponents. However unsatisfactory their evidence may be in other respects, it has, at least, in my opinion, fully established the following conclusion; that the supply of our currency cannot with safety be trusted to the discretion of men of such mistaken views, so biassed by their interest or misled by their prejudices.

Can any man read the evidence of the late Governor of the Bank without an involuntary recollection of a cross-examination at the Old Bailey? the extreme caution so obvious in all his answers; his reluctance to afford any information which might militate with his favourite system; his endeavours to wave such questions, and, when he cannot absolutely evade them, to take time to prepare such an answer as would be least injurious

to the cause he advocates; all these manœuvres are too apparent to escape the notice of the most superficial reader.

It may be thought invidious to assign wrong motives, where a bad intention does not evidently appear; and, among the great number of questions submitted to Mr. Whitmore, there might be some so complicated as to justify his declining to answer them without farther consideration. But, when such plain matter-of-fact questions as the following were asked:

Q. Do you (in your discounts) advert to the difference between the market and the mint price of gold?

Q. Whether since the suspension of payments in cash, down to the present time, there has been any material extension of commercial discounts?

When, I say, such plain questions were asked of a man who has been so long in the direction, and was then at the head of it, could any one believe that an immediate answer would have been declined? he certainly might have answered the first directly, if he is at all qualified for the duties of his office, and as to the second it might have been answered by any man that walks the streets: there may be secrets and mysteries in the management of the Bank, but the extension of their discounts is not among the number. It is incon-

sistent with candour to suspect that, in requiring farther time to answer questions so very plain and obvious, it was not so much the object of Governor Whitmore to obtain information as to facts as to consider what bearing his answers might have on his favourite system, and to frame them in such a manner as would expose it to the least danger.*

Contrast for a moment the slow, reluctant, and meagre, information drawn with so much difficulty from him and his brother director, with the candid, manly, and able, evidence so fairly delivered by another gentlemen, whose name is not mentioned, but who is designated as a continental merchant. Unfettered by interest or prejudice he delivers his opinion without the least reserve, the knowledge he discovers of his subject, and the judgement and acuteness that distinguish

* On the first day of his examination Governor Whitmore came boldly forward, single and unassisted; but, dismayed by the number and closeness of the questions put to him by the members of the Committee, the doughty knight never ventured again into the field without being attended by his trusty squire Deputy-Governor Pearse. With this *fidus Achates* by his side, he contrived to stand his ground in several engagements with the redoubtable Committee; but the two champions, conscious of the superiority of the enemy, prudently stood on the defensive; and, by dint of manœuvring, shifting their position, and avoiding a close encounter, directed all their efforts to effect a retreat from an enemy they were unable to withstand.

his observations, render his evidence the most interesting and instructive that was given before the Committee.

But what strikes me as the most material consideration, arising from the examination of the gentlemen connected with the Bank, and a most important one it is, which the public should never lose sight of, is that the principles on which they contend for the policy of a continuance of the suspension are not applicable exclusively to the *present* state of things, but will be equally conclusive at any *future* period, when the expediency of resuming cash-payments may be brought in agitation. If their arguments prove any thing, they prove too much, and may with equal reason be adduced in support of a permanent restriction. This did not escape the sagacity of the Committee, nor could the Directors themselves evade or deny the inference necessarily resulting from their own arguments; and, to use a vulgar proverb, the cat was let out of the bag sooner, I presume, than they either wished or expected.

The question, therefore, is reduced to this: whether their notes are to be considered as paper-credit or paper-money? whether, like all other bankers and commercial houses, they shall be obliged to pay their debts fairly and honestly, or whether a perpetual act of insolvency shall be

passed in their favour, to absolve them from the payment of them.

Here let me pause a moment, while I offer a few observations on the danger of establishing precedents which are so apt to be converted into customs, and afterwards to be claimed as established rights. When, in the month of April; 1797, an act was passed to suspend payments in specie by the Bank till the 24th of June following, could it have entered into the head of any reasonable man that the Bank, after having for above thirteen years enjoyed the golden harvest which they have been reaping all that time in consequence of the suspension of cash-payments, could it, I say, have been imagined that, after an indulgence so long and so unexpected, they would have had the audacity to complain of hardship, because it was proposed in 1810 to oblige them to resume their payments in specie at the expiration of two years,* when the original suspension

* On the 26th day of February, 1797, an order of council was issued, prohibiting cash-payments till the sense of parliament could be taken on the subject. On the 3d of March, a bill was passed to authorise the Bank to issue notes of less value than five pounds: on the 10th, the same indulgence was granted to the country banks, till the 1st of May, by another bill. But the bill confirming the prohibitory order of council did not pass the House of Commons till the 7th of April, when it was carried to the Lords, and was to expire the 24th of June following.

