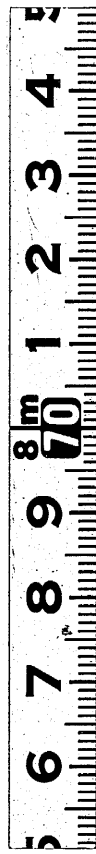


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AN
INQUIRY
INTO THE
Real Difference between *actual Money*
AND
Paper Money.

[Price Two Shillings and Sixpence.]

PUBLISHED BY THE SAME AUTHOR,
THOUGHTS UPON
 A
NEW COINAGE OF SILVER,
 more especially as it relates to an
 ALTERATION IN THE DIVISION OF THE
POUND TROY.

AN
INQUIRY
 INTO THE
 Real Difference between *actual Money,*
 CONSISTING OF
 GOLD and SILVER,
 AND
 PAPER MONEY of various Descriptions.
 ALSO,
 AN EXAMINATION
 INTO
 The CONSTITUTIONS of BANKS;
 AND
 The Impossibility of their combining the Two
 Characters of BANK and EXCHEQUER.

BY
 MAGENS DORRIEN MAGENS, ESQ.

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1804.

THE JOURNAL

of the Proceedings of the Bank of England

and of the various Debates

in the House of Commons

relating to the Restriction of Bank Payments

in Coin, and the Possibility of their being

performed by Paper Money

By JOHN GOSWOLD, Esq.

Author of the History of the Bank of England

and of the History of the Bank of Scotland

London: Printed by J. JOHNSON, Strand, 1797.

ADVERTISEMENT.

SINCE the Restriction of the Bank Payments in Coin, a Variety of Ideas have been brought before the Public, in different Publications, as to the practicability of continuing a large Paper Currency in Circulation, with a comparatively small proportion of Specie; or even, in some Cases, with none; and leading to an Opinion that Gold and Silver are nearly unnecessary; while other Pamphlets speak more doubtfully upon the Subject; and others, again, maintain an opposite Opinion, and censure the present extensive Circulation of Paper, as tending to depreciate general Credit, and cause an extravagant rise in the Value of all Commodities. From the prevalence of such different Opinions, therefore, it is the design of the following Sheets, to examine how far Paper is adequate to perform the Operations of Money, by considering their relative Uses in several different Points of View.

As the Question treated of has been much agitated by the Public, and strong Opinions consequently formed, by the Partisans of each System, it is hoped that no Censure may attach to the Author, from availing himself of the Practical Information laid before the Public; but that his Statements may be received with that Candour he flatters himself entitled to, for a disinterested Endeavour to promote and assist that Inquiry, which may eventually produce a judicious and permanently beneficial System of Circulation and Credit.

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AN
INQUIRY, &c.

CHAPTER I.

A DEFINITION OF WHAT CIRCULATES AS MONEY;
WITH A DESCRIPTION OF CERTAIN BILLS
OF EXCHANGE.

GOLD and silver has, by common consent, become the sign of value, circulating throughout the world; and with *some small variation in the proportional value between the two metals*, they will equally command the produce of all the civilized parts of the globe; possessing certain peculiar properties, that can always be ascertained to the satisfaction of every one giving his commodities in exchange for them. They are divisible into any number of parts, with a capability of being again reunited in a mass: they can be formed into any shape, will bear any stamp or impression; resisting the injuries of climate, and, in a great degree, of time; besides other advantages,

vantages, which renders the possession of them desirable to the inhabitants of all countries, solely for their intrinsic worth.

Paper money of itself, as to materials, &c. is of no value whatever; but, in proportion only as it represents a larger or a smaller command of money, by entitling its possessor to more or less gold and silver, is its value ascertained: for it may in some cases (such as with the bank receipts in Holland) be worth more than the current money; or, as in England, in the shape of an exchequer bill, bearing interest: whereas, if confidence in the security of exchanging the paper, as purported to be done on the face of it, or otherwise, in a way equally agreeable to the holder, is withheld, it may become less, and only command a part of the money it is professed to circulate for. From hence it appears, First, that real money, viz. gold and silver, commands universally, the products and commodities of every country, from its own specific qualities, and intrinsic value; so that a stranger, in any quarter of the globe, in possession of either of the two metals, is secure of procuring every thing that is produced there, whether for purposes of neces-

sity, or luxury. And secondly, it is also evident, that paper money, though not affording those advantages, as to intrinsic value, which is derived from actual money, has yet circumstances attendant upon it, which render it, in many cases, more beneficial, both to the public and to the state; and of greater convenience to the commercial world in general: but the principle of perfect confidence is requisite to give it its full advantages, which can, of course, extend no further than where the parties issuing the paper are fully known; for the stranger, with his bank bill, or bill of exchange, of another country, will not procure what he requires, until, by the intervention of a third person, or some other means, he makes known, and procures confidence, as to the real value of the security.

This difference being acknowledged to exist between the two sorts of money, an inclination naturally arises in the mind, to inquire into the particular advantages appertaining to each; where the benefits preponderate in favour of either; and how far they may be both made use of, in promoting the wealth and credit of a nation.

The application of gold and silver to procure the necessaries or conveniencies of life, is simple, and universally intelligible, when the transaction occurs between two persons in the same place; the thing required being made over upon the payment of a certain quantum of either of them equivalent to its reputed value: but when these two persons making a bargain together, reside in different countries, and under different governments, it is then, that the paper becomes a more convenient mode of payment; though the contract is made for a certain sum of money. Thus *Mr. Bull*, of London, sends *Mr. Grenouille*, of Paris, cutlery ware, &c. to the amount of 1000l. sterling, which, of course, he covenants to pay; and had he no other means, must consequently send over gold or silver, of weight and fineness equivalent to the acknowledged weight and fineness of 1000l. sterling in England; but, unwilling to encounter this trouble and risk, he inquires at the Exchange at Paris, if any Englishman is indebted to any merchant there 1000l. sterling; and he finds a *Monsieur Raisin*, a wine merchant, who has sent wines to *Mr. Port*, in London, to the above amount: he therefore

therefore says to him, "If you will give me an order upon *Mr. Port*, who owes you 1000l. to pay it to *Mr. Bull*, I will give you the money here; by which means I shall discharge my debt due to him in London, and you will receive the money owing to you;" liquidating thereby, the accounts between the four persons by this transaction; while otherwise, with great expence and risk, the money must have been sent from Paris to London, and returned from London to Paris; and this convenience arises from the confidence placed by the parties in each other, for the fulfilment of the payment by *Mr. Port* when called upon to make it, rendering this paper *bona fide* money to all intents and purposes, as far as the parties are known, and are satisfied with the security of the persons pledged, and undoubtedly yielding a much greater facility in the payment for property transmitted from one country to another, than can ever be effected by the actual transport of real money: though the sphere of accommodation is so limited, as not to entitle it to an extensive circulation, as will appear in the further progress of this order, or bill, drawn by *Mr. Raisin* upon *Mr. Port*; for,

on its receipt by *Mr. Bull*, he finds it will be a month at least before it becomes due, (if the gold itself had been sent, it would have required some time for the conveying it :) whereas he wants his money immediately; in consequence, he goes to *Mr. Puff*, the broker, to get it discounted for him, who accordingly tenders it to various persons; but they decline giving cash for it, being unacquainted with the solidity of the parties. At last, however, *Mr. Plumb*, the banker, knowing the names on the bill to be solvent, and respectable, furnishes the money; proving indisputably, that this paper, though acting as money in the sphere where the persons acknowledging themselves bound to discharge it are known, is yet only equivalent to specie in fact, under such circumstances; though it is better than money, to the extent of the transaction, because it afforded greater convenience, with perfect security, to the range of circulation required. But probably, had the wish been to have made this note more generally current, the want of confidence in the parties, who might be unknown to many through whose hands it would pass, would require them to obtain other persons to guarantee the payment, and
make

make them willing to receive it for money. This additional assistance being given, the circle of currency may be extended much wider; but then it is the confidence placed in the endorser, and not in the actual parties to the bill, that gives it this further power of operating as money; so that, to cause it to pass out of its original destination, it is necessary to make it a fresh instrument, by the assisting security of the names of persons known at the place where it is to be current; and even then it must be very confined; because, though it may be duly esteemed in London, yet in Liverpool, or Manchester, it may be considered doubtful; and at Amsterdam, or Hamburg, totally discredited; clearly demonstrating, that, in a general point of view, this piece of paper can never pass universally, as specie would do, for 1000l. though, when limited to its particular district, it becomes fully equivalent to it, with advantages of convenience, and accommodation, which makes it coveted in every transaction of a similar nature to the above.

