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*To the Earl of Lauderdale
from the Author*

OBSERVATIONS

ON THE

PRESENT STATE

OF

THE PAPER CURRENCIES

OF

GREAT BRITAIN & IRELAND.

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THE question of depreciation has already undergone such ample discussion, that it would evince a considerable degree of presumption to add to the number of publications respecting it; I therefore deem it necessary to premise, that, in the following observations on the paper currencies of these countries, I have studiously avoided entering into the merits of that question.

But as it is admitted, on all hands, that the greatest public and private inconvenience, and individual distress, must result from the present state of those paper currencies, and from the unsettled state of the law, relative to the fulfilment of old legal contracts; it seems indispensably necessary to remedy those inconveniences, by the establishment of some permanent measure of value, or legal tender, as little liable to future variation as the nature of things can permit; and of equal present value with that currency in which all old contracts were expressed.

The means which appear most likely to attain this end, are detailed in the following pages, in which, also, I have examined those causes which seem to prevent a recurrence to specie as a national currency.

OBSERVATIONS, &c.

THE general estimation in which mankind may hold any description of merchandize, or saleable commodity, is usually expressed in money. Though money does not of necessity consist in specie, yet, in the selection of some medium to answer the earliest uses of commerce, all nations and communities have been governed by one common and obvious law, in fixing upon some article so difficult to procure, that the labour of acquiring a given quantity of it, should equal the labour of acquiring, of rearing, or of manufacturing the given quantity of commodities for which it is exchanged.

Whilst it is therefore wholly immaterial whether this medium of commerce is, or is not, of any actual use in supplying the wants of mankind, it is most essential that it should possess a value in exchange, derived from the labour or difficulty of procuring it, a principle which cannot be departed from, except in the instance of paper-money, and even this exception is governed by invariable laws.

The notes of bankers, or of governments, do not possess this intrinsic value, derived from the labour of producing them, which seldom amounts to a thousandth part of the labour required to produce or procure the commodities for which they are exchanged. Their value in use is still less than the value they derive from the labour of producing them, and bears no sort of proportion to their value in exchange. This value is therefore wholly extrinsic, and is derived from a relation which they bear to some other intrinsically valuable medium of commerce, and in general, to specie.

This relation, which bank-paper, or government-paper bears to specie, is always maintained either by an obligation, on the part of the issuers of it, to exchange it for specie, on demand, or at some future period; or to take the paper-money so issued, in payment for certain imposts or debts which must otherwise be discharged in specie, or commodities of equivalent value.

In the first of those cases, by a rigid adherence to the obligation entered into, to exchange this paper-money for specie, on demand, and by a perfect conviction, on the part of the public, that the issuers of it will be always able to do so, the relation between such paper-money and specie may be kept up, in a manner so complete and perfect, as to render paper of this description of as great exchangeable value, as that specie of which it bears the nominal value.

In the second case, a similar relation can seldom be maintained with any thing like the same degree of facility, but it may be maintained, with a degree of certainty and regularity, as great as the uniformity of the value of specie itself, in any country which is dependent on another country for its supply of this latter. It can always be preserved if the entire

paper issues of the government of any country be proportioned, with accuracy and precision, to the sum of specie which would otherwise be necessarily circulated in such country, in the following ways:

First, Between all those who contribute to the expenses of the state, and all those who receive any portion of the expenditure of the state, either as pay, emolument, or the interest of any national debt.

And secondly, Between private debtors, and private creditors, or for all those purposes for which a legal tender is requisite.

To restrain the issues of any government to the actual extent which would be necessary for those two purposes, would, no doubt, require the exercise of a considerable degree of prudence and self-restraint, on the part of such government; because the power of issuing, on any particular emergency, an additional and unnecessary quantity of paper-money, would certainly afford to the government an easy and expeditious means of answering that particular emergency, though the ultimate and unavoidable effect of such an over-issue would be to injure, by a consequent depreciation of the whole mass of such government paper, not only the immediate holders of it, but to injure all the public and private creditors in that particular country.

