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CAPITAL, CURRENCY,

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S.B. Venning
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CAPITAL,

CURRENCY, AND BANKING;

BEING

A COLLECTION OF A SERIES OF ARTICLES PUBLISHED IN THE ECONOMIST IN 1845, ON THE PRINCIPLES OF THE BANK ACT OF 1844, AND IN 1847, ON THE RECENT MONETARIAL AND COMMERCIAL CRISIS;

CONCLUDING WITH

A PLAN

FOR A

SECURE AND ECONOMICAL CURRENCY.

BY

JAMES WILSON, Esq., M. P.,

AUTHOR OF "THE INFLUENCES OF THE CORN LAWS;" "FLUCTUATIONS OF CURRENCY, COMMERCE, AND MANUFACTURES;" "THE REVENUE, OR WHAT SHOULD THE CHANCELLOR DO?" ETC., ETC.

LONDON:
PUBLISHED AT THE OFFICE OF THE ECONOMIST, 340, STRAND.
1847.

337.3
W 74

LONDON:
PRINTED BY DAVID M. AIRD,
JAMES ST., COVENT GARDEN.

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CAPITAL, CURRENCY, BANKING,

ETC., ETC.

INTRODUCTION.

THE articles upon Capital, Currency, and Banking, which have appeared in the *Economist*, during the last two years, having been written chiefly in a connected series, and with the view of fairly discussing the general principles upon which the Bank Act of 1844, as applied to England, and that of 1845, as applied to Scotland and Ireland, were founded—their re-publication in the more convenient form of the present volume, has been suggested as a useful mode of again bringing them before the public at a moment when these subjects have acquired a wider and more intense interest than at any former time.

Although the whole of the articles, now reprinted, consist mainly of discussions proceeding upon general principles, and are therefore as much applicable to one period as another, yet the particular events which elicited them, from time to time, are necessarily referred to, and it became a question, whether or not it would not be better so far to alter them, as to have no special relation to the events of the moment, so as to give them more the appearance and character of permanent essays. On fully considering this question, it has been deemed best to reprint them in the precise form in which they were originally published;—first, because the temporary events to which they allude are still comparatively new, and

must be fresh in the recollection of the reader, and most of which have a lesser or greater relation to those of the present day;—and secondly, because, looking at the work in a more permanent light, the events referred to will not only be valuable as historical facts, but will serve well to illustrate the principles which it is sought to maintain. In the table of contents we have, therefore, indicated the dates, as well as the leading character of each article.

The first ten articles were written in 1845, and are devoted exclusively to a full consideration and critical examination of the principles on which the Bank Act of 1844 was founded. The remaining articles have been written during the present year, and have a direct reference to the deeply interesting financial events through which the country has so recently passed.

As frequent allusion is made, throughout the latter part of this volume, to an article published in October, 1845, in which the full extent of the railway works, then performed and projected in the United Kingdom, as well as in other countries, is elaborately considered, together with the effects which those works were likely to produce upon the capital of the country, it has been thought desirable to reprint that article as part of the preface to this work; and more especially as it contains much information of permanent use and interest.

LONDON, JUNE 3, 1847.

PREFACE.

RAILWAYS—PAST, PRESENT, AND FUTURE.

Extent of Railways constructed and projected in the world.—Annual Accumulation of Capital. Extent of Present Liabilities for Railways.—Power of Railways to increase wealth.—Effect of Railway Investment (foreign and home Railways) on the Money Market.—*Oct.* 4, 1845.

We cannot but regard railways as a great branch of commerce, standing in regard to our home trade and internal traffic in the same relation as shipping does to our foreign trade. We must, however, most emphatically, express the distinction which we make between Railways themselves and stock exchange speculation in Railway shares—they are two things as far apart as things can be, both in their tendencies and utility.

The first inquiry on the subject of Railways, to afford us the means of forming an accurate opinion, not only as to their existing extent and importance, but also as to our probable means of carrying those great internal improvements into effect in the future, is to know what has been done in the past. The first application to Parliament for a bill to construct a railway was in 1801, called the Surrey Railway, to be constructed between Wandsworth and Croydon. A bill for that undertaking was passed in the same year. From that time to the end of 1825, acts were obtained for twenty-eight railways, only some of which, however, consisting chiefly of short lines in the coal and iron districts for private use, and the Stockton and Darlington (extending from Stockton to Witton Park Colliery), for which the act was obtained in 1823, were carried into execution. The following shows the number of railways for which acts have been obtained, to be constructed in Great Britain, and the amount provided to be raised by those acts for the several works in each year:—

Acts passed.	*Number of Acts.*	*Amount empowered to be raised as capital and as loans.* £
1801 to 1825	Twenty-nine	1,263,100
1826	Eleven	1,687,653
1827	Six	251,608
1828	Eight	424,000
1829	Nine	904,125
1830	Eight	733,650
1831	Nine	1,799,875
1832	Eight	567,685
1833	Ten	5,525,333
1834	Ten	2,312,053
1835	Sixteen	4,812,833
1836	Thirty-two	22,874,998
1837	Twenty-seven	13,521,799
1838	Ten	2,096,198
1839	Sixteen	6,455,797
1840	Seventeen	2,495,032
1841	Fourteen	3,410,686
1842	Sixteen	5,311,642
1843	Twenty-one	3,861,350
1844	Twenty-six	14,793,994
*1845	One hundred and nine	59,613,526
	Total, four hundred and twelve acts	154,716,937

—*Compiled from Parliamentary Returns No.* 159, 1844, *and No.* 637, 1845.