Let us, however, suppose that a country we trade with, sends us of its produce to the value of 100,000l. while we only supply it with 80,000l. in that case, for the 20,000l.

the difference between these sums, no paper of the above description can be obtained, and gold or silver must be sent to the amount, to that country, (the balance of trade being so much in its favour.) Thus England is annually obliged to send bullion to China; and if it could not be procured for this purpose, her ships must return unladen, because they do not take a sufficient quantity of our merchandize in return, and, of course, bills cannot be remitted.

As far, therefore, as concerns this description of paper money, it is manifest, that for common and reciprocal commercial dealings, it is more desirable than *actual specie*; but it goes no further, and will not compare with money upon an extensive scale.

It is further to be remarked, that bills of exchange paid in London, will be discharged by bank notes, (of which hereafter,) while those paid in Paris, must be discharged by gold or silver. Why so? Because there is confidence in England, in the establishment of the Bank; and in France, there is no confidence in any circulating representative of money whatever.

But, to proceed: there is another description of bills of exchange, negotiated upon the

the Exchange, as in the former case, and in every respect, to appearance, similar: the concealed difference, however, existing, of no value having been given for them.

The transaction arises thus: two Merchants (the one, we will say, in Amsterdam, the other in London) conceiving a considerable advantage may be derived from purchasing a large portion of a commodity at market, without sufficient capital for the purpose, agree that A, at Amsterdam, who is to make the purchase, and obtain the necessary money, shall draw upon B, in London, who accepts the bills, suppose to the amount of 10,000l. knowing, at the time he does it, that he has not money to discharge them, when they become due, but by re-drawing upon A at Amsterdam previous to that period arriving, which he accordingly does; and A accepts them also, knowing that he cannot pay them, unless the commodity he speculated upon can be sold, and the money paid in time, which may occur; and thus the transaction ends: but let the reverse happen, (much more frequently the case,) and which it is here intended to observe upon; and mark the progress! the goods are either fallen in value, or are not convertible

convertible into cash in time to provide for these bills, and A is under the necessity of drawing a second set of bills, and B of re-drawing as before, which, from his credit, he is enabled to do; but by degrees availing themselves too often, and to too great an amount, of this easy mode of raising money, they are induced, for various purposes also, and often without any real value at bottom, to carry on a similar mode of creating money, so that the world (that is their circle) seeing so much of it, lose all confidence in paper with those names upon it, and it dwindles silently into disrepute, and is not easily discountable or negociable; while the parties expecting these bills to afford them ample supplies for the various engagements they have made, are disappointed, and endeavour to save themselves from sinking, by calling in what money they have laid out; but they find it dispersed, lent on precarious securities in the hope of great profits, in West India estates, speculative canals, or diverse other schemes; and having no resources left, are under the necessity of making the best composition in their power with their creditors.

Such

Such bills as these, of which there are by far too many, do not stand by any means upon the same ground as the former; and, instead of being better than money, are abuses of credit, and as thoroughly a deception upon the public, as issuing base coin for specie would be; the bill itself bearing these words, "for value received," or, "value in account;" which is a positive deception.

After the above explanation of this sort of paper, it would be waste of time to make any comparison of it with actual money; but, in order to extend the ideas a little to the tract of Country, paper of this description maybe made to encompass, let us not confine the transaction to one house in London, and one house in Amsterdam, as leaguings together, but let us suppose (and numerous instances might be produced) a house in London, another in Hamburgh, another in Cadiz, another in Amsterdam, another in America, or where not, entering into covenant together to draw upon each other as convenience suits, for jobbing in the exchange; or sometimes combining together to monopolize an article, such as camphor, cochineal, or particular drugs, for their mutual benefit; here, the credit, as may be supposed

of

of the different houses taken individually, and their great capital when taken in a mass, may give such confidence through a wide range, and appear so satisfactory to a large class of people, that their paper to a very great amount may be brought into circulation with apparent ease, though far from commanding the same esteem as paper of the first description, or of answering its beneficial purposes; because it has no solidity; for it is built upon an imaginary foundation, the hopes of repayment consisting alone, in a speculation of a material alteration in the local value of money, or an unusual and excessive price of a commodity so greedily monopolized; for which, as it often occurs, substitutes are introduced, the fabric totters, and, as has been fully ascertained of late, the parties sink into disgrace and oblivion, except in the recollection of those whose faith induced them to put confidence in their paper: these, moreover, are commonly the very persons who are constantly complaining of an insufficiency of circulating medium, not discerning the want of credit in their paper; while persons trading upon different principles, find no want of circulation. The 100 millions of commodities imported and

and exported through our custom-houses,* are not delayed upon the quays for want of it; neither do the merchants of suitable capital find it necessary to discount every piece of paper in their possession, to provide for the payments: well constituted houses know the mischief of such arrangements; and though every one may occasionally forestal their receipts, yet they have too much judgment to depend upon a constant supply of capital from such sources: such a foundation is laid in too shifting materials, to give any confidence in the fabric standing the severe shock of a storm.

* See annual Accounts presented to the House of Lords, of the real Value of Imports and Exports.

CHAP.

CHAPTER II.

BILLS AND NOTES FURTHER CONSIDERED.

PROCEEDING in the examination of the different bills and notes in daily use, we find one species fabricated very frequently by parties in intimacy with each other, called *accommodation*, or fictitious bills, where the person accepts a bill without ever meaning to pay it; but leaves it with his friend the drawer to get discounted, and furnish him thereby with a sum of money as capital for the time being. Had it suited him, he, perhaps, would have provided him with the money, instead of his name to borrow it upon; but his all being employed for his own uses, he presumes upon his credit, to enable his friend to obtain it from another channel, where his own name singly might prove insufficient. Bills of this kind, when made for the purpose of assisting a young house with money, possessed of extensive means of business, but small capital, may be considered as useful, but can never enter into competition with actual money; while, in another point of view, they are highly mischievous; the deception of

value

value received, being upon the face of the bill, where *no value* is represented. Mr. Thornton, however, does not appear to see them in that light. In his Inquiry into the Nature and Effects of the Paper Credit of Great Britain, page 30, he says, "so far, moreover, as bills and notes constitute what is called the circulating medium of paper currency of the country, and prevent the use of guineas, the fictitious and the real bill are upon an equality." But surely, taking into consideration, that the fictitious bill may be created to any extent, and the regular bill only to the amount of the goods sold, or property transferred, and that the first creates artificial capital for undue speculation, while the latter only causes a speedy return to the trader, by converting these bills into cash for the future concerns of his business, we must feel considerable difficulty in putting them upon the same footing; and it seems as if he himself felt the difference, by denying the certainty of notes being given in consequence of a real sale, as representing real property. For he proceeds, "it may be observed, that the notes given in consequence of a real sale of goods, cannot be considered as, on that account,

count, *certainly* representing any actual property. Suppose A sells 100l. worth of goods to B at six months credit, and takes a bill at six months for it, and that B, within a month after, sells the same goods at a like credit to C, taking a like bill, and so on; there may then at the end of six months be six bills of 100l. each existing at the same time, and every one of them may possibly have been discounted: of all these bills, then, one only represents any actual property." That such a transaction may take place is clear, and six bills for 100l. each be given for only 100l. of actual goods; but observe how these goods carry actual value through the whole of the six bills. A sells his goods to B, and receives the note in payment; the goods in B's hands represent the money, and are a security to A for payment. B sells the goods also to C, and the goods in C's hands are a security to B, to whom he gives his note for its discharge: the question then is, How is A secured? Exactly as before; that is, the goods sold by him to B are realized, and B holds value just as before for the note given to A in actual money, if he discounts C's note; or in the note itself, if he holds it, equally represented by the goods.

