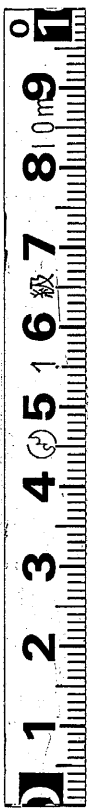


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THOUGHTS ON CIRCULATION  
AND  
PAPER CURRENCY.

BY SIR JOHN SINCLAIR.

GENERAL PRINCIPLES.

THE wealth of a nation properly consists in the goods or merchandize it possesses, whether arising from the produce of the soil,—from internal industry,—or from foreign commerce.

The precious Metals, in which a part of that wealth consists, may be described as a species of merchandize, which, by common consent, answers three important purposes.

1. That of enabling individuals to barter the value of their labour, for an article universally exchangeable.
2. That of transferring property in goods, from one individual to another, or from one nation to another; without the trouble of actual barter; and,
3. That of enabling the Government of a country to obtain a revenue, and to defray the public expences; for if the Exchequer were under the necessity of taking goods in kind, how could it fit out a fleet, or maintain an army, or defray the various other expences of a State?

B.

It is however in early ages of society alone, before the credit of a Government is established, and Property (whence the credit of the individual arises) is secured, that the precious Metals exclusively answer these important purposes.—In ages of civilization and refinement, a well regulated Paper Currency, with a small proportion of these metals in a state of coinage, to which united the general appellations of *Circulation*, or of *Money* may be given, is equally useful, indeed on many accounts, to be afterwards explained, even more advantageous; and the precious Metals ought, in commercial periods of society, to be accounted merely as a species of merchandize, the increase or diminution of which, has no decisive influence on the wealth or prosperity of a country, and which, if left to itself, soon finds its just level.

*Money*, (by which is meant a well regulated Paper Currency, with a small proportion of coin), being in a civilized state of society the medium of barter, both for labour and goods, and in a manner the source or basis of Public Revenue, it is necessary to preserve a due proportion between its amount and 1. The quantity of labour that must be paid for; 2. The quantity of goods or merchandize, the property of which must be transferred; and 3. The total amount of the demands and expences of the Exchequer, whether arising from taxes, public loans, or any extraordinary species of contribution.

The quantity of the medium of circulation, however, instead of being stationary, ought always to be on the increase.

1. To promote a greater quantum of labour, on the increase of which the wealth and prosperity of a country so much depend.

2. To facilitate the transfer of a greater quantity of

goods among a greater body of people, as the commerce and population of a prosperous country are always augmenting; and,

3. To enable the people, should it be necessary, to furnish, without inconvenience, greater supplies to the Exchequer.

We shall proceed to apply these general principles:

1. To the case of an increased quantum of labour or industry; 2. To an increased commerce in, or transfer of goods; 3. To an increased revenue; and 4. Shall conclude with a Plan for establishing the Paper Circulation of this country on the surest and best foundation.

I. INCREASED QUANTUM OF LABOUR.

An increased medium of circulation is of more consequence with a view of facilitating the convenient payment of labour, and providing an extent of capital necessary for that purpose, than perhaps in any other respect. It is certain that labour, properly applied, is the basis of national prosperity; but who will labour, unless by his exertions he can be furnished with the means of subsistence? The wants of every individual, more especially if incumbered with a large family, are, in civilized periods of society, extremely numerous. They cannot therefore be supplied, without being paid, at least partly, in coin, or in some other article equally transferable. If the industry of a nation therefore is on the increase, how can it be carried on without a proportional increase of that medium of circulation, on the quantum of which it necessarily depends?

Nor is this all: industry must often require the borrowing of capital; and if the medium of circulation be limited, or less than the demand, the interest

paid for the use of it, must be extremely high, which damps the spirit of exertion. But if, by prudent measures, what passes for money becomes abundant, the interest of money diminishes; and many branches of industry, yielding perhaps but moderate profit, may then be carried on with advantage, and the prosperity of the country increases with almost incredible rapidity.