127

did not exceed the period of two months? Because the public calamity has been the means of filling their coffers, they convert this calamity into a freehold; and wish to render it permanent, that they may perpetuate the emoluments they derive from its existence. If, at the time of the original suspension, any man on the Exchange had been desperate enough to talk of a permanent restriction, he would have been in danger of lapidation; and I sincerely believe that the Bank Directors of the day would have had virtue enough to have thrown the first stone. Had Mr. Pitt himself dared to propose a perpetual restriction, all the popularity of that minister would not have sheltered him from the resentment of a justly-exasperated people.

How can it be imagined for a moment that a free and enlightened legislature could be brought to sanction a law so iniquitous and dishonourable? For what is it, in fact, but to authorise a company to issue promissory notes, and absolve them from the necessity of paying them? Nothing could equal the iniquity of such a law, except the folly of those who would submit to give currency to

Even this was objected to as too long a period, and Sir William Pulteney, no factious member of opposition, moved an amendment, that the 6th of May should be inserted instead of the 24th of June.

such paper. If the Bank should obtain this exemption, they ought at least to change their designation; for, from that moment they are no longer a bank; and, in *that case*, I know no appellation that would suit them so well as that of *chartered and privileged swindlers*.

I admit that no claim of a perpetual restriction has been formally advanced by the Bank: the idea is too monstrous to be exhibited openly in all its native deformity. The design appears to be more deeply laid: by raising difficulties to the resumption of cash-payments they flatter themselves the people will gradually become habituated to the existing system; and that, by constantly opposing fresh obstacles to its removal, they will enjoy all the advantages of a perpetual restriction, without incurring the odium which such a claim would necessarily create. The idea of a permanent restriction, which, in better times, would have excited universal consternation, had certainly nothing revolting to the feelings either of the Governor of the Bank of England or to those of the Deputy-Governor. It is a most alarming symptom, that such a suggestion should have been received with so much indifference by the public, when the most distant surmise of so dishonourable and iniquitous an expedient ought to have excited the highest indignation.

But it is time to take my leave of the Bank

and its Directors, and attend more particularly to the contents of your book. Nothing, perhaps, is so well calculated to set the merit of that work in the strongest light as the many senseless cavils which have appeared in some of the newspapers, and the impotent attempts of their writers to confute your facts and invalidate your arguments. When a publication like yours is ushered into the world, by a man so evidently master of his subject, and who has grounded his reasonings on such firm and solid principles, where almost every sentence carries conviction to the unprejudiced mind, I have strong reasons to be diffident of my own judgement, if, in a few instances, it hesitates to yield that assent which the strength of your reasoning commands on all other occasions.

There is, indeed, only one point of any practical consequence in which I presume to call in question the soundness of your conclusions: there may be a little variety of opinion on a few other subjects; for instance, I do not, perhaps, carry my partiality for a *very* extensive paper-credit so far as you appear to do. I admit that it affords great facilities to all pecuniary transactions, and, within certain limits, is of great advantage, and, in the present circumstances, of indispensable necessity. The best things, however, are liable to abuse, and this, in my opinion,

even in its most legitimate state, may be carried too far. There are two evil consequences resulting from affording government too great facilities in extending their credit and raising their supplies. All governments are naturally spendthrifts, and, like other spendthrifts, increase their profusion in proportion to the facility with which they can raise money to feed their extravagance. Another fatal consequence, resulting from the same cause, is the encouragement it gives ministers to involve the country in unnecessary wars. And I think I may be at least allowed to doubt, whether the country would not be in a more prosperous state than it is at present, if a less extensive credit had afforded government fewer opportunities of multiplying their expenses and extending their hostilities. But this is a matter entirely foreign to the object in discussion, and sufficient to the *subject* is the evil thereof.