Such a government would do more, too, toward the injury of its subjects by such a measure, than could be compensated by the actual gain to the state of the entire amount of this overissue, if private wrong could be justified by public good. For if the ordinary circulating amount of government-paper was by this means increased one-fourth, and that this sudden and unnecessary increase was followed, as it certainly would be, by the depreciation of the entire circulation, at the rate of twenty per cent; and supposing what is nowise improbable, that during the existence of a depreciation, the duration

of which would be unlimited, each particular portion of this paper-money might be used in the discharge of fifty different debts, incurred before its existence, each individual creditor would lose the amount of this depreciation, which, on the whole of those fifty transfers, would amount to ten times the entire value of the particular portion of paper-money thus transferred; thereby occasioning losses, to a particular part of the public, to an extent ten times greater than could ensue from the successful forgery of paper money to a similar amount.

But though such evils inevitably result when any government issues its paper-money, in a proportion greater than that necessarily required for the purposes which have been enumerated, yet, to apportion the amount of its issues, with sufficient accuracy and precision, to the sum of specie which would be otherwise requisite for those purposes, requires but little judgment or discernment, since gold will always serve as a measure of exchangeable value, by which any over-issue of such government paper, or any deficiency in its issues, will be immediately and indubitably indicated.

For if the quantity of paper issued on this principle, by any government, should at any time fall short of the sum actually requisite for those two purposes, (the payment of imposts, and the discharge of legal contracts,) such paper-money will bear a premium, over and above its nominal value in specie; in which case the issues of it may, with safety, be encreased, until the total sum of circulating paper becomes exactly equal to the necessary functions which it is required to perform, which will be instantly denoted by the equal marketable value of paper and specie.

On the other hand should the total sum of circulating paper, by means of excessive issues, ever exceed what may be actually requisite for the per-

formance of those functions, the excess will, with equal certainty, be marked by a depreciation, proportioned to the amount of such excess; and as a considerable portion of the entire of this paper currency must necessarily circulate through the coffers of the state, it will always be in the power of the government, to lessen the amount of it, and consequently to reduce it to its proper level.

It may, by some, be deemed perfectly practicable to create a paper currency, having all the properties necessary to render it a permanent measure of value, and a proper legal tender, and yet without bearing any relation to gold or silver. It may be even deemed a radical imperfection in a government paper, such as I have here described, that it has a necessary dependence upon another medium of commerce, which is itself subject to considerable variations of exchangeable value, and for the necessary supply of which the country may be always dependant on some other.

But though some may designate, as a remaining trace of the barbarous ages, the idea that gold and silver are the best media of commerce, yet it cannot well be denied, that as no paper-money possesses, in itself, an intrinsic value bearing any sort of proportion to those commodities which it is intended to purchase, so it must altogether derive its extrinsic value from a certain relation which it bears to other articles of commerce; a relation which I have already attempted to describe; and, as it would be superfluous to state here those reasons which have, in all ages, influenced mankind in giving a most decided preference to the precious metals, as standards of exchangeable value, it will be only necessary to make a few remarks on those objections which may appear to lie against those metals, on the ground of their own variableness of value, and from their being the product of countries distant

from, and in many instances unconnected with, those countries in which they circulate as coin.

As to this latter objection, though it might, perhaps, have considerable influence in deciding a government, as to the adoption or rejection of the precious metals, under the form of coin, as the entire circulating media of the country, yet it could hardly ever influence any government in adopting or rejecting those metals, under any form whatever, as a relative standard whereby to ascertain any rise or depression of a national paper-money, such as has been here spoken of; since the known principles of supply and demand will at all times fix the prices of gold and silver, as articles of commerce, upon the same principles which regulate the prices of iron, of lead, or of any other mineral, nor is there any good reason to apprehend a greater variation in the prices of the former than of the latter of them, as those immutable principles cannot fail to reduce the value of all of them to a due proportion with the actual labour necessary to extract and prepare them, and to the number and productiveness of those mines which afford them.