It must also be considered, that the improvement of a country, by the labour of its industrious inhabitants, can never reach its utmost extent, unless money can be procured, not only at a low interest, but even sinking the capital. A temporary command of money may answer for common commercial purposes, but with a view of effecting lasting improvements, such as Roads, Bridges, Canals, Harbours, Mines, Buildings, together with all the various branches of agricultural improvement, as Draining, Watering, Enclosing, &c. money ought to be procurable for a long period of time, even sinking the capital, on the payment of a moderate interest, otherwise such improvements will not be carried on to the extent that might otherwise be expected.

There cannot therefore, be a more mistaken opinion than this, that the prosperity of a country depends but little on the quantum of its medium of circulation. In fact an industrious nation must prosper, in proportion to the quantity it possesses, or circulates. Let us suppose the total circulation of Great Britain to be 40 millions sterling, in coin and in paper, bearing an interest of 5 per cent. if it were reduced to 30 millions, bearing an interest of 6 per cent. how much would not the industry of the nation be cramped: whereas, were it raised to 50 millions, bearing an interest of 4 per cent., and the whole of it actively employed in various industrious pursuits, it cannot be doubted,

that the prosperity of the country would increase with a celerity, and be carried to a height, which would not otherwise have been attainable.

II. INCREASED COMMERCE.

Nothing can be more evident than this, that an increased commerce, or the transfer of an increased quantity of goods, cannot be carried on to advantage, without an increased medium of barter. This, to a certain extent, commerce itself furnishes, by means of bills of exchange, and the rapid circulation of money which they occasion, more especially where it is the usual practice to discount such bills for only two, or three months. But still that accommodation is not sufficient, and cannot always be obtained; and commerce has experienced, and must experience, frequent checks, unless there is at all times plenty of Money in circulation, in proportion to its increase or extent.

But we are told, that no increase of circulation is necessary for the Merchant: let him sell his goods cheaper, and he will always find a market. Unless the sale however is attended, not only with indemnification, but with profit, there must be an end to commerce, and unless the Merchant can procure money on loan, until a sale can be made on fair and adequate terms, he may be ruined. Nor is this observation confined to one article of commerce only, it is applicable to all. There is no branch carried on to any extent, or pushed with any spirit, where those who are engaged in it do not occasionally feel the inconveniences arising from a scarcity of money.

In regard to the question, why should the Public encourage speculation, or take any concern in its

behalf? the answer is obvious. All trade is, properly speaking, speculation; and all the encouragement wished for is, that Merchants may have the command of money, at the legal interest of 5 per cent. when they have occasion for it, and can produce good security. This however they cannot always obtain, unless money, the medium of barter or circulation, is increased, with the increase of their goods or merchandize.

### III. INCREASED REVENUE.

The Public Revenue of a country, unless derived from property in land, evidently arises from the goods or merchandize, or the value thereof, which the individuals of a Nation can furnish, after supplying themselves with the necessaries and conveniences, and what some would call, even the luxuries of life.

But after a Public Revenue has reached a certain standard, let us suppose that ten millions of additional income is necessary for the public exigencies: How is that sum to be raised, without, 1. More goods or wealth; or, 2. A higher price for them; or, 3. A greater facility of barter, by means of an increased medium of circulation?

1. An additional quantity of goods, to a certain extent, may be obtained, by greater industry, and by improvements in agriculture, and other arts: but unless there is a more extended market for them, the price diminishes, and the result proves, on the whole, rather a loss than an advantage to the community.

To explain this doctrine, let us suppose, that the goods annually produced in the United Kingdom, are worth 100 millions sterling *per annum*; if the quantity were increased one-fifth, and if the price were

lowered in proportion, we should not, *in a pecuniary point of view*, be one farthing richer; and in regard to finance, the people at large would in fact be less able than before, to furnish supplies to the Exchequer. Those who purchased goods cheaper, and consumed them, might, to a certain extent, be benefited, and be enabled of course to pay more to the public; but all the various classes of the community, by whose industry the goods were made, and brought to market, would not be able to pay near so much as they did before, and would necessarily be impoverished.

2. Let us next suppose, that the quantity of goods remains the same, but that the price increases one-fifth. The amount of the annual income of the Nation, would then rise from 100, to 120 millions in value, and there would be a much larger fund for paying the demands of the public.