Your reasoning with respect to the country banks is what carries the least conviction to my mind. I am ready to admit, what indeed it would be absurd to deny, that the evil originates in the restriction-act, and that the Bank of England is the principal source from whence the mischief flows. But I cannot avoid considering the country banks, which are daily starting up in every town, village, and hamlet, in the kingdom, as so many small rills, each inconsiderable in itself,

which, by the union of their numerous streams, contribute to swell the general inundation.

Neither can I assent to the proposition you lay down, page 39, that "The circulation of country-bank paper, being in *exact proportion* to that of the Bank of England, it follows that " in whatever degree the latter shall be excessive " the former *must* partake of such excess." Undoubtedly the greater the issue of the Bank, the greater are the facilities of the country banks to extend their own advances; but that they do on all occasions extend them exactly in that proportion is what I cannot conceive: and I am, on the other hand, firmly persuaded that a country bank, of established credit, may often issue more paper than the circulation of the district requires, even were there no excess in the issues of the Bank.

There appears to me a fallacy in your reasoning on this subject, which I have not perceived on any other occasion. You observe, page 36, " A country bank, from its being liable at all times " to pay its notes in those of the Bank of England, at the option of the holder, is placed " precisely in the same situation, by this check " upon the amount of its issues, as the Bank of England was by the necessity of paying in " guineas before the restriction." It is readily admitted that country-bank notes are by law con-

X

X Country Bank Paper
how far regulated
in operation by the Bank
of England

vertible into those of the Bank of England, in the same manner as Bank-of-England paper, before the restriction, was convertible into cash. But, though the *power* of doing it is the same, there are not the same motives to do it. When, in consequence of an over-issue of paper by the Bank, the price of bullion rose or the exchange fell, their notes, becoming of less value than the sum they represented, were unavoidably returned upon them, because there was an evident profit in changing them into gold. But what advantage is there in changing a country-bank note for a note of the Bank of England? It is only changing one bit of depreciated paper for another equally depreciated. Country-bank notes are not depreciated with respect to Bank-of-England paper, but, partaking in the common depreciation, they aggravate that depreciation, by pouring into the market a greater quantity of paper than the circulation requires, and, by unnecessarily augmenting the amount of the currency, increase its degradation.

There are only two cases which can afford a temptation to the holder of country-bank notes to exchange them for those of the Bank of England. The first is when they are wanted for payments in that part of the country where those provincial notes are not current: the other, when doubts are entertained of the solidity of the

banks. During the late alarm, occasioned by the failure of some of them, I have no doubt but there was a great run upon many of them; and I am equally convinced that, on account of that alarm, the quantity of their paper in circulation has been much diminished, and that the consequence has been highly beneficial to the public. If I am right in my conjecture, that a great quantity of paper has been withdrawn in consequence of the late alarm, it will inevitably follow that there was more in circulation than was necessary, unless it can be proved that there is a deficiency at present in the market. Those banks are now recovering from the shock which has overthrown some of them: and, though the Bank of England is certainly the basis on which they are erected, and may be considered as the keystone of the arch, yet, when possessed of that degree of confidence which they enjoyed previously to the late alarms, it does not appear to me that their issues are in all cases regulated by the amount of the discounts of the Bank of England. The internal supply of the district where their notes circulate seems to me to be independent of such discounts.

Their large notes, when presented to be changed, are paid in small notes of their own manufacture, which answer the purposes of internal circulation full as well as the notes of the Bank

of England; perhaps better, for, as you observe, the latter are more liable to be forged. The banker is, therefore, encouraged to issue as many, particularly of the smaller notes, as he can, without fear of being called upon for Bank-of-England paper in exchange for his own: he knows it is a check to which he is exposed; but, having learned by experience how seldom it is enforced, he is little intimidated by any apprehensions on that score. The convertibility of their paper into Bank-of-England notes is undoubtedly a security against the insolvency of country banks; but I conceive it a very imperfect preservative against an excessive issue of their notes.