It has been a received opinion, until lately, that the value of gold and silver was gradually decreasing; an opinion arising from the gradual and progressive rise in the money price of almost every commodity, but more especially the rise in the rent of lands. This progressive rise has been generally dated from the discovery of the mines of America; and, unquestionably, the discovery of those mines, adding, on the one hand, to the general product of those metals, and, on the other hand, abridging the labour of acquiring them, must have necessarily occasioned, and did, in fact, occasion an immense depreciation of their value; yet from those known laws, relating to supply and demand, which have been just now alluded to, it may be easily seen that this

effect must have been as transitory in its operation, as it was great and sudden; and, that the moment gold and silver had been reduced to the lowest price capable of repaying the labour of procuring them, their value must have become permanent, and must have remained so, until some subsequent and similar discovery. And, as no such event has occurred since that period to the present, we must look to other causes for that rise, in the *prices* of the necessities of life, and in the rent of lands, which has been so much and so generally noticed.

If labour, which produces almost every thing, be recognized as the universal origin of value, and if gold and silver be only procurable by means of labour, it follows that the value of those metals must remain unaltered, so long as the same degree of labour is required to procure them. We are therefore obliged to look to other causes for the increase of prices and of rents, which has been just mentioned; and the principal, if not the sole causes of it, I conceive to be the following:—First, an improved system of agriculture, by means of which a smaller portion of manual and animal labour is required for the cultivation of lands; whilst, at the same time, a much smaller tract of those lands becomes capable of maintaining a greater portion of labourers and of cattle; thus adding in a twofold proportion, to the surplus produce of lands, and thereby increasing their rents. And secondly, an increase of taxation, which, entering into, and becoming a constituent part of the money and market price of this surplus produce, gives a further increase to the amount of the money rent, proportioned to the increased price of every other commodity which this taxation affects.

It is easy too, to perceive how, in a country highly taxed, the price of labour will be raised, with relation to gold and silver, whilst the wages of labour,

with respect to those metals, may not be raised, in the smallest degree, in the countries where those metals are produced; because the weight of this taxation will have augmented the money-prices of the necessities of life, on which that labour is subsisted, in the one country, whilst, in the other, the price of those necessities of life may not be materially affected by taxation.

In fine, as no metal, as no other article or thing whatever, has been so long and so universally esteemed, for the purpose of a commercial medium, as gold; so no metal, or other article or thing, seems less liable to variations of exchangeable value, either gradual or sudden; excepting, only from the discovery of new and more productive mines. So that it may be fairly concluded that a national or government paper, issued with a moderation suited to the purposes for which it would be intended and adapted; and at the same time that it bore a relative value to gold, would impose no obligation on the issuers to give, or on the holders to take, that metal in exchange, for it would be less liable to those variations in its exchangeable value than even gold itself; because the holders of it would not be affected by the sudden diminution in the value of gold, which might arise from the discovery of new mines, however great or productive.

But though the establishment of a permanent and invariable standard of exchangeable value, is an object of such primary importance in a commercial state, that it should never be lost sight of in making any regulations or arrangements relative to the currency of the country, yet a well regulated paper currency is no doubt of very great public utility, on grounds wholly distinct from this consideration. The great utility of paper-money of any kind is, indeed, generally understood to be the immense national saving, effected by the substitution of a cur-

rency of so little intrinsic value, which is, at the same time, equally well suited to perform all the functions of specie.

But, where the paper currencies of any country are, all of them, upheld by an obligation, on the part of the issuers, to exchange their paper money for specie, either on demand or at any determinate period from the time of issuing it; and by a perfect conviction, on the part of the people, that the issuers of such paper-money will be always able and willing to do so; then, in such country, it is sufficiently obvious that there still exists a necessity of maintaining a considerable quantity of unproductive specie, in order to enable those issuers of paper-money to perform the obligation they have entered into. And as doubts might, from time to time, arise in the public mind, as to the ability of those issuers to exchange the entire amount of their paper-money for specie; or, in other words, as to their solvency; it will, therefore, be necessary for those issuers to be at all times in possession of a very large portion of specie, to answer such occasional demands which are usually termed *runs*.