3. Let us, in the last place, suppose, that the price not only increases, but that there is also an additional quantity of the medium of transfer, by which a good market, or rapid sale, is secured. The country is then in the highest possible state of prosperity. *Abundance of merchandize, at a high price, and a rapid sale, constitutes the summit of national felicity, in so far as regards income or revenue, and a nation enjoying such advantages, can pay, without difficulty, taxes, to an amount, that seems hardly credible, to Nations which have not been placed in the same situation.* Those with fixed incomes, may, in some respects, suffer, but they are sufficiently indemnified by the certainty and the regularity with which those incomes are paid, and the easiness with which they can obtain credit, or capital, to increase them by industry.

Three things then are essential for public prosperity, namely :

- 1. An additional quantity of labour or goods, in so far as may be necessary for internal consumption, or foreign export.
- 2. An increased price of goods, provided it does not rise to such a height as to hinder consumption at home, or exportation abroad. And,
- 3. An increased medium of barter, so as to secure a rapid sale, and a certain market.

Let us consider therefore, how the last, which is by far the most material, can be obtained; for the greater the quantity of circulating medium, the higher the price of goods will necessarily become, and the higher the price of goods, the more they are likely to become abundant, for good prices necessarily promotes the raising a greater quantity of goods.

IV. ON A MEDIUM OF BARTER, OR CIRCULATION AND PAPER CURRENCY.

In countries where Mines do not exist, if the precious Metals alone are the medium of circulation, an increase of coin or specie cannot be obtained, except by means of Commerce; but, in that case, goods must be exported to purchase bullion, for the purpose of coinage, and the Nation is, to that extent, impoverished, merely to procure a medium of barter.

For instance, if in consequence of additional taxes, ten millions of money should be wanted for additional circulation, were gold and silver necessary for that purpose, ten millions worth of goods must be exported, merely to procure the representation of circulating wealth.

Hence the advantages of Paper Money. Gold and silver represent property actually sent abroad, and in the possession of foreign nations. *Whereas Paper Money, when issued on proper principles, represents property at home, and in our own possession.* It is no doubt desirable to maintain a certain proportion between the coinage and the paper in circulation, at the same time, the quantum of that proportion ought not to be over-rated.

Paper Currency, which, strictly speaking, may be defined any security payable to the bearer on demand, is of three sorts. The first issued by the Government of a country; the second, by private individuals; and the third, by corporations erected for that special purpose.

1. To a certain extent, paper money might be issued by the Government, without inconvenience, but such a plan is liable to much abuse. When issued like an Exchequer Bill in England, bearing interest, it does not answer the purpose of money, from the uncertainty of its value, varying according to the amount of the interest due. If issued, not as a loan bearing interest, but as actual coin, like the *assignats* of France, the Government, from the facility of fabricating them, soon exceeds all bounds: their value rapidly decreases, and ultimately is reduced to nothing.

2. It has hitherto been the policy of this country, to permit individuals to issue paper money, without any restriction; and it cannot be denied, that this liberty, immediately previous to the commencement of the late war, was attended with useful consequences. Every town in the kingdom became the centre of a paper mint, and what passed currently for money abounded. The result was highly satisfactory. The interest of money fell, that sure test of

public prosperity. Improvements of every kind were rapidly carried on. The cultivation of a common, the formation of a new canal, the construction of a new harbour, the establishment of a new manufacture, or of a new branch of foreign trade, never stopped for want of capital. The prices of every species of agricultural produce increased, by which the industry and exertions of the farmer were encouraged. The revenue increased to an amount, which equalled the expectations of the most sanguine, and the country exhibited the delightful spectacle of comfort, industry, and wealth.

But this pleasing, though baseless fabric, being built on false credit, or defective principles, received suddenly a severe shock. No sooner was the credit which the public had given to private banks, destroyed, than the impolicy of giving to every individual who chose to assume it, the privilege of coining Paper Money, was generally acknowledged. At first private banks alone were obliged to give way, and 71 private Bankers, in the course of one year stopped payment\*; but the storm at last affected the Bank of England itself, in a manner too recent, and too well known, to render any account of it here necessary.