You object, page 38, that "they cannot make or permanently maintain any over-issues of their paper. Indeed, it cannot be disputed so long as the country paper is interchangeable at par with that of the Bank of England." Does not this mode of reasoning bear some affinity to the arguments of those who deny the depreciation of paper, because a guinea and a Bank-note are received on the same terms? You will reply, I know, that the case is widely different, because a country-bank note, is convertible into one of the Bank of England, and the latter cannot be converted into gold. I admit the distinction: but if, from circumstances which I have already explained, the country-bank

note, though convertible is *in fact* seldom converted into a note of the Bank of England, and the banker, from his experience, has reason to believe that it will not be returned to him for that purpose, is it not in a great degree a distinction without a difference, as to any practical purpose? *De non apparentibus et non inexistibus eadem est ratio.* The banker knows that the internal circulation of the district in which his paper is current will be carried on by means of his notes; that he will have only to supply Bank-of-England paper occasionally, for payments at a distance, where his notes are not negotiable; and, having provided for such exigencies, he issues his notes in full confidence that they will continue to circulate in his district, and his efforts are directed to cram the market with them as much as he can. He has competitors who proceed on the same principles: they often displace each others notes, but the consequence is that the market is always glutted, and as much paper kept afloat as can possibly be forced into it.

"But, if there is more paper afloat in any district than the circulation requires, the surplus will be withdrawn, and there will then be an interest in exchanging it for Bank-of-England notes, which are current in every part of the country." Before, however, the excess can be withdrawn from that district, it will by its abun-

dance have raised the price of commodities, and in the same proportion sink the value of the currency. Sir Francis Baring says, in his examination, page 199, "I consider the opinion entertained by some persons, that the Bank ought to regulate their issues by the public demand, as dangerous in the extreme; because I know, by experience, that the demand for speculation can only be limited by a want of means." The districts in which the notes of a country banker circulate is to him what the whole country is to the Bank of England. It appears clearly to you and the Committee, as well as to myself, that there has been an excess in the issue of Bank notes, which has occasioned the rise of bullion and fall of the exchange; yet even now half the nation deny that there has been any excess; the Bank is not conscious of it; and even we who are persuaded of its existence were ignorant of it till we perceived its effects, which alone led us to the investigation of their cause; and in these cases the evil is seldom discovered except by the mischiefs it has produced. Mr. Tritton, an agent for the country banks, being asked, If those issues of notes (country-bank notes) were less, are you of opinion that it would tend to lower the price of provisions? replied; I think such effect is to be expected. Now, if they issue notes to such an amount as to raise the price of

provisions, it evidently argues an excess, for the rise of provisions with respect to the currency, or the fall of the currency with respect to provisions, are convertible terms.

One of the two general causes you assign, page 25, for the depreciation of the currency is the excess of its amount: upon that principle, if the multiplication of country-bank notes has a tendency to increase that amount, they must unavoidably contribute to its depreciation. Two very intelligent gentlemen, who are agents for the country banks, were examined before the Committee, one of them estimated their issues at twenty millions, the other at thirty millions. Can it be contended for a moment, that any sum approaching to that amount, and principally in small notes, would be necessary to carry on the circulation in the country if every country bank were annihilated? let it be farther considered, that the profits of a bank are in exact proportion to the amount of the paper they keep in circulation; that in most cases they are not under the necessity of changing it but for other notes of their own; that the competition between the different bankers must have the effect of all other competitions, that of multiplying the quantity and diminishing the value of their commodity; that by means of their efforts the market is always kept as full as it can possibly hold; and that all

markets are either dear or cheap in proportion as they are abundantly or scantily supplied. When as much of any commodity is industriously kept in the market as can possibly be consumed, it inevitably lowers its value: without adverting to other commodities, we have an instance of it with respect to specie. After the discovery of the mines of America, a considerable importation of the precious metals took place; and, though it was gradually dispersed through the whole of the European continent, and was not more than the market could absorb, yet the increase of its quantity reduced it to one third of its former value in every market in Europe; and the price of provisions rose in the same proportion. What then must be the effect of a sudden increase of country-bank notes, which may be fabricated with so much greater facility and at so little expense?

The Committee in their very able Report observe, page 67, "If an excess of paper be issued in a country district, while the London circulation does not exceed its due proportion, there will be a local rise of prices in that country district, while prices in London will remain as before. Those who have the country paper in their hands will prefer buying in London where things are cheaper, and will therefore return that country paper upon the banker who issued it." If the excess took place only in one or

a few country districts, I would acknowledge the force of the argument; but it is an evil which unfortunately is spread over the whole face of the country. Yet the consequence might be exactly what the Committee supposes if the depreciation of paper were sudden and instantaneous; but its progress is slow and gradual, and seldom perceived till it is known by the mischief it has produced. It should besides be considered that the market for provisions is lower in the country than in London; the immediate effect of a superabundance of paper is to raise the price of provisions in the country markets, and, as that of the metropolis is supplied from the country, it must inevitably rise in proportion to the augmentation that has taken place in the country markets, in consequence of the excessive amount of paper circulated in their district. It is perhaps chiefly in this way that the excessive quantity of country-bank notes tends to raise the price of the necessaries of life and depreciate the value of our currency.