Such runs will consequently be accompanied by considerable disbursements of specie, of which the greater part may never return to the coffers of the issuers of such paper-money, so that they must have occasional recourse to the importation of bullion, in order to create the necessary fund of specie to answer such runs; and if, from an unfavourable state of foreign exchange, from any real or imaginary depreciation of such paper-money, or from any other cause, the exportation of specie should ever exceed in amount, the quantity of bullion they might be able to import; they might, however great their fixed property, be reduced to very serious difficulties; and, under such circumstances, apprehensions would naturally exist, lest the machinations of the enemies

of the state might heighten and increase those difficulties.

When the issues of paper, of this description, exceed the amount absolutely required in any country, the surplus being returned upon the issuers, for payment in specie, the supply of specie will consequently become one of the heaviest expenses attendant on the system; and if, in any particular country, it should so happen, that one single banking company should be obliged, virtually and in effect, to exchange for specie, not only their own circulating paper-money, but the paper-money issued by all the other banking companies, however numerous, in that particular country; this one banking company, so circumstanced, would not only be subjected to the entire expense of procuring a sufficiency of specie to answer its own emergencies, and the emergencies of all those other banking companies, but would also be subjected to all the difficulties and dangers arising from any temporary scarcity of specie, or from any excess in the entire circulating paper of the country: and those difficulties and dangers would be proportioned, not only to any excessive issue, or other mismanagement of this particular banking company, but to the excessive issues or mismanagement of all the other banking companies in the country.

Such an obligation could only be imposed on any one banking company, by the subsequent establishment of other banking companies, the paper-money issued by which latter, instead of being exchangeable for specie, should only be exchangeable for the paper-money of the former, or principal banking company. As then the paper-money, issued by the principal banking company, must bear a certain proportion to the quantity of specie which that company is enabled to maintain in its coffers; so the paper-money, issued by the whole of

those other banking companies, must be proportioned to the quantity of paper-money, of the principal banking-company, which those other companies may be enabled to maintain in their respective coffers: and, as those other banking companies might draw into their coffers almost the entire issues of the principal banking company, it might so happen that the circulating paper of those inferior companies might exceed the circulating paper of the principal company, nearly in the same degree that the paper of this latter exceeded the quantity of specie reserved in its coffers.

Now, supposing that, in ordinary times, this principal banking company should be enabled to maintain in its coffers *five millions* of specie, and by this means should be enabled to circulate its paper to the extent of *twenty millions*; those other inferior banking companies, might, possibly, be enabled to force into circulation, during the continuance of this system, nearly *eighty millions* of their paper.

But, it is evident that if this additional quantity of paper-money should, as in all likelihood it would, prove altogether too great for the commercial transactions of the country, the excess, returning repeatedly upon the inferior companies for payment, the paper consequently disbursed by them would immediately afterwards be returned upon the principal banking company, that payment of it might be received in specie; by which means it is scarcely conceivable to what an extreme degree of trouble and expense this company might be reduced, in order to maintain in its coffers that quantity of specie of which they would be so often drained.

If the support of this principal banking company should ever become an object of great national concern, and if that distress which might result to this company, from the mismanagement of those inferior banks, concurring with an imaginary depreci-

ation of its paper-currency, and an alarm lest the machinations of some public enemy might interrupt the ordinary means by which the company supplied itself with the specie requisite to meet those runs which might be made upon it; if those circumstances should ever induce the government of the country so situated, by an unusual exercise of sovereign power, to free this principal banking company from the obligation it had hitherto lain under, to exchange its paper-money for specie; so violent a change of system would be attended with effects, which, however severely felt, might not, for a considerable length of time, be fully understood.

We have seen how, so long as this obligation was rigidly adhered to, any excess in the circulating paper of the country naturally tended to remedy itself; for as neither the paper-money of the principal or inferior banking companies could be hoarded, or exported in exchange for any foreign commodity, so the surplus, or excess of its amount, would be returned upon the issuers by the holders of it, whose private interests would not suffer it to remain, in their possession, useless and unemployed.