goods. But let us demonstrate this further, by making C insolvent; the goods sold him by B, protect him from loss, and he recovers from the estate of C, and can pay A; but if there had been no actual goods sold to C, there would have been no effects belonging to C's estate to save B in the first instance, and all parties must suffer: whereas now, if these goods had passed through the six different sales alluded to, they would have protected the whole, because each man's bill is represented by actual value, having the money in hand, if he discounts as soon as he parts with the goods; or retaining the note in his own hands, if more convenient to him: either way the case is the same; or, in other words, the note is a receipt for the goods delivered, and a guarantee for the regular payment of them, when the lapse of time stipulated has expired, they being *bona fide* at the time of drawing the note in the possession of the person engaging to pay it: this person, therefore, with this 100l. worth of goods, is entitled, in the way of trade, to receive it again, when he parts with them; and so on, *toties quoties*, every fair proceeding securing the former creditor. Satisfied, therefore, as far as opinion goes, that a transfer of 100l. property does secure
C each

each of the parties taking the six bills for the 100l. each; it may also be presumed, that the fact of fictitious bills being insecure, and a deception, cannot easily be controverted. It is reasonable to suppose the Legislature required the words *value received* to be inscribed on the face of a bill to render it a legal instrument, and to guard against those of the above-mentioned description; for the same reason as it puts its own stamp on the coin, to warrant its circulation, and to distinguish it from what is base.

Sometimes, in discharge of their debts, persons give their promissory notes; but in such cases it is scarcely more than a declaration of paying at a given time, and adds but little to the convenience of the public. Notes issued payable on demand, are, of course, distinct from these: they form the leading topic for consideration, in ascertaining how far, and in what proportion, they assist the wealth of a nation, and how they are circumstanced in the comparison with actual money.

At the time of the great failure of the country banks in the year 1793, the distress occasioned the creation of a new kind of commercial paper, heretofore unknown, under the name of commercial exchequer bills,

bills, by which, upon the required securities being given, the Government became responsible for the debts of individuals, by pledging to repay, at a fixed period, the bills issued for their relief; and the plan was further extended in 1795, for the benefit of the Grenada merchants.

Examining these bills as relating to the subject of inquiry, we find little variation in them from the common exchequer bill; and, but for the peculiarity of the purpose for which they were issued, it would have been unnecessary to have remarked upon them; but as it corroborates the reasoning upon the mischief of an extended circulation of paper, we could not pass them over unnoticed; and it was with no small degree of surprise to many persons, that the plan was ever listened to by that eminently great man, under whose administration they were granted; he, who, in his speeches in Parliament, had so frequently enlarged upon the correctness of mercantile principle throughout the whole of Adam Smith's Writings, and who had, with great justice, quoted him as the guide of our steps. To many persons, I repeat, it was matter of astonishment that, in this particular, he should forsake his director,

and impose a scheme upon the mercantile world fraught with novelty and mischief.* The merchant, like other prudent persons, foresees storms, and prepares to guard against them with all the ability he possesses; but if his best-digested plans, and long-established traffic, are frequently thwarted by extraordinary and unusual means, his confidence in established principles wavers, and he is led, from hopes of support, to aim at great profits, becoming speculator rather than merchant; a character which unfortunately prevails generally at this moment, and for the reasons adduced. But, say the Government, What is that to us? The trade of the country increases, which is all we care about; individuals must look to themselves. May not such a mode of reasoning

*The final settlement for the Grenada bills granted in 1795, is fixed for Oct. 1805; though, in the mean time, Government, in some instances, have dispensed with the original security, and have been under the necessity of issuing several extents to large amounts, where the parties have totally failed in their engagements: Is it wisdom in a nation, may it not therefore be fairly asked, thus to throw Commerce out of its usual channel, and discourage the capitalist, whose credit alone creates that bond which fixes the mercantile superiority attached to this country, and which by similar means to the above is destroyed? Upon this principle it is conceived, the late application for similar bills has been totally rejected by the wise Councils of these times.

reasoning be liable to great fallacy? Trade will not admit of forcing; it is the consumption which encourages it; and manufacturing twice the quantity requisite, or exporting considerably more than the wants of the Continent require, may give a fallacious appearance of prosperity, and is brought about by sudden and unexpected supplies of money, similar to the commercial exchequer bills, or the unreasonable discounts immediately after February, 1797; but conclusions drawn from such premises are all false, as the present moment of distress for specie, and the last few years, fully prove. If Government wish to encourage trade, let them leave it to itself, and not injure any part of it, by partial and ill-understood schemes.

From the consideration of the subject thus far, as to what may correctly be called commercial paper, or such as is most generally used in mercantile transactions, where the places of residence are, for the most part, distant from each other, and frequently the principles of government different, and which do not apply to one country in particular, but to all generally, it appears, that paper cannot be said to confer the same command as gold or silver.

In the first instance, the common bill of exchange claims a superiority from its convenience, and maintains it avowedly in the confined circle in which it can act; but the limitation of its sphere can only give it a local consideration; and for the intended object of universal commerce, it can never operate as the grand luminary, but more properly resembles the light of the moon, which receives all its brilliancy from the sun-beams which illumine its surface; for as, in the latter case, without the sun, the moon would give no light; so, without actual money, bills of exchange must be unknown; the only estimated intrinsic value throughout the world being gold and silver, and every substitute for them, merely representative. In the other cases adduced, of different kinds of bills, they are found adapted to particular purposes, and intended to command as much of the two precious metals above-named, as possible, from motives of advantage to the drawers; for as these observations apply to the whole commercial world, we shall find that, with the exception of these kingdoms and America, all bills are paid *in actual coin*, unless particularly expressed to be otherwise paid; or as in Portugal, where it is half specie, half paper.

per. Bank notes are peculiar to these kingdoms: there is no paper in credit (at par) of that denomination to be found in Holland, France, or Germany; the bill of exchange is really paid in gold or silver, and every commercial transaction is carried on with real money. If this exception in favour of Great Britain and Ireland, denotes the confidence placed in their national banks, if I may apply so improper an epithet to those called Bank of England, Bank of Scotland, and Bank of Ireland, (being independent companies,) let them guard with scrupulous attention such great advantages, and protect, with unremitting watchfulness, such a valuable attribute to the United Kingdom.

CHAP.

CHAPTER III.

OF NOTES OF HAND, BANKS, &c.

FROM the usual course of bill transactions more immediately relating to merchants, let us now consider the hourly circulating paper, which passes from hand to hand, commanding labour, manufacture, and produce of every kind, with the same power as actual money. In the outset, we have already mentioned it as intrinsically of no value; but possessing such powers, its consequence must be derived from some effectual source: let us therefore inquire from whence this source arises, and to what extent it can be commanded; how far it can supply the place of gold and silver, or what proportion of them is required to secure the greatest wealth and prosperity to a nation, with perfect confidence.