That Paper Money might be issued by country banks, with much national advantage, if they were put under proper restrictions, in regard to their furnishing security to the public for the paper they issue, cannot be questioned; but that, without giving any security, or obtaining any licence for that purpose, any individual, or any set of men, should be permitted to coin paper, and issue it as money, can hardly be justified on any sound principle of policy†.

\* See Chalmers' Estimate, edit. 1794. Dedicat. p. 67.

† A plan for Licencing Country Bankers, is annexed to this paper.

3. The issuing of paper by Corporations, erected for that special purpose, is therefore by far the most eligible plan. Any abuse of this privilege will be checked by Government, whereas no government will check any enormity in its own issuing. Want of credit, which must frequently overturn private banks, is not likely to affect a public one, investing a large capital in a great undertaking. A corporation is more likely to detect forgeries than the managers of any national concern; and less specie is necessary to circulate a million of paper belonging to one great body, than to a number of private bankers, separated from each other, and each of whom must have a separate hoard.

Corporations for issuing paper, ought to be, for reasons to be afterwards explained, of two descriptions: 1. For issuing large; and, 2. For issuing small Notes.

The Bank of England, until the stoppage of its payments in cash, was a Corporation of the first description, as none of the Notes it issued were under 10*l.* and perhaps it would have been better, if, instead of its issuing small Notes, which began to take place in 1797, another Corporation had been invested with that special privilege. From the immensity of its transactions, it cannot possibly do justice in its present state, to the plan of issuing small Notes. Such Notes, though less in point of value, must always become more numerous than large ones\*, and it might be practicable to permit the payment in cash for small Notes, though not in regard to large ones. This

\* This was actually the case, on the 25th January, 1803, when the value of the large Notes issued by the Bank, was, 14,668,640*l.*, and of the small ones, 5,854,170*l.*, consequently there must have been a greater number of small than of large Notes.

leads me therefore, to mention a plan, which would probably be acceptable to the Bank of England, and which, at the same time, would, in various respects, most essentially promote the public interest.

The Bank of England has so long possessed its monopoly, and has been of such important service to the Public\*, that any attempt to establish another bank, would probably not be successful. I would therefore recommend, an increase of two millions to the capital of the Bank, and the establishment of two branches, one to remain where it is situated at present, and to carry on the issuing of large Notes, including even 5/. ones, and all the other business to which it was accustomed prior to the suspension in 1797; and the second branch to be established at Westminster†, and to have the sole privilege, in so far as regards the metropolis, of issuing small Notes from 3/. to any

\* Sir Francis Baring thus states the importance of the Bank of England. " It has hitherto been beyond the power of human research, to ascertain correctly, the causes and mode in which the immense machine of circulation moves, and yet the fact is, beyond a doubt, that the Paper Circulation of fifteen millions and a half, helps to move with a facility, which nothing but long experience can reconcile to our belief. 1. The national income, loans, &c. suppose 50 millions; 2. The exports; 3. The Imports; 4. Internal or domestic trade; 5. Private circulations to an enormous amount; 6. Agriculture, shipping, mines, &c. We may consider with wonder and astonishment, the small space which the sum appears to fill in the firmament, while we know and feel, that every part of our globe, benefits by the vivifying effects of its rays. The Bank of England is to the agriculture, commerce, and finance of Great Britain, its sun: and the circulation of fifteen millions and a half of its paper, is the basis on which its convenience, property, and safety, have hitherto rested." See Sir Francis Baring's Answer to Mr. Boyd, on the influence of the stoppage of issues in Specie at the Bank of England, printed in 1801, p. 14.

† The King's Mews would be a proper situation for the proposed establishment.

lower sum that might be thought most expedient, to be always exchangeable for specie. The Westminster branch to be managed under the controul of a Committee of Directors of the Bank of England, and the profit of both branches to be consolidated together, and to be divided amongst the Proprietors of Bank Stock.