But from the moment this principal banking company ceased to exchange its paper-money for specie, the chief operative checks on the excessive issues, both of the principal and inferior companies, completely ceased; because the holders of the surplus paper-money could no longer seek an easy and effectual remedy by demanding and receiving its amount in specie. From which it follows, that from that moment the paper of this principal company would cease to be held in any higher degree of public estimation than that of the inferior companies, except so far as that particular company might be deemed more or less solvent. As the circulating paper of each banking company would, consequently, be supported by the favourable or un-

favourable opinion entertained of the pecuniary circumstances of that particular company, and as it would be forced into circulation by the local and commercial influence of those persons who had an interest in circulating it, it is easy to conceive that the interested diligence of several hundred individuals, concerned in those inferior banking companies, would necessarily exceed that of the principal company, however great or opulent.

And, therefore, though the prudence and moderation of this principal company might compensate, in a great measure, for the loss of that check on the overissue of its paper, with which the holders of this paper-money had been heretofore invested, by the obligation of this company to exchange it for specie, yet, there could not exist any rational expectation that the same prudence and moderation would govern an immense number of inferior banking companies, all of them independent of each other; and pursuing with avidity their respective interests. The prudence and moderation of commercial men, when placed in opposition to their pecuniary interests, would, indeed, be the most insecure ground upon which the stability of a national currency could well rest; and we may be assured that the issuers of paper-money, by those banking companies, would be pushed to the utmost extent, to which the existing checks over their issues would permit them.

It has already been observed that, as a banking company which lies under an obligation to exchange its paper for specie, is limited, in the extent of its issues, by the quantity of specie which it is enabled to maintain in its coffers; so all those other banking companies, which are merely obliged to exchange their paper for the paper of that principal banking company, and not for specie, are limited, in the amount of their respective issues, by the

quantity of paper, of this description, which they are able to preserve in their several coffers; and so long as the principal company continues to exchange its paper-money for specie, its total circulating paper, and the sum of specie reserved by that company, will bear the same or very nearly the same proportion to each other, that the total circulating paper of any one inferior banking company will bear to the sum of paper, of the principal company, which that one inferior company reserves in its coffers.

It is perfectly vain and futile, to say, that, as this paper-money is never issued but for some valuable equivalent, the circulation of the country cannot absorb an excessive quantity of it. The circulation of the country will not, indeed, employ a greater quantity of paper-money, in actual exchangeable value, than in proportion to its internal commerce; but it can employ paper-money to an unlimited amount in nominal value; because its excess will occasion a proportionate depreciation of the whole circulation, and it is wholly immaterial whether we express the real exchangeable value of commodities by pounds, or hundreds of pounds of paper-money.

The extent, therefore, to which the private interests of those inferior banking companies might dispose them to push the issues of their paper-currencies, can only be limited by the necessity which those companies are under to hold, at all times in their possession, a certain quantity of the paper of the principal company, to enable them to meet those ordinary or occasional demands which may be made upon them.

The return of paper-money upon the issuers of it, for payment, arises in ninety-nine instances out of an hundred, from one or other of two causes; either from a doubt in the solvency of the issuers

of it, or from the superabundance of the paper-money itself; which latter cause makes it the interest of the holders of it to exchange it for specie; and of those two causes, it is obvious that the first, though it may generally limit the issues of banking companies to an extent commensurate with that of their actual property, or means of payment, yet cannot, in the slightest degree, serve to restrain those banking companies from issuing to the utmost extent of those means, how much soever their issues may exceed the sum of circulating paper, which the commerce of the country actually requires: because to keep the paper-money, issued by those banking companies, within the proper limits, it is absolutely necessary that the public should possess the power of freeing itself from the superabundance of this paper-money; as, otherwise, the immediate holders of any surplus portion of it, being, as was already remarked, precluded by the very nature of the thing from either hoarding or exporting it, must be under the necessity of disposing of it below its nominal value, and this, in all cases, is the primary cause of depreciation.