In every country there exists a currency in money for the common purposes of traffic and convenience, generally consisting of gold for the larger payments, and silver for the smaller ones, comprised in various coins, according to the customs of particular states, or at the will of the sovereign: these coins may

may consist of dollars, livres, guineas, ducats, or money under any other denomination; while also, in Great Britain and Ireland, notes payable on demand are in general currency and circulation; meaning thereby, that every commodity is estimated at so many dollars, livres, &c. &c. according to the coin in circulation in each country; and that all ideas of value and price are estimated and fixed by it: as for instance, such a part of a dollar, or a livre, will command a pound of bread; and so many dollars, or so many livres, will purchase a coat, or any other thing required; while every bargain and sale is regulated by the quantum of the coin of the country that it will exchange for, passing from hand to hand, without increase or diminution of its value, and allowed, by general consent, to represent a given portion of property, and for which it will always be taken or received. In this light, the Bank note of Great Britain, payable on demand, represents coin (though not manufactured by Government) equally with the gold and silver; and passing for so many pounds sterling, without increase or diminution, is also allowed, by common consent, to command the same quantity of commodities as the actual

actual specie would do; (the public consulting their convenience, and having in view the certainty of commanding the actual quantity of money expressed on the face of the note whenever they please!) This currency appears to be the only one that can properly be so called; no species of money or paper, with any condition whatever, of any kind or description, can be really so denominated; the least variation from the specific rate of value of the generally accredited piece of metal, by which the judgment of value is formed, alters the entire case; and whether more or less valuable, it requires calculation to which so many are unequal, and they become a prey to the crafty; so that nothing of a different description can become currency, because it will not circulate universally, as the value is undefined. Mr. Thornton, (page 40,) considers bills of exchange as a part of the circulating medium of England, though not so declared, he says, in the opinion of Dr. Smith, in his statements on the subject of paper credit, and in a note, states Mr. Boyd to have fallen into the same error, where, in saying, "by the words, "means of circulation," "circulating medium," and "currency," I understand always
ready

ready money, whether consisting of Bank notes or specie, in contradiction to bills of exchange, navy bills, exchequer bills, or any negotiable paper, which form no part of the circulating medium, as I have always understood that term." Mr. Thornton then proceeds to remark, that it was necessary to clear away much confusion, which has arisen from the want of a sufficiently full acquaintance with the different kinds of paper credit, and, in particular, to remove, by a considerable detail, the prevailing errors respecting the nature of bills, before it could be possible to reason properly upon the effects of paper credit. The detail entered into, comprises the following paragraph: "But they (bills) not only spare the use of ready money; they also occupy its place in many cases. Let us imagine a farmer in the country to discharge a debt of 10l. to a neighbouring grocer, by giving to him a bill for that sum, drawn on his corn-factor in London, for grain sold in the Metropolis, and the grocer to transmit the bill, he having previously endorsed it, to a neighbouring sugar-baker, in discharge of a like debt, and the sugar-baker to send it, when again endorsed, to a West India merchant in an outport, and the West India merchant
chant

chant to deliver it to his country banker, who also endorses it, and sends it into further circulation. The bill, in this case, will have effected five payments exactly, as if it were a 10l. note payable to bearer on demand.

* * * * *

A multitude of bills pass between trader and trader in the country, in the manner which has been described, and they evidently form, in the *strictest sense*, a part of the circulating medium of the country." To see how far this transaction proves the declaration which militates against the ideas of Dr. Smith and Mr. Boyd, it may be proper, as much stress is laid upon this position, to analyze the operation. The farmer gives this bill for 10l. upon his corn-factor to his neighbour a grocer, who transmits it to his sugar-baker in payment. If it is a bill *at sight*, the only proceeding is to get the money for it directly; as it is not usual to omit receiving the cash for such a bill immediately, because the person it is upon, though possessed of effects to pay the bill then, may not be in the same situation a week or two afterwards; and the person omitting to apply for the money, takes the risk upon himself;*

much

* See Thornton's Chapter on Banks.

much less, therefore, would he send a bill of this kind, due in London, to a merchant at Liverpool, which, after all, not being accepted, is no more than a note of hand payable in London; so that it must be drawn some days after date, or sight, in which case, how would it circulate? It is of so much less value than 10l. as the interest upon it is for the time it has to run! Who will take it in payment? Will the West India merchant? No! He will only give credit in his books the day the money is actually paid; and if he takes it to his banker, he will not receive it as cash, but will deduct the discount for the number of days before it becomes payable. Let such a note be taken to buy corn or cattle at the next market or fair, and see if the bill in such case will pass as cash: without hesitation, we may surely say that it will not; for if drawn at sight, it differs little from a note of hand, and must be classed under paper of that description; if drawn at a given time, it is not the same in currency as money; therefore, as far as this goes, it does not seem to overturn the authority of other writers, who are of opinion that bills of exchange are not a part of currency; and as the other arguments, adduced by various authors,

authors, fail to impress a conviction of the fact, the original idea of their not being so considered seems clearly to preponderate.

Currency then, consisting of the coin itself, by which every commodity is valued, or a circulating note, purporting to command at pleasure, the quantity of this coin, as expressed on the face of it; the inquiry of course will be made, how these notes, or pieces of paper, become so valuable, and who are the persons to coin and issue them? They cannot be issued by every body thinking it a convenient way to raise money! Such notes, if taken at all, would only pass through one or two hands, and be returned again: the credit, or, perhaps, even the name of the issuer, would be known to so few persons, that any one into whose hands they might accidentally fall, would forthwith realize them in money, for fear the party might become unable to pay them. The sphere in which similar notes to the above can circulate, even if attempted to be issued, must be so confined, as to defeat the intention. We next find a partnership of 4, 5 or 6 persons, exerting their influence and credit to coin notes to pass as currency, and, in proportion to their influence, connections,

and credit, do these notes circulate in the district where they are in repute, and form, jointly with every note issued by other persons in different parts of the kingdom, a currency, performing all the operations attainable by actual gold and silver. Paper of this description being peculiarly in use in great Britain and Ireland, the present observations are meant to apply principally to these united kingdoms; leaving the currency among other nations to consist, as it always has done, for the most part, of actual money.

The notes above-mentioned affording local convenience, are yet very much limited, as few of them will pass beyond the district where they are issued, and none of them in London, the Bank of England nearly engrossing all circulating notes there; and though it contains numerous banking-houses of the utmost respectability, the circulation of a note in the Metropolis, any other than of the Bank of England, does not take place; so that while the country banker is circulating his paper for several thousand pounds, as coined money, the full supply of notes by the Bank of England renders the practice to the London banker, as currency there unknown. Opulence and credit, therefore, are not alone sufficient

ficient for this purpose; there must be local circumstances, and tacit acquiescence also, to enable the issue; for if, as in London, persons were disposed to call nothing money, but coin, or Bank of England notes, none could be circulated; or, if the nation were inclined to agree that nothing but coin should circulate, no note whatever would pass. Mr. Thornton (page 54) observes, "There is a further objection to the same remark of Dr. Smith, (as mentioned in page 53.) It would lead an uninformed person to conceive, that the trade of the country, and of this country in particular, circumstanced as it now is, might be carried on altogether by guineas, if bank notes of all kinds were by any means annihilated." To form some opinion upon such a material point, let us ask how it is in other countries? Are there any bank notes there? is there any circulating medium there? Do not Holland and Hamburgh, in proportion to their population and extent, carry on as much trade as Great Britain; and have they any substitute for money? If it should prove that they have not, and that other countries, with few exceptions, have not, may we not pause, before we maintain the *necessity* of circulating paper; though we may approve it in many cases, for
various

various reasons, and find great advantage from its convenience. In Holland, or Hamburgh, if you take your bill of exchange for payment, should you not keep an account at the Bank, the coin is always ready for you; no note, no bill, but actual specie. What, if you have an account at the bank? The amount is transferred from the account of the person paying the bill to your's; and the actual money lies there at your disposal, as completely as if under your own lock and key. No notes circulate there; a receipt alone is given, acknowledging the deposit, to be re-delivered at your option; which will not pay for commodities from hand to hand, but can only accomplish a payment by being made over in the bank books to another person; by which alone, the transport of the money is saved. It will be remarked, How can such arguments be used? Was it not notorious that there was not a ducat in the bank when the French entered Holland? Perfectly true; but what was the consequence? Is it not equally notorious, that bank money was at a discount, and continued so until every guilder was replaced by the city of Amsterdam in actual specie? The Bank of Amsterdam (and Hamburgh is upon the same plan)
D furnishes

furnishes no additional circulating medium; it is only a warehouse; and the commission paid for every transfer, &c. may be considered as warehouse-rent; so that no receipt or paper is issued of any kind, but has its corresponding value actually lying in the vaults of the Stadt House at Amsterdam, unless, as it has been seen, can be done in times of distress, which acting paramount to all other objects, induced the directors to dispose of it in such a manner, as might save it from the enemy, they conceived ready to wrest it from them; exactly as an individual, whose house is threatened with an attack from banditti, would hastily remove the whole of his valuables: all which must be admitted to be rational policy: but the burgher of Amsterdam, knowing this in common with others, calculates the risk of the money not returning, and occasions of course, as it lately did, the bank money to be at a discount. An effect, however, universally allowed to be so detrimental to their commerce, was not permitted to exist a moment longer than the necessity required; and the actual specie was replaced the moment sufficient light dawned upon them to prevent the alarm of seizure from unbounded power: with this measure confi-

confidence in the bank money returned as before. It may be fair, however, to doubt if the credit of the Bank of Amsterdam rests upon the same solid foundation in the public mind as before, or if it ever will.*