The maxim that the quantity of paper issued by country bankers depends, in all cases, on the amount of the discounts of the Bank does not appear to be countenanced by the evidence of Mr. Richardson, their agent in London, who declared that the sums which he lent for country bankers in discount were fifty times more than

the sums borrowed for country bankers. But, if I were disposed to admit that the issues of the Bank were the measure of the speculations of country bankers, still I should contend that, upon that principle, the great quantity of their notes has a tendency to augment the issues of the Bank, according to the rules by which they profess to regulate their discounts: though little disposed to assist the speculations of men whom they justly look upon in the light of rivals, it is impossible for them to discern which of the bills they are solicited to discount are for the accommodation of the country bankers; and as they make it a rule to discount all good bills of a certain description, those country bankers who have sufficient credit to obtain such bills cannot fail of drawing supplies from the Bank. So that, if the overflow of paper which can no longer circulate in the country is thrown at last into the general market, it falls into a market where the currency is already depreciated, and aggravated that depreciation by augmenting the quantity.

The following paragraph, page 59, of your pamphlet, I must confess, excited my astonishment. "The result, therefore, of any interference of the legislature for this purpose, (restraining the country banks,) besides being highly reprehensible as an interference with the rights of individuals and of private property, would

"be only to add several millions more, and principally in small notes, to the amount of the issues of the Bank of England, leave open a wide door for forgery, and be attended with many other public disadvantages."

Almost every word of that sentence is entitled to more than usual attention, I feel myself entirely at a loss to conceive on what principle any regulations, tending to restrain the excessive issues of country banks, can be reprobated as encroachments on private property and the rights of individuals, at the very same time that the legislature is so properly called upon to enact similar regulations with respect to the Bank of England. When I recommend restrictions on the country banks, I wish to be correctly understood: I do not advise a law to annihilate them, or to prevent any man who chuses from engaging in that line of business; all I contend for is, that they should be restrained from issuing notes under five pounds. I would have them bankers, not coiners. I would impose no hardships upon them, but only withdraw the indulgence which the necessity of the times or the impolicy of ministers granted them in 1797, in consequence of the suspension-act, and replace them in the situation in which they stood previously to that period. This would in my opinion be sufficient, and occasion a considerable diminution in the

T12

number of small notes. It is their policy at present to force as many of them as they can into the market; but, if they were obliged to circulate only those of the Bank of England, it would be their interest to pass as few of them as possible, that they might keep a greater number of their own five pound notes in circulation; and, being under the necessity of giving small Bank-of-England notes in exchange for their own of a higher denomination, it would make them careful not to issue more of the latter than they had the means of paying. The quantity of the small notes would be diminished by their interest, of the large ones by their prudence: were they restricted from issuing small notes I have no doubt that it would be as difficult to procure Bank-of-England notes in exchange for their own of a higher value as it is at present to obtain money in exchange for their one pound notes. This would immediately put to flight that innumerable quantity of small notes which inundate every district: the same motive, interest, which induces the bankers to multiply them as much as they can in the present circumstances would, in that case, prompt them to reduce them to as small a number as the necessity of keeping up the circulation would permit.

You say, that such a restraint would add several millions, and principally in small notes, to

the amount of the issues of the Bank of England. It would do so, certainly; and, if country bankers were permitted to issue five-pound notes, the whole of that addition would consist of small notes: and I entirely agree with the late Sir Francis Baring, when he said to the Committee: "The small notes are equally paper, and they add to the mass of Bank-notes before in circulation; they issue in the same manner in exchange for public or private securities: instead of being left out in a comparative view, I fear they rather tend to increase the difficulty more than their due proportion, because they cannot be withdrawn without an issue of specie to an equal amount, and, therefore, stand in the front of the battle." My ideas, however, on the subject go much farther, being fully convinced that the small notes contribute to the depreciation, in a degree *very much* beyond their proportion: all legitimate paper-currency must have gold or silver for its basis; to substitute small notes for guineas is taking from the *foundation* to add to the *superstructure*; it is *increasing* the amount of paper-currency, and, at the same time, *diminishing* its security.