Now, supposing that, after the principal banking company, which we have been speaking of, had been freed by government from its former obligation, to pay the amount of its paper-money in specie when demanded, it still continued, with the utmost prudence and discretion, to limit its issues to the exact sum which it would have continued to circulate, had this obligation remained in full force: it would, nevertheless, infallibly happen that the total circulating paper of the country would be swelled far beyond the extent necessary for all the purposes of the country's commerce; because the same prudence and discretion could never regulate the issues of the numerous inferior banking companies; and it would, with equal certainty follow, that the

the excess of those issues would be accompanied by a depreciation of both descriptions of paper-money.

Of all the consequences that must attend this measure of freeing the principal banking company from its obligation to exchange its paper-money for specie, that which, notwithstanding its very great importance, might be expected to excite the least public attention, would be the increased facility afforded to the inferior banking companies to increase their issues, in a much greater proportion to the quantity of paper, of the principal company, reserved in their respective coffers, than they could have presumed to do, so long as this latter description of paper was exchangeable for specie,—the moment that it ceased to be so, those inferior banking companies were altogether released from the necessity of keeping up any fund to meet the returns of their superabundant paper, because the holders of this paper, as they could not convert into specie that of the principal banking company, would be perfectly indifferent which description of paper they might be in the habit of receiving, except so far as the solvency of the company which issued it might be concerned. So that those inferior banking companies would now have to prepare themselves to meet no other considerable demand than such as might be occasioned by any dread of their insolvency; a dread which never could attach to any considerable number of them at one and the same time, and consequently could tend but little to the general necessity of maintaining in their coffers so large a sum as heretofore; and the less so, in any country where the facility of transferring large sums, under the form of government securities or debentures, would enable such banking companies to provide the more easily for those emergencies.

Referring then to the proportion between the sum

of paper-money which any banking company can keep in constant circulation, and the sum of specie, or of paper exchangeable for specie, which it will be obliged to hold in its possession, which I have already supposed to be as four to one; but those inferior banking companies being, from the foregoing cause, released from the necessity of reserving any fund to meet their surplus paper money, it would follow that, if the principal banking company neither increased or diminished the quantity of its circulating paper, and if those other banking companies neither increased or diminished the sum which they had heretofore reserved in their coffers, they would be enabled to circulate their own paper-money to a much greater extent than in the proportion of four to one as heretofore. And though they might not actually circulate it to double the same amount as formerly, yet supposing for a moment, and it is at least possible, that they might be enabled to do so; the total national currency would consequently be increased from *eighty millions* to *one hundred and sixty millions*; and, supposing further, that this increase of circulating paper had not been rendered necessary, by any real increase of opulence or commerce, in that particular country to which it was confined; then I affirm that, as the circumstances of the country would not demand a circulation of more than *eighty millions*, so no paper currency, whatever might be its nominal value, of a greater actual value than *eighty millions* could possibly circulate in that country. And as the non-existence of any legal obligation to exchange this excess of paper-money for specie must have deprived the holders of it of the only means by which they could rid themselves of the redundancy of it, so the entire of this paper currency, though it retained the nominal value of *one hundred and sixty millions*, must be reduced, in actual exchangeable

value, to *eighty millions*; that is, it must suffer a depreciation of ten shillings in the pound.

It will also be readily seen, that so long as paper is exchangeable for specie, the specie raises the value of the paper; but that the value of specie can never, under any circumstances, be materially lessened by the depreciation of paper; because specie, possessing that intrinsic value which renders it an universal equivalent, will be always certain of finding a market in some other country if not at home. But it is equally clear that the depreciation of the paper-money of those inferior banking companies can, and necessarily must, depreciate the paper-money of the principal banking company, because they are both equally destitute of intrinsic value; because they are both mingled together in common circulation, without the one being possessed of any very decided superiority; because the one is, with the utmost facility, exchangeable for the other; and, because the active endeavours and local influence of several hundred persons will be constantly exerted to maintain this equality.