Having stated who the persons are that issue notes, it now becomes a consideration

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* In February, 1795, there was a publication from authority, of the state of the Bank of Amsterdam, by which it appeared, that the bank held securities in bonds upon the East India Company, and the different states of the Republic, for money advanced; and it said further, that the city of Amsterdam was responsible for the whole, not only as guarantee, but as an actual debtor to the bank. It is very well known that, until the peace of Amiens, the foreign exchanges with Holland were all calculated in currency, and bank money was at a discount; but, at the beginning of 1802, about the time of the ratification of the treaty of peace, the sound sense, and mercantile knowledge of the Dutch, induced them to make every effort to re-establish the credit of their bank; and the city of Amsterdam as guarantee, decreed a tax upon the property and income of the citizens, for the sole purpose of supplying the bank with bullion, and restoring it to the credit which it formerly maintained in foreign countries; and, in effect, from the time appointed, which was in the following summer, all foreign bills of exchange were paid in bank money, which bore an agio of four and five per cent. as before the shutting. The remark which arises upon this is, that the Dutch, knowing the necessity of supporting their credit as a commercial people, lost no time, and spared no expense, to put their national bank upon its former footing; and in their decree, they declare that no circumstance whatever, can excuse the removal of the bullion so paid in.

for what they issue them, what value they receive in return, and what benefit attaches to the circulation. The object of every one engaging in a circulation of this kind, is to get as many of them to pass current as possible; but will he, in consequence, give every body who asks him a note for that purpose? It would be absurd to suppose it: he must then have something given him to induce him to make out the note. We will suppose a gentleman receives 500l. from his tenant in the country, which he considers as a larger sum than he wishes to keep in his house; he therefore takes the whole, or a part of it, to this person, or to a bank, and says, being friendly to the parties, and inclined to encourage the institution, "I do not like to keep so much money at home; let me have your notes for it from time to time, as I may require it, and I will lodge it with you." The notes are given, the money remains. Another person, a manufacturer, comes to this same establishment, and says, "I have large out-goings in my business, which require a great deal of ready money to buy the raw materials, and to pay the workmen; while at the same time, I have a great many persons dealing with me, who are in some degree dependent upon me;

if

if you will accommodate me with a loan of one, two or three thousand pounds of your notes, I will take care to encourage and keep them in circulation among my connections as much as I can, and will give you my buildings as a security for the repayment of the money." The notes are lent. A farmer comes, and makes a similar application, and upon the same grounds, his great daily expences, his extensive connections in helping to circulate the notes, and the badness of the present markets for realizing his stock; he therefore begs a loan, and gives in his produce, or other things, as security, and obtains an issue of the notes. A grazier also applies, and, by similar engagements, a large circulation of notes ensues. This coinage becomes currency, and commands the same powers as the same quantities of gold and silver would do. It is matter of great convenience to the district, the notes are regularly paid when brought back to the bank, every body is satisfied, and every body is pleased. A line of canal is projected to pass through this part of the country; it is considered advantageous, the subscription fills, the bank itself takes a few shares, their friends take many more; the stated periods for payment come round, the

shares

shares are pledged, the notes are received for it, and the business of the bankers increases rapidly.

In this state of prosperity let us review their situation: the firm consists of four persons; the acting partner honest and industrious, but with inconsiderable property; the tradesman with a fair capital, principally engaged in his particular business; the manufacturer, of extensive concerns, and with money, but very much employed in his works; and a neighbouring country gentleman of landed estate; or more frequently the attorney of the place: the firm so constituted, is undoubted in security, and of great respectability. This description of partnership, or others nearly similar, established in every large town, and many smaller ones, it is, that now supplies the currency in the country. In London, the whole is furnished by the Bank of England, which issues its notes in proportion to the quantity the circulation will bear. A subscription of proprietors originally gave rise to this institution, and a large sum has been subscribed at different times, till it has increased to its present magnitude. From its first establishment, it has always paid ample dividends; and upon the

the report of its condition in 1797, it was made evident, that it possessed immense property, in addition to the subscriptions received, which have been lent to Government. Its issue of notes being from sixteen to eighteen millions sterling, what securities does it obtain in exchange for them? It makes out notes for the individuals who lodge their money there, as they would do at a private banker's, it sends them into circulation for all the bullion it buys, for the purposes of coining, or otherwise; it gives notes to bankers and merchants who discount bills, with it; it pays with notes for the purchase of exchequer bills, and Government floating paper, as also for the advances made to the nation upon the land and malt taxes, and other loans furnished from time to time upon Parliamentary grants; and for renewals of its charter, &c. This is the paper which it is conceived, in conjunction with what gold and silver coin there is in the kingdom, forms the actual circulation of the country, passing from hand to hand, at a known and invariable value, never less, never more; but always the same, and without fluctuation.

CHAPTER IV.

THE SUBJECT CONTINUED.

HAVING traced the reasons for issuing notes, the persons who undertake to do it, and the considerations given for them, we proceed to the examination how far they are better or worse for the wealth and prosperity of a nation, than if gold and silver alone circulated; or whether a due proportion of each may not be current together to general advantage; and if so, how the proportions of each can be best adapted to the great end of national wealth.

How far it may be possible to point out such particulars must be judged of by others. One thing, however, is self-evident, which is, that the present mode of proceeding does not answer the purpose; as the Bank, and a very large proportion of the country banks, have been unable to fulfil their engagements by paying their notes, as promised by the note itself. No objections, or even reflections, are here meant to be made upon the Bank restriction; it might have been a necessary measure, and probably a wise one, as things were circumstanced;

stanced; the intention is merely to state the fact, in proof of the insufficiency of the means to speedily redeem such considerable sums as are issued under the actual system: yet, did the Banks never issue a note without having its corresponding value in gold and silver in their vaults, how could they even afford the expence of the paper and stamps, unless they became similar to the Amsterdam Bank, and received a commission for every transaction? Reflections upon this point are certainly of material importance to the prosperity of a nation; and upon a due regulation of it, much of the internal strength and vigour of the kingdom may be supported in the day of alarm, or adversity, to which nations, as well as individuals, are liable; while, on the contrary, erroneous systems of great extent, will, at such a critical period, hasten, with double precipitation, that evil which the government of the country may be exerting its utmost efforts to avert. Suppose (for a common knowledge of the history of nations justifies the supposition, though we hope in these kingdoms nothing but a bare possibility exists) that a serious rebellion raged in some part of the state, or that an invading army made a considerable

considerable impression upon your territory, how would the notes of the bankers, as first described, be paid? Could the farmer or grazier realize their stocks, (which, perhaps, might be carried off by the rebels,) to find cash for the banker to discharge the notes circulated through them? or could the manufacturer, whose buildings might be burned, be able to furnish a sufficient supply? Or how could the sums expended in making canals, or sinking mines, be returned to fill their coffers at such a moment? At such times, the country banker finds his securities not worth half their former value: he attempts to sell them, but no one will buy: his notes pour in upon him, and he becomes ruined. God defend us from so serious a danger; but as human foresight cannot guard against every possible calamity which in a series of years may befall a state, it must be supposed that storms may arise in a course of time, to agitate every part of the vessel.