Though withdrawing the small notes of the country banker would occasion an augmentation of the issues of the Bank of England, and *altogether* in small notes, yet it would considerably

diminish the aggregate of the notes of that denomination at present in circulation; for, I am fully persuaded, though it is not a matter that will admit of proof or demonstration, that every million so introduced would drive several millions of small provincial notes out of the market. The amount of country-bank notes in circulation has been estimated at 20 or 30 millions; of these a far greater proportion consists of small notes than is the case in the amount of the issues of the Bank of England: indeed, except, perhaps in towns of great commercial importance, there are few of their notes of more than ten pounds in general circulation.

This, you say, would be a change which would lay open a wide door to forgery, and be attended with many other public disadvantages. Notwithstanding the extreme accuracy and closeness of reasoning by which your valuable performance is so eminently distinguished, I cannot help suspecting that the latter part of the sentence is introduced by way of climax, something like what the French in poetry call *une cheville*, to give a better conclusion to the sentence. For I cannot possibly conjecture any *other* public disadvantage than the one you have named likely to result from substituting paper of undoubted solidity, and of universal circulation, in the room of notes of more precarious credit and more confined circulation.

The consideration, that Bank-of-England notes are more liable to be forged, would be a very powerful objection, if the circulation of one-pound notes, of any description, were to be permanent; but, when the object is to put a stop to their currency, what is urged as an objection may, perhaps, prove the means of facilitating its attainment.

In vain will a statesman prove a measure to be just, salutary, and even indispensable, unless he can, at the same time, render it practicable. If it were sure to be carried into effect, it would signify very little whether the reform began with the Bank of England or the country bankers. But the restoration of cash-payments, though in my opinion an object of absolute necessity, is, at the same time, attended with considerable difficulties. The difficulties, however, which naturally belong to the subject, are trifling in comparison with the obstacles which it may be expected will be raised by a numerous description of men who derive enormous profits from the present suspension. When I consider the probable opposition of the minister, the influence of the Bank, the interest of the country-bankers, of their friends, and of those whose speculations depend on the credit they afford them, I cannot but be apprehensive of the union of so many interests. We have a striking example, in the instance of the slave-trade.

how effectually the private interest of individuals can obstruct measures of the most salutary policy, even upon a question in support of which the two great political parties that divided the country *appeared* at least to be unanimous.

Any regulation, therefore, that will weaken or divide the strength of the opposing party ought by no means to be overlooked. Too much care cannot be taken to smooth the way, and remove all the obstructions which prejudice or interest may oppose to the success of this measure.

After the sentiments I have expressed, with regard to the Bank, I flatter myself that I shall not easily be suspected of any undue partiality to its interests. So far from harbouring any feelings of that kind, I have no hesitation in avowing my opinion, that, whatever may be the price of bullion, let the loss they will incur by the purchase be ever so great, they ought to be compelled to pay their debts: if they should complain of the loss they are likely to sustain by buying bullion at the present high price, let them reflect on the profit they have derived from so long a suspension in their favour; let them balance the account fairly, and, if that balance should be against them, let them come to parliament for an equitable compensation.

But, though the private interest of the Bank ought not, for a moment, to stand in the way of

the restoration of public credit; yet, as the suspension did not originate with them, but was enacted by the legislature, as a measure of state, I think the resumption of cash-payments ought to be made as easy and as little detrimental to their interests as the case will admit. If the high price of bullion be owing to an excess of paper, and particularly of small notes, in circulation, and if, as I have endeavoured to establish, the uncontrolled issue of small notes by country bankers has contributed in a great degree to increase their amount, it will follow that a regulation that would restrain the country banks from issuing notes under £5 would in all probability, by diminishing the quantity of paper, raise its value and lower the price of bullion. At the same time, a new channel would be open for the small notes of the Bank of England, which are at present almost confined to the neighbourhood of the capital, the excess of them would soon be absorbed to support the circulation in the country, hitherto supplied by the country bankers; a great deal of their paper, being thus necessarily employed, could not suddenly be returned upon the Bank, and, if they had the prudence to regulate their issues with proper caution, they would soon restore their notes to a par with guineas.