Thus, though the principal banking company, which we have been supposing, may have confined its circulating paper with the most commendable moderation, far within that extent to which specie might have otherwise circulated, yet *may* its paper-money be depreciated to a degree which it is nearly impossible, without a change of system, to limit or controul; nor will this depreciation, under the circumstances which have been here considered, seem at all surprizing, if we reflect that of two principles on which, only, paper-money can possibly circulate for its full nominal value, this banking company has abandoned the one, without having adopted the other.

As the gradual operation of this depreciation would have inevitably driven all the specie out of the coun-

try, it is very manifest that all commercial transfers, and the discharge of all legal contracts, in this depreciated currency, must be attended with the greatest inconvenience and distress; and should the necessities of the state ever oblige this principal banking company to issue an additional quantity of paper-money, the consequent issues of the inferior banking companies, would increase the depreciation in geometrical progression.

Under such circumstances, it would become the imperative duty of the government of that country, to interpose its authority, in order to put a stop to those evils.—Not, indeed, that the interference of the government in commercial concerns is in general desirable, but because, having once interfered, by an half measure, it should remedy the inconveniences which that half measure has occasioned; and this can be effected in any of the following ways, and not otherwise;—that is, first, by restoring the paper currencies to the same state in which they were, previous to this interference; secondly, by establishing a permanent government paper, on the principle which has been detailed, in the foregoing part of those observations; or, lastly, by assimilating the paper-money of the principal banking company to such government paper, both by limiting the amount of it, and rendering it the exclusive currency in which all the taxes and imposts of the state, as well as all legal contracts, can be discharged.

From the moment that the national banks of England and Ireland were restricted from paying the amount of their notes in specie, those bank-notes obviously ceased to circulate upon the same basis as heretofore, founded upon the obligation of those banks to exchange their paper for specie, on demand; since, however unquestionable the solvency of those banks, that solvency could afford no es-

essential support to the credit of a paper-money, the immediate holders of which, could not avail themselves of this solvency, in order to obtain payment. The notes of the national banks have, from that period to the present, continued to circulate almost entirely upon the principle of a government paper, and its exchangeable value has, therefore, depended upon the proportion which the actual circulating amount of it bore to the total sum of paper-money actually requisite in those countries, for those purposes to which the notes of the national banks are exclusively applicable, and upon the confidence which those amongst whom those notes circulate might entertain, that the directors of those banks would continue to limit their issues to the extent necessary for those exclusive purposes.

But the fundamental error of the system, if such it can be called, seems to be, that the paper-money of the national banks has not been exclusively applicable to any considerable purpose whatever, and has been mixed and blended, in circulation, with the multiplied paper money of the private banks, without maintaining any discernable superiority, except in the immediate vicinity of the capitals of the two countries.

It is apparent, therefore, that the paper of the national banks of England and Ireland, circulating, as it has done, chiefly, if not wholly, upon the principle of a government paper, must have been, at the same time, a very ill constituted government paper, since we have already seen, that in order to circulate paper-money, of this description, at its full nominal value, when not exchangeable into specie, it is indispensably necessary to restrain the entire circulating currency of the country within the proper limits, which no effort of the national banks can, under the existing circumstances, possibly effect.

But, though it be impossible either to limit the issues of the numerous private bankers, to that amount which

may be actually required to fill the general circulation; or, on the other hand, to render the notes of the national banks the exclusive circulating medium of the country; it is, notwithstanding, perfectly practicable to render this national paper-money the exclusive medium for the discharge of all legal contracts, and the payment of all descriptions of national and local revenue; and it is also perfectly practicable, by limiting the circulating amount of this national paper, to the sum of specie which would be otherwise circulated for those purposes, to render such national notes of equal nominal value with specie; and this without the existence of any obligation, on the part of the national banks, to exchange the one for the other, either on demand, or at any determined period.