If this plan were adopted, even if the suspension of payments in cash were to be continued, in so far as regards the city branch and the Notes issued there, yet there would be no reason for extending it to the Westminster department. For the whole capital vested in the Westminster branch, ought to be exclusively employed in the discounting of bills, at two or three months date, by which means, the branch would always have the command of its capital; such bills might be made payable, either in the small Notes which it issued, or in specie. Were such a branch also established, there would be no difficulty in pointing out a mode of fabricating its Notes, by which all risk of forgery would be prevented.

Such a plan would be attended with a variety of public advantages. It is probable, that instead of 5,854,170 of small Notes (the number now in circulation) the Bank might increase the quantity, through the medium of its new establishment, to at least seven or eight millions, without exceeding the demand, or overstocking the market. Can any means be thought of, that would enable the Public better to bear up under any pressure of taxation, than such an addition to the circulating medium of the country, which can be effected without any inconvenience? What is the foundation of the taxable income of the Nation, but the annual sale of goods; and if, by increasing the circu-

lating medium, you facilitate the sale of goods, or increase their price, do you not augment the income of the people, and consequently enable them, with infinitely more ease than otherwise could be the case, both to pay their taxes, and to carry on their industry? Let us take, for instance, the case of a landed proprietor of 5000*l.* a year. His tenants, from a scarcity of money, may not be able to sell their produce, or may be obliged to take an inferior price, or to agree to a distant payment. In that case, how can he receive his rents punctually, or pay regularly the demands of the Exchequer? Increase the circulating medium, and these difficulties will vanish. By an increased price, and greater demand, he may be enabled even to raise his rents, and to pay any additional demands from the Exchequer, without materially diminishing his own expenditure, and consequently without much inconvenience. Let us next take persons connected with trade, whose success entirely depends on a command of capital, or on credit. Open a bank, where the manufacturer, or the merchant, can discount their bills with certainty, when the security is good, and they will find no difficulty in paying the taxes to which they are subjected, and extending their commercial concerns. The same observations are applicable to almost all the various other classes of society.

And here it may be proper to remark, that for augmenting the income of the people at large, or facilitating the payment of what it really is, or ought to be, the issuing of small Notes, is fully as necessary as large ones. The object that ought to be kept in view, is, to facilitate, as much as possible, the immense mass of daily transactions, for many of which, small

Notes are much better calculated than large ones. But the summit of policy would be, to have one great Corporation erected for the purpose of issuing large Notes, applicable to great transactions, and another for issuing small Notes, with a view of facilitating the various concerns of common life. It would answer, however, much the same purpose, if two separate branches of the same corporation were established, each having a distinct department to carry on.

I shall now briefly state the general results to be deduced from the preceding observations.

#### GENERAL DEDUCTIONS.

1. That an increase of labour or industry, a more extended commerce, and an increased revenue\*, require perpetual additions to the circulating medium of a country.
2. That such additions cannot possibly be obtained, but by means of a well regulated Paper Circulation.
3. That such a Paper Circulation is best conducted, when private individuals are prohibited from issuing Notes, unless when duly licenced for that purpose, and when either two distinct corporations, or two branches of the same corporation are established, one for circulating large Notes, and the other small ones. And,
4. That if such a paper circulation is properly regulated, the periodical returns of commercial distresses, will, in a great measure, be prevented, and

\* The amount of the revenue 30 years ago, was under ten millions, it is now above 62 millions. How could that immense difference be collected or expended, without a very great addition to the circulating medium?



the demands of the Exchequer, however great, will be paid without any material difficulty.

I have thus briefly explained the principles of a Plan, for placing the Paper Circulation of this country on the surest and best foundation; which, I have no doubt, is perfectly practicable, and every objection to which, if maturely and dispassionately considered, might easily be removed; and if once fairly established, I am not without hopes that it would prove as important a source of wealth, prosperity, and happiness, to the people of Great Britain, as perhaps any measure that has hitherto been suggested.

JOHN SINCLAIR.

5, Terrace, Palace Yard, Westminster, }  
29th March, 1810.