In moments like these, persons are eager to lay hold of real value; and gold and silver maintaining its stated pre-eminence, under all circumstances, in every country, men will seize it, if to be had; and will secure it for

themselves, to provide against calamity. Every body hoarded, and sent away all they could collect, in the last distresses in France; and every body will do the same in every country, under similar circumstances. It will be said then, How can any Bank be secure? Nothing so easy, if the aim is confined to reasonable advantages from institutions of this kind: but when an attempt is made to convert every supposed mine, or canal, into money, by issuing paper upon the security of their shares, the question is allowed to be judiciously put.

Benefits vastly beyond the means afforded, have always, and in every age, been expected from banks; and was the present circulating paper to be compared with gold, it might fairly be said, that at last the philosopher's stone had been discovered; and the ingenuity of the present day might laugh at the former pursuits of chemical speculators, who took such absurd methods of discovering the valuable acquisition.

A misfortune peculiar to all national banks, has arisen from the expectation of rendering them an exchequer as well as a bank; while the nature of the two establishments is so incompatible, as to prove uniformly fatal to the

former, where pressed to an extent, proving the impossibility of their flourishing under an arbitrary government. Respecting our own, the Bank of England, its long establishment, and flourishing state, its undoubted opulence, and accumulated wealth, as shewn, by the report of a committee in the House of Commons, together with the particular advantages it derives from its charter, and being the agent of Government, to receive the money for the national loans, and to pay its dividends, it is rendered paramount to slander, as to its sufficiency and credit; therefore, no hesitation need exist in fairly canvassing its constitution.

From the universally high reputation the Bank of England has maintained for upwards of a century, and the funds it has accumulated during that time, the object is to consider how far, as an institution, it is founded upon principles bidding defiance to every event to undermine its consequence, or destroy its credit. If what has been said upon the subject is founded, it is sufficiently evident, that the other banks we have investigated, are not upon that solid foundation requisite for insuring absolute confidence, perhaps, at any time; but certainly not in times of rebellion,

or

or an invading enemy. Proceeding in the inquiry to the constitution of the one bank in question, we find, that the sum of 11,686,800*l.* has been lent to the State, and is irredeemable, except at the will of Government after a given period.

To obtain a sum for the purposes of lending out at interest, it is to be supposed, that the deposit of money lodged there, as at a private banker's, is considerable, as there are often large sums on account in different departments of the Government itself, using it as a banking house.

The total Credits in the year 1696 were	£2,101,187	12
The total Debets were	1,975,872	10
	<hr/>	
Balance in favour of the Bank	125,315	2
	<hr/>	
The Bank Capital at that Time was only	1,200,000	0
The Cash, Pawns, &c. &c. only	266,610	16
	<hr/>	

The rest, money advanced on Parliamentary securities, and interest due. From hence, by small beginnings at first, compared with the present times, has the prodigious circulation taken place, now existing; the Bank notes being, in amount, from seventeen to eighteen millions. Let us then inquire a little, whether the constitution was properly framed at its commencement;

mencement; or if, at any renewal of its charter, measures have been taken to preclude the probability of what happened in 1797, viz. so great a drain of specie, as to require the acquiescence of all ranks of people to dispense with it. Like a country bank, it has its monied men, who deposit cash, and take notes as they want them; but it had its speculator too, the Minister, who, though no speculator in mines, nor buyer of canal shares, adventured unavoidably in the most diffuse and extensive political speculations, bringing with them their attendant expences; all which, in states, are acknowledged matters of course and necessity: but see the consequence to the Bank, and observe how trifling all commercial accommodation was compared with it. Mark that it is this source which principally dries up every other stream, from the breadth and depth of its channel; and not the comparatively small rivulet of discounted notes and bills. Were advances to Government out of the question, how completely might the Bank bid defiance to events for injuring their credit, or delaying one moment the full discharge in specie, of every demand upon them! Unfortunately, however, the prospect of great gains from lending large sums to Government,

Government, on the one hand, and the convenience of borrowing it on the other, carried the amount to an excess which influenced all its proceedings, and must render its situation critical, as the political situation of the kingdom is more or less prosperous, while such a system is pursued. To prove this, let us refer to the several printed papers of the Bank credits, 25th February, 1797, when we shall find the above reasoning established by facts.

The Totals were	£17,597,293
Advanced on Government Securities	10,672,503
	<hr/>
	6,924,790
From which deduct 5 per Cent. Stock	1,795,800
	<hr/>
	5,128,990
A Loan to the East India Company	700,000
	<hr/>
	4,428,990
Deduct sundry Articles	252,910
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	4,176,080
Deduct supposed quantity of Cash and Bullion in the Bank on that day	1,272,000
	<hr/>
And there remains at the utmost for the accommodation of the mercantile world.	2,904,080

How trifling this sum when compared with its other advances, even upon this statement; and

and how easy would it be, if merely a mercantile bank, to maintain an overflow of cash! At this period we find the bank having put 11,686,800l. out of their power, advancing 16,325,293l. with only 1,272,000l. in bullion and cash to answer it; rendering it morally impossible to provide for the claims made upon it, as it proved: and though every man was satisfied, and cheerfully agreed not to exact those demands his being a holder of a bank note entitled him to, yet, had the circumstance been ever so urgent, or his necessities ever so great, necessity would have compelled him to submit to the general decision. This delay of payment on the part of the Bank, occasioned no doubt of its solidity; it only made known, that it had put out of its power the command of that money it had *bona fide* lent for too long a period, to answer the demands of its creditors; and these particulars have been abstracted, to shew that a bank thus circumstanced, has not a constitution fitting to render it the emporium of British commerce, and a finance exchequer also. The smallness of the sums lent, independent of those to Government, should stop all clamours about want of circulating medium, &c. &c. A moderate additional
increase

increase of loan would yield ample accommodation to the trading community; and yet how fully able would the Bank be to advance a very great sum, if the debt from Government was not existing! And here it may be proper to inquire, why, except upon an unexpected press, Ministers should wish for advances from the Bank; and why, if the Bank do not lend more money to the merchants, the general circulation could not be gold? It is said, the exchange is against you, and all the specie would go out of the country. Examine this: let all go that may, it will return speedily, twofold. For what purpose will it go?—For nothing? Not likely! For what then?—To pay for commodities, or to sell for a profit? probably for both purposes. What follows? A million goes for sale, a million to pay debts: consequently your exports are two millions more than they would otherwise have been. The million fold must be repaid, and if for English account, with the profit too; the million sent to pay debts, has discharged what would otherwise have been done by a million sent in bills for goods bought; therefore our traffic being equal with the country in question, that is to say, they sending us five millions of goods in the year,
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and we sending them the same quantity; they will now at the end of the year be in our debt one million, viz. the one sent in specie, which they must return; and having no balance of goods to send, they must pay it in money; as nobody can draw upon London, no money being owing to them there, which of course turns the exchange. But what were the actual proceedings? The secret committee, in November following, viz. 1797, state, that the Bank had above five times the quantity of coin and bullion they had when they stopped their payments in specie, which it is pretty generally supposed has been increasing since; no material issue of specie having been made, except upon the resolutions of the House of Commons, allowing of three millions being sent to the Emperor, &c. Suppose then an excess of six millions above the quantity existing February, 1797, in their coffers, how has it been procured? The nature of the Bank business does not allow of their sending out goods, and procuring a return, in the regular way of commerce. No! they bought it: that is, they gave bank notes for it (of no use in foreign commerce) to the importer, by which they encouraged the introduction of large quantities

quantities of bullion, which soon turned the exchange against us; because they imported some millions of gold and silver from foreign countries, while they had nothing to send back for it; and while this bullion is thus shut up, it might as well be in the mine; such a quantity being actually lost to the world, as fully as if at the bottom of the sea. Whereas, if the Bank chests were opened, and these five, six, seven or eight millions sent into circulation, your value exported would in such an additional degree exceed your imports, that foreigners must return it to discharge their debts to us; as there necessarily must be an insufficiency of bills to repay our demands upon them.