If, by a legislative enactment, this national paper-money were rendered a legal tender; if all public officers were most strictly prohibited from receiving any description of private bank-notes in payment of any part of the revenue, and also prohibited from dealing in, or exchanging, those private bank-notes for national notes; and if the directors of the banks of England and Ireland were restricted from issuing any notes, except under the immediate authority and controul of parliament: if such an enactment were steadily enforced, convinced that the present circulating paper-money of our national banks is no more than barely sufficient for those purposes,—I am fully satisfied that this paper-money would speedily become of equal nominal value with specie, or bear a premium above it.

The immediate operation of such a law would be fourfold: first, it would enhance the value of national bank-notes, by causing an additional demand for them for the payment of private debts, and the national and local taxes, imposts, &c.—secondly, it would enhance the value of national

bank-notes, by obliging the private bankers to maintain a much greater quantity of national paper in their coffers, in order to meet this increased demand for that paper, which could only be procured by demanding it from the private bankers in payment of their respective bank-notes;—thirdly, it would enhance the value of the entire circulating paper-money of the country, both national and private; because, from the first and second causes just now stated, the private bankers being obliged either to augment the quantity of national paper reserved in their coffers, or to diminish the amount of their own circulating paper, and their actual capital receiving no proportionate augmentation, so they must necessarily adopt the latter; by which means the entire mass of paper-money would be reduced more nearly to a level with the sum of specie which would circulate in the country, if this paper-money did not exist;—and, lastly, as the national bank-notes would acquire a higher and more permanent value, in consequence of their amount being limited, whilst they would, at the same time, be required, exclusively, in all transactions between debtor and creditor, and in the payment of all branches of the revenue; so they would form the most eligible and least fluctuating medium, in all commercial transactions; and an additional quantity of national paper-money would be required for the purposes of commerce also; but as the paper-money of the private bankers, being exchangeable for national paper-money, on demand, must keep pace in value with it, which can only be effected by those private bankers lessening the amount of their circulating paper, and, thereby, lessening in amount, and consequently encreasing in value, the entire circulating paper of the country.

By such a law as has been here proposed, the paper-money of our national banks would be as near-

ly assimilated to a government paper, on the principles laid down in the foregoing part of these observations, as it is possible to assimilate it, and through such a measure alone can we reasonably look for a termination of those weighty evils, to which the multiplied and ill regulated paper currencies of this country have subjected us; for those causes which originally gave birth to the bank-restriction act, would, if it were now repealed, operate with tenfold force; and a government paper on permanent and immutable principles, we cannot even hope to see immediately established, although one of its most certain advantages would be to contribute to the present exigencies of the state, to the extent, perhaps, of *twenty millions*.

Fully aware that there are many, to whom the simpleness of the means here proposed will not be any recommendation, I shall submit to those who cannot credit the conclusions I have drawn, the consideration of the following propositions, all of which I deem incontestible:—

That the paper-money of the private banks now fills a very great proportion of the general circulation of the country;—that the paper-money of the national banks does not maintain any decisive superiority of exchangeable value, over this private bank-paper in general circulation,—that if the paper-money of the national banks bore a premium of *one penny* in the *pound sterling*, over that of the private banks, so great a portion of those private bank-notes would be driven out of circulation, that the exchangeable value of the remainder of them would be raised to a level with the national paper,—and, lastly, that if the entire circulating amount of the paper-money of the national banks, was accurately proportioned to the quantity of specie, which would otherwise be absolutely required for the purposes to which this national paper-money might be exclu-

sively adapted, then this national paper-money would bear an exchangeable value fully equal to that of specie.

I cannot conclude this little tract, without expressing those apprehensions which I feel, as to the reception it may meet with:—with the utmost anxiety to be brief, I fear I shall be deemed prolix; frequent repetitions of the same terms seem inseparable from the subject, and they have, no doubt, been increased by my anxiety to make myself distinctly understood, and my total inexperience in writing. If, however, any hint contained in it, may prove of the slightest public utility, I shall not think my labour ill bestowed.

January, 1812.