*On Licencing Private Bankers, issuing Notes payable to the Bearer on Demand.*

IN the course of the year 1793, no less a number than 71 Country Bankers failed, by which thousands were ruined. Is it not therefore to be wondered at, that, after so decisive a proof of the disadvantages and dangers attending the unrestrained privilege of Country Banking, no proper system should have been formed for its future regulation? With a view of preventing similar calamities in future, the following measures are suggested.

1. That no individual or company, be permitted to issue engraved Notes, payable to the bearer on demand, without having obtained a Licence for that purpose\*.
2. That such Licence be granted by a Board of Commissioners established for that special purpose, resembling the one by which Exchequer Bills were issued, for the relief of the commercial interest; and that similar securities, either personal, funded, or landed, be required, according to the circumstances of the case. Such Commissioners to be bound to grant such Licence, if proper security be offered, by which all risk of partiality would be prevented. And,
3. That a Licence be granted for issuing Notes, to the amount of the sum for which security is given,

\* Making the Notes of all Country Bankers payable in London, as well as in the country, has been recommended; but that is worse than the proposed Licence, as it would render a double capital necessary.

such Notes, either to be subscribed by some persons authorized by the Commissioners, or stamped under their authority\*.

*Observations on the above System.*

THE nature of such proceedings is now so well ascertained, by the experience of two sets of Commissioners, that no difficulty would be found in carrying the above Plan into effect, both with respect to the granting a Licence, and ascertaining the Security required.

The whole may be done by one Commission, assembled in the City of London; for the Exchequer Bill Commissioners found no difficulty in examining applications from every part of the kingdom.

It is evident, that Notes thus issued would be perfectly safe, for in addition to the security given to the Commissioners, there is every reason to suppose, that such Notes never could be circulated, without receiving from them, what was presumed at the time to be equivalent to their full value. The Public therefore would be secure, and such Notes could never fall into discredit.

The issuing of Five Shilling, or Ten Shilling Notes, by Bankers licenced for that purpose, and giving good security for the Notes they issued, is a most important part of the Plan. The circulating of such Notes is no new idea†; but has never been properly carried

\* Proper stamps would be a great security against forgery.

† See the Act, Geo. III. E.

into effect. There was no restriction on the issue, and the privilege was abused by persons who had no capital to carry it on. Under a proper system, however, it would be of the most essential service to the Public. Manufacturers would no longer be under the necessity of circulating tokens, nor would the lower ranks of the community be ever at a loss for change or small money, to purchase the common necessaries of life. At present, retail trade is cramped, by the want of a lesser medium of circulation in paper, than Twenty Shilling Notes; and if a scarcity of the smaller coins should continue, nothing but the issue of small Notes can prevent infinite distress.

If these measures were to be adopted, the stamps now applicable to the Notes payable to the bearer on demand, ought to be repealed, and a new stamp, under the authority of the new Board of Commissioners, substituted in its room. In that case, indeed, even a higher stamp duty might be imposed, which would defray the expence of the new Board; and which the Bankers could well afford to pay, as the additional credit they would derive, when trading under the sanction of such a Licence, would be of infinite service to them.

Indeed, how can this Plan be objected to in regard to private Bankers, when the same principles have been already carried into effect to a great extent, in the case of the Bank of England? The liberty which that Corporation enjoys of issuing Notes, is in consequence of a Licence granted to it, in consideration of its having advanced to the Public a considerable sum, which is responsible for the Notes it circulates. Besides which, the Bank has occasionally given some premiums to the Public, for the renewal of the privi-

leges it has obtained ; and as the money it has advanced, has, for several years past remained at a low interest, the Public circuitously derives some share of the profits arising from its Paper Circulation.

It is not proposed however that private Bankers should be liable to the same burdens, or to the same extent ; but it is certainly desirable, that none but men of real wealth and established credit, should be permitted to issue Notes, and that the number of such Notes should be known. By adopting that Plan, we should enjoy all the advantages of Paper Circulation, without its concomitant evils. It would be for the interest of the Bankers, to make the circulation extensive as possible, and to insure to the Public all the benefits thence to be derived, whilst at the same time it would be in the power of Parliament, if it exceeded its due limits, to check the evil, by reducing the quantity of paper permitted to be circulated, within proper bounds.