Suppose then, the Government were not to borrow any money whatever from the Bank, the capital excepted, how would it stand, and what must the Bank do? Their whole advances to the commercial world in 1797 were short of three millions, with 700,000l. to the East India Company. The thing is self-evident; they must encourage trade, and furnish as much money as they possibly could, with security, to the mercantile world, or otherwise their profits would be insufficient for their dividends. At the same time, their

issues being confined to real commercial paper, they never could be so loaded as to fear any casualty; while, from being bankers and agents to the Government also, their means would be ample, and their gains sufficiently considerable; and by such conduct, paper and specie would be equally valuable. By no means the case at present, and for this plain reason, viz. that the quantity of gold or silver promised to be paid for a ten pound Bank note, *is not to be procured* for it; putting the restriction quite out of consideration; for take this note to buy bullion, and, instead of the specific quantity of gold and silver in weight and fineness which it represents, it will only purchase a diminished quantity. Therefore, in plain terms, the one pound Bank note does not exchange for twenty shillings sterling money, but only for eighteen shillings, as the price of silver now is five shillings and ninepence per ounce. Let us, therefore, consider the Bank's actual situation as to its creditors, and observe how the money appertaining to it has been divided among the proprietors as profit, while, in fact, the difference in the value of the notes issued, and the price of specie, was only deposited with them by the public, to enable it to procure

cure the latter, when the state of the country should require payment in gold. The Parliament, let us suppose, takes off the restriction, when the original covenant of paying to bearer again takes effect; the Bank assets are undoubtedly abundant, but the specie is required, for which purpose the bullion must be bought and coined; but it cannot be bought for the standard price of 3l. 17s. 10½d. per ounce for gold, or 5s. 2d. per ounce for silver; * for an increased price must be given; and in this proceeding there is nothing but what is according to all usages of trade, and truly equitable between the parties. Neither if it had been properly considered, is it any loss to the Bank; because upon these notes issued, they have already received more than their value; as they issued them for a larger sum than what they were declared to represent would purchase, and it would be unfair to make the holder suffer this loss, because, as matter of accommodation, he consented for a time to receive it for more than it is worth; ten pounds, in a Bank note, being of insufficient power to purchase the sterling money represented, the

* Price of gold, April, 1804, 4l. 1s. per ounce.

Price of silver, ditto, 5s. 9½d. to 5s. 8d. per ounce.

the bullion being above standard price ; and to command the stated quantity, he must have added probably another one pound note, to procure it in standard silver ; but, to obtain this additional sum, and put him in the situation the Bank promised he should be, when he took the note, he naturally comes to the directors with this observation ; and the moment the restriction is withdrawn, there can be no doubt but the money of full weight and fineness will be paid : and though the obtaining this bullion may appear to be attended with considerable loss, yet, as the difference of value has been received by the issuing the notes, it is not the fact. The Bank certainly have chosen to divide surplus profits, which, perhaps, their general trade might allow of ; and are, no doubt, fully aware, that, as they issued their notes at a time when bullion was above standard price, so they are obliged, and willing, to receive those notes again, paying for them with standard coin ; just as with the dollars ; if they buy one for 4s. 9d. and issue it for 5s. that 3d. the difference, cannot be called profit, because they are pledged to pay 5s. for it again when called upon. This position, undoubtedly correct, must

tend greatly towards convincing every reflecting mind of the insufficiency of rendering paper equal to specie beyond a given point ; and that, a very narrow one ; for if unfounded circulation (by *unfounded*, I mean a circulation issued without ready means of fulfilling the terms of agreement upon the face of the note) is once permitted, every step brings us nearer to the errors of the noted calculator *Law*, in France, and sooner or later must produce equally ruinous consequences. In apprehensions of this kind, persons are apt to say, we are often threatened with what never happens ; as if a calamity of such magnitude took place almost immediately. No ! the disease is gradual ; but the longer it lasts, the more decidedly fatal it is apt to be in the end : the first symptoms are often of long duration ; such as inconvenience, partial distrust, half confidence, apprehension of parting with securities, disposition to hoard, investing money in foreign countries, and various other marks, which it is hoped every one does not see at the present moment : though, considering Ireland by far worse than England is, a man must shut his eyes, if he discovers no cause
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for alarm there.* Should the above fail to carry conviction as to the difference between paper and money, let us suppose, for a moment, that all the Bank notes were done away, and gold and silver in circulation in place of them; let the fact be, that, from the price of gold, a guinea of 21s. will circulate abroad for as much as 23s. will do in a bill drawn upon our Exchange, and what would be the immediate consequence? Should we not be eager to send a guinea over to discharge a debt of 23s. and would it not be generally done, till the guinea and bill were brought to a par, so that the one would discharge as much debt as the other? † Unquestionably it would: but as this cannot be effected with bank notes, the advantage of specie in any country, towards promoting its wealth and prosperity, in preference to a large circulation of paper, is undoubted; and

* It is to be lamented, that steps are not taken to provide a currency of small pieces of silver money, (easily practicable:) the dollar is of too much value for the poor, and little better for convenience than the seven shilling pieces; while gold is much cheaper than silver, being only 3s. 1½d. per ounce above standard, and silver is 7d. per ounce above standard; or a difference of about 7 per cent. in the proportional value in favour of gold.

† The exchange has risen lately.

and I cannot help being one of those mistaken persons, in Mr. Thornton's opinion, who fancy that the commerce of this country cannot be carried on without guineas.

In continuing the comparison between money and paper, did we allow ourselves to launch into matters of exchanges and credit, it would require more time and patience, on the part of the reader, than he would be inclined to give it, from the numerous tracts already published on those subjects: but let us consider how liable, as we conceive, these banks are to be put to difficulties in the day of trial; let us look one step further, where we find in the London banks, a stability not to be shaken by any storms, and so constituted, as to brave the rudest tempests. We find some, indeed, differently constituted; but the London bankers, properly so called, can be divided only into two classes; both making their profits from the deposits lodged with them, though rather in a different way, proceeding from the wants of the persons with whom they transact business. The one description is a bank principally supported by noblemen and country gentlemen of landed estates, whose rents being periodically paid, are lodged with the banker, and

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drawn for as wanted : to persons of this class, common prudence in employing their money so as to command it upon the shortest notice, renders their profits regular, and their command of money complete for every demand. The other description of a London banker is the one who keeps the accounts of merchants and traders, whose wants they supply by discounting their bills at short dates, and thus produce their profits. So constituted, let us observe how securely they carry on their business: they have no demands that can be made hastily upon them by any stranger, because they issue no notes by which they make a promise to pay the bearer a sum of money; neither do they accept any bills without money in hand, except connected with * country banks; which, in some measure, alters the constitution of the London banker, and forms the difference before observed; as he is more or less liable to a run from country notes made payable in London, or from the bills drawn upon him, and accepted. But in times of alarm or calamity, the persons alone with whom the London banker has been for years,

* The Bankers who are responsible for country bankers vary from the above, as in part their concerns must blend with the country establishments.

years, perhaps, in habits of mutual confidence, keeping their accounts with the strictest punctuality, can make any demand upon him, by drawing the balance of cash out of his hands. Suppose every person to do so, and suppose the banker has no friends who would retain any cash with him, who are his creditors? Not strangers, but the very persons, who, in many cases, owe him money, and are, perhaps, more in his debt than he in theirs; therefore, with such an established capital of ready money as bankers of this character are known to possess, with the moderate use they make of the money intrusted to their care, by lending only such a part of it as experience has convinced them can be fully spared, while their own funds are in immediate readiness to furnish any extra sum required, even without adverting to the fairness of a set off with their customer, (for so persons doing business with a banker are usually called,) and their owing nobody any money but these customers, no strangers, no persons to clamour at having taken such a note, or such a bill, upon their credit; surely nothing can be more safe, nothing more satisfactory; and it is upon such grounds as these that the great national bulwark of credit

ought to stand. It will be asked, what good do such banks do? The answer is, every good that can be required; a facility in transacting business; and an accommodation of as much money to every class of people, as they are entitled to require; while the only confidence asked, or given, is that only which must of necessity be given by every body; as we cannot always carry our money about with us, but must cause it to be deposited somewhere for security, and that place is the bankers, being protected from fire, and well guarded from depredation. And to those who are anxious for an immense circulation, it may be explained, that a large sum of money is brought into use, which otherwise would lie dead: for suppose a banker's deposits of the above description to be half a million upon the average; that half million, though lying ready at call, to answer the intentions of the depositors, is not all of it in actual employ, it is admitted; but the proportion of it the banker thinks fit to lend, whether two or three hundred thousand pounds, more or less, becomes productive, by being employed; while if no banker existed, and every one kept his own cash, the whole of this half million would be out of circulation;

tion; as separate individuals could not part with the money now placed with the banker for security in the keeping; one man wanting his money perhaps to-morrow, another the next day; while different persons may have sums at those times to bring to deposit; like a well rope with two buckets, as soon as one empties, the other fills.