In the present situation of affairs, it is as much the interest of the country bankers as

of the Bank of England to prevent the resumption of payments in specie; and they will no doubt throw every impediment in their power in the way of a measure so prejudicial to their emoluments. If, however, they were restrained from issuing small notes, they would no longer be interested in impeding its success. Whether they were obliged to pay in guineas or Bank-of-England notes would be immaterial to them; and the very consideration that they were liable to losses from forged notes would probably induce them to give the preference to the only legitimate currency, gold and silver coin. To the danger of losing by forged notes might be added another motive for preferring guineas, namely, the jealousy they would feel of the profit derived by the Bank, from the circulation of their small notes, when they were themselves no longer allowed to partake of it. The whole weight of their interest, which, as things stand at this moment, will undoubtedly be exerted to obstruct this salutary measure, would, in that case, if not thrown into the opposite scale, be at least reduced to a state of neutrality.

In every point, except this of the country banks, I agree both with you and the Bullion-Committee, as well in the principles you laid down, as in the conclusion you have drawn from them, that nothing can restore the currency to its pro-

per state but the repeal of the Restriction-Acts. To expatiate on these topics would be only repeating in more feeble language what is so forcibly expressed both in your publication and in the Report: there is, however, a paragraph in the latter so excellent, that I cannot deny myself the gratification of transcribing it; especially as it will appear, that the Committee did not consider a parliamentary restraint on country banks as an unwarrantable interference with the rights of individuals, or a violation of private property.

Report page 71. "Your Committee cannot
 "quit this part of the subject without farther
 "observing, that the addition of between four
 "and five millions to the paper-circulation of this
 "country has doubtless been at a very small
 "expense to the parties issuing it, only about
 "£100,000 having been paid thereupon in stamps
 "to the revenue; and, probably for the reasons
 "already stated, no correspondent deposits of
 "gold or Bank-of-England notes being deemed
 "by the country banks necessary to support
 "their additional issues. These parties, there-
 "fore, it may be fairly stated, have been enabled,
 "under the protection of the law, which vir-
 "tually secures them against such demands, to
 "create, within the last year or fifteen months,
 "at a very trifling expense, and in a manner
 "almost free from all present risk to their re-

“ spective credits, as dealers in paper-money,
 “ issues of that article to the amount of several
 “ millions; operating, in the first instance, and
 “ in their hands, as capital for their own benefit;
 “ and, when used as such by them, falling into,
 “ and in succession mixing itself with, the mass
 “ of circulation, of which the value, in exchange
 “ for all other commodities, is gradually lowered,
 “ in proportion as that mass is augmented. If
 “ your Committee could be of opinion, that the
 “ wisdom of Parliament would not be directed
 “ to apply a proper remedy to a state of things
 “ so unnatural, and teeming, if not corrected in
 “ time, with ultimate consequences so prejudicial
 “ to the public welfare, they would not hesitate
 “ to declare an opinion that some mode ought to
 “ be devised, of enabling the state to participate
 “ much more largely in the profits accruing from
 “ the present system.”

There is reason to believe, that the Committee
 who drew up that part of the Report entertained
 at least some suspicion that the quantity of
 country paper mixing itself with the mass of cir-
 culation, of which the value is lowered in propor-
 tion as that mass is augmented, must, by aug-
 menting that mass, have a tendency to depreciate
 its value; for it cannot possibly mix itself with
 that mass without augmenting its quantity. I
 think I can, therefore, cite the authority of the

Committee, in support of the arguments I have
 alleged on this subject; and, as to the other
 part of the paragraph I have quoted, I was
 so deeply impressed with the same sentiments,
 that, in the pamphlet I published before the
 appointment of that Committee, despairing of
 a radical cure of the evil by a repeal of the
 Restriction-Act, I suggested a plan to appro-
 priate the *whole* of the profits accruing from the
 present system to the benefit of the state. And
 what can be more just than the principle, that, if
 any public calamity is attended with some con-
 tingent advantage, the public, who bear the one,
 ought to enjoy the other? Neither can there be
 a more monstrous solecism in politics than this,
 that, because a public grievance has been produc-
 tive of enormous emoluments to a number of in-
 dividuals, the interest of those individuals ought
 to prevent the redress of that grievance. Yet, if
 this doctrine be not openly avowed, it appears to
 be systematically acted upon.