In America, the banks are limited in the loans they are to make; and are precluded from advancing money to any government, even its own, without an act of the legislature. The principal bank, that of the United States, was formed by a subscription of ten millions of dollars, of which one third was to be in gold or silver, and the rest paper; and their restriction of loans, or issues of notes of every description, cannot exceed that sum; the directors becoming personally responsible when they do.

CHAP.

CHAPTER V.

COMPARISON OF THE BANKS OF ENGLAND AND
HOLLAND.—CONCLUSION.

BEFORE we conclude this subject altogether, a brief comparison between the two Banks of England and Amsterdam may not, perhaps, be unacceptable. In one particular, it has been proved they are both alike; and every bank ever established must be the same; and that is, when the powers of acting for themselves is taken from the directors by the Government. The Government was proved to have converted the Dutch money, that ought to have been in the Stadt House, to their own political purposes; and the Government here has been proved to have exacted such large advances from the Bank, (vide Lords and Commons' Report on the Bank, 1797,) as to drain them of specie for the necessary concerns of their own transactions; by which proceedings, in both countries, they have been forced to acknowledge themselves unable to pay, till the nation replaced the cash so taken.

Banks cannot subsist under arbitrary power; neither can they flourish in a free country, if controuled by Ministerial influence. The
Bank

Bank of Holland we may call a true commercial bank, for the accommodation of merchants and trade; it secures them from the circulation of debased money, and ascertains its real value, whilst its chests are as great magazines, preserving the specie for those who are entitled to call for it. The Bank of England was constituted originally to accommodate the Government; and it has, ever since its first establishment, been instrumental in negotiating its securities, and lending the nation money, by which its great profits have been obtained. The mercantile part seems secondary, whether taken in point of amount, or of gain, and is of no use whatever to trade, except in the bills it discounts. It secures nothing to the merchant, that he could not as readily have without it, in the value of the current coin, as in Holland; though, as an agent of the Government in advancing money upon its loans and securities, and in transacting the agency of the payments of dividends in the funds, &c.; it is highly useful to all ranks of people. There being a representation of money also, in the shape of a Bank note universally accredited, is a great general convenience. The Bank of Holland, and the Bank of England, each in their way, are highly useful in their
different

different states; the former, however, appears best constituted to answer commercial purposes; while the latter, may be considered as of more extensive utility. In revolutions and invasions, the best methods must be pursued to save the property deposited. In Holland, the moment peace and security returned, the bullion was replaced. In England, during peace, the Bank advances to Government are very large, with a possibility of a great and sudden demand upon it, at any time, for its notes. Suppose for a moment, let the cause be what it might, the sixty bankers in London determined to receive money for the Bank notes they always keep by them; would it not be a difficulty?* And why should any possibly exist, when a little attention to the Bank constitution, would prevent that or any unpleasant run upon it whatever.

On examination of the sentiments contained in the foregoing pages, it will appear evident, how insufficient paper is, in most cases, to vie with actual money; and that where convenience occasions a preference, it is so confined in its nature, and the confidence so easily shaken, as to render it transitory and local. The same individual thing (the

* In February, 1797, it has been rumoured, some strong representations were made on that subject.

(the *precious metals* excepted) will not be in equal, or nearly equal esteem in China, and in London; but if it is really composed of the precious metals, it will be of equal, or nearly equal esteem in both places; gold and silver being acknowledged of such paramount sway, peculiar to themselves, when talking of the world at large; yet still upon the perusal, we may find that, for the usual transactions of contiguous states, and the purposes of commerce, bills fairly representing value, are of abundant convenience, and high estimation; while looking a little further, we shall perceive the inclination of human nature to press beyond its natural course, and establishing a fictitious representative of value, for the purpose of obtaining money without possessing the materials authorizing such an impression. Continuing our review of paper; we see the wished-for solid firm basis reduced to a mere phantom, and security fixed on such aerial heights, as to astonish our imagination, and perplex our understanding; till, coolly reflecting upon the attendant consequences of this glittering and passing scene, we find true wealth to consist alone, in the positive possession of commodities, the *bona fide* property of the inhabitants of the state, produced by their own labour from the
H foil;

foil; imported by their exertions from its colonies; or manufactured by its industry from its produce, or from the raw material bought from the foreigner; to purchase such produce, and labour, money will fly from every quarter; gold and silver is enslaved by your commands; and, but for ambition and avarice, unrepresented paper must vanish, and wealth and credit abound to its utmost degree.

Should the reader's sentiments coincide with the above, he may say, all this is true; but how, at this present time, can we extricate ourselves from this dilemma? How shall we now, in a state of warfare, venture to put things upon their old footing, as we acknowledge they ought to be? And with great propriety do such questions arise; but if original principles are to be adopted, there must, of course, be a time to arrange the alteration of system, and this being allowed, all difficulty vanishes. Why is not Government equal to take care of its own Exchequer, without concerning themselves about the Bank? Why a greater necessity for it now, than formerly? It does not exist.

If a store of specie is requisite, it is no more than was always the case, and what actually existed in all former times. Is the Minister to be embarrassed at a critical moment, by

the Bank telling him, they are short of money? Are his political arrangements to be influenced by the resolutions of a corporation? And are the public at large to suffer, because his national exertions require more from the Bank, than they were prepared to provide him with? Can such things, which we all know have happened, * tend either to strengthen the executive Government, or promote the particular benefit of the nation? Is it not, on the contrary, diametrically the reverse, as it enervates the one, and destroys confidence in the other? Is it not, in fact, a system formed for temporary convenience; to which all other considerations are sacrificed? And does it not indisputably prove, that a Bank cannot perform its own duties, and act also as a national Exchequer?

The command which the Government have of money is prodigious: let them consider the great means they possess, and let them keep by them as much specie as the state of affairs may require: by such means their measures may be more prompt and secret, and they will always be prepared for the worst: while the case cannot be the same, if dependent upon any corporation, or persons whatever. One great reason alledged for the

drain

* See the Lords and Commons Report on the Bank, 1797.

drain upon the Bank in 1797, was the rumour of Invasion: had it taken place, how would Government have been circumstanced had they wanted money to pay the troops? And would not Ministers have incurred the most severe censures, had there been a want of it, as there must have been in February, 1797?

Separate, therefore, the Exchequer from the Bank; let the former depend upon itself alone; and let the Bank maintain its own sphere, as a house of agency for Government, and of accommodation and convenience to the mercantile part of the community. By such means it may speedily be enabled to resume its payments in specie; the Government will be more secure, and general confidence better established. Nothing is wanting, but a resolution, on the part of the Minister, to consider the Bank only as an agent; and never to borrow from it, or interfere with its concerns, unless some violent convulsion overturns all system, and renders measures necessary, which no other circumstances would justify. Maintaining this plan, both would be strengthened, and the national wealth encouraged and increased. Pursuing the system of the last ten years, nothing but weakness and eventual disgrace can be expected to occur.