Were I to lay claim to any superior degree of
 disinterestedness, because, being myself a pro-
 prietor of Bank-Stock, I strenuously contend for
 the repeal of a restriction which has been produc-
 tive of so enormous a profit to that Corporation,
 I should either deceive myself or impose upon
 my readers. If the whole of my property were
 invested in Bank-Stock, it would be my interest

to maintain the existing system as long, at least, as it could be continued without throwing every thing in confusion: but, as the rest of my property, part of which consists of annuities, must be materially affected by a depreciated currency, and a consequent rise in the price of commodities, I am convinced I consult my private as well as the general interest, when I use all my efforts to restore the national currency to its original state. I hope the proprietors of Bank-Stock will take that into their consideration; and, if they will weigh the matter without prejudice or partiality, they will be led to conclude, that, though the continuance of the present restrictions is advantageous to the Bank as a body, it is not necessarily so to every holder of their stock.

I shall now, Sir, take my leave both of you and the public, after I have stated, as clearly as I can, the difference that appears to me to exist between us, respecting country banks. You are of opinion that country-bank notes, being convertible into those of the Bank of England, at the will of the holder, an over-issue of them in circulation cannot be maintained, because the excess would be returned upon them to be exchanged into Bank-of-England notes or bills upon London, which the country bank could not be supplied with if there were no excess in the issues of the Bank of England.

The word excess, like the word competency,

is very vague and indeterminate in its signification; and wide indeed is the difference between the amount of paper which the circulation absolutely requires and the quantity that may be forced into and kept afloat in the market.— But I conceive there is so little inducement to convert country-bank notes into those of the Bank of England, except in the two cases I have specified, that the mere convertibility of them does not prevent such a quantity from being maintained in circulation as materially affects the prices of commodities; that their excess is seldom suspected till it is discovered by the mischief it has produced; and that, even if the Bank were to regulate their discounts by the most cautious policy, it would be in the power of a solid and firmly-established country bank to issue a sufficient quantity of paper, particularly in small notes, in which the evil principally consists, to produce that effect.

But whether the evil receives the *whole* of its nurture from the root, or whether the branches contribute their share, it is certain that a resumption of cash-payments would extirpate it root and branch. You will have an opportunity, Sir, of promoting in Parliament the cause you have so ably supported in print: it would give me great pleasure to be there to second your efforts;

but, not being rich enough to purchase the right of serving my country in that honourable assembly, I have only to wish that your eloquence may prove as successful as it deserves to be; and in that hope I beg leave to subscribe myself,

Sir,

Your most obedient humble servant,

A PROPRIETOR OF BANK STOCK.

Dec. 18, 1810.

POSTSCRIPT.

SINCE I wrote the above, I have seen what Sir John Sinclair calls his Maxims; the object of which is to substitute a paper-currency, *properly regulated*, in the place of gold and silver coin. As he has not thought proper to explain what he means by *properly regulated, quod erat demonstrandum*, and without which his system conveys no determinate idea, it is not very easy to answer him. It may however, perhaps, be sufficient to observe, that, when any commodity is exchanged for gold or silver coin, it is exchanged for what possesses an *intrinsic* value, equal, in the opinion of him who makes the exchange, to the commodity he gives for it, and which may, at any time, and in any market, command an equal value in any other article of purchase. A Bank-note has no intrinsic value, and is merely credit for the sum which it represents: this credit depends on the certainty and facility of its payment; and, like that of all other promissory notes, will be

destroyed when it cannot be enforced; it ceases then to represent any thing determinate, and will ultimately sink to the intrinsic value of the paper of which it is composed: it is as impossible to maintain the credit of paper not convertible into something of a real, intrinsic, and determinate, value as it would be to preserve a shadow when the substance which reflects it is withdrawn.

I do not quarrel with Sir John Sinclair, because his present sentiments are directly contradictory to the sounder judgement he formed on the subject at the time of the suspension-act. It would be hard to deprive a man of the benefit of experience; and there are few reflecting men, who, in the course of twelve or fourteen years, do not see cause to correct some of their opinions: I cannot think, however, that, on this occasion, Sir John has verified the old adage: "That second thoughts are best."

THE END.