The result of which is, that up to the end of the last session, the total number of acts passed was four hundred and twelve, for the construction of two hundred and seventy-eight railways; the greater number of acts being accounted for by the fact, that for some lines several acts have been obtained in different years, for extensions, deviations, increase of capital, &c., and the whole sum empowered to be raised by these acts amounts to 154,716,937*l.*, which sum may be thus divided:—

	£
Amount provided as capital	114,513,035
Amount empowered to borrow	40,203,902
Total amount from 1801 to 1845 inclusive	154,716,937

These undertakings may, however, be usefully divided into three eras—first, the period from 1801 to 1826, when railways were only a subject of speculative contemplation, and

* In 1846 the amount empowered to be raised for the construction of Railways, under the Acts of that Session, was £110,600,000.

scarcely a reality; second, from 1826 to the end of 1843, during which period practical effect was first, to any extent, given to those undertakings, and most of which may now be considered as in full operation; and, lastly, the years 1844 and 1845, which may justly be termed, and will in the future history of the country be recognised, as the commencement of a more general and extensive application of the system.

	No. of Railways.	*Capital.* £	*Loans.* £	*Total.* £
First era, 1801 to 1826	29	1,263,100	—	1,263,100
Second era, 1826 to 1843	119	57,387,735	21,658,582	79,046,317
Total	148	58,650,835	21,658,582	80,309,417
Third era, 1844 and 1845	130	55,862,200	18,545,320	74,407,520

That is—

Railways completed or relinquished, 1801 to 1803	80,309,417
Railways now in progress, and about to be begun, for which acts are obtained	74,407,520

The railways actually completed, from 1823, in which year the Stockton and Darlington was opened, to the end of 1844, comprise altogether sixty-four lines, of an aggregate length of 2,069½ miles, and have been constructed at an actual cost of 64,238,600*l.*; being an average of 31,048*l.* per mile. The following is the order in which these railways have been completed:—

Date of Completion.	*Number of Railways.*	*Length, miles.*	*Cost.* £
1823	One	38	256,000
1830	Three	47¾	1,780,000
1831	Two	14¼	185,000
1832	One	16	175,000
1834	Two	35	375,400
1835	One	6	38,400
1837	Two	27	158,000
1838	Ten	357½	11,471,600
1839	Six	78	2,692,200
1840	Seven	219	8,405,700
1841	Twelve	423	17,452,900
1842	Eight	355½	10,472,600
1843	Two	66½	3,052,800
1844	Seven	302½	5,586,000
No date given	Seven	83½	2,137,000
	Total—Sixty-four lines	2,069½	64,238,600

—*Compile from Report of the Board of Trade.*

Of this 64,238,600*l.*, as nearly as we can estimate, the sum of 60,000,000*l.* was expended in the twelve years, beginning January 1st, 1833, and ending December 31st, 1844; or at the rate of 5,000,000*l.* annually. The present actual position of the railway system, as far as lines have been completed or sanctioned by Parliament, may be thus stated:—

	Number.	*Miles.*	*Actual cost or sanction to raise.* £
Railways completed up to 1844	69	2,069½	64,238,600
Railways in progress	130	3,543	74,407,520

The country in Europe next in importance to Great Britain, as respects the introduction of the railway system, is Belgium, which was the first to adopt a general system to embrace the whole kingdom. This was done by two laws, one of the 1st of May, 1834, and the other of the 26th of May, 1837, and which laws authorised the government to undertake their construction. These two laws comprehended a system of 343 miles in length; and for this act on the part of the government, which must be considered a bold one, when we remember how much the system was then in its infancy, the Belgian people are entirely indebted to the individual opinions and determination of Leopold. The first part that was opened, was the fifteen miles from Brussels to Malines, in May, 1835, and which was completed to Antwerp in May, 1836. The whole was completed thus—

At the end of 1837	88 miles.
— 1838	159
— 1840	210
— 1841	232
— 1842	291
— 1843	343

And the cost of the whole has been 5,872,160*l.*, or on an average, 17,120*l.* per mile. Some considerable portion, however, of the distance is constructed in a single line. The railways now in progress, and contemplated, are to be constructed by private companies, authorised by the government.

In France, the first law authorising a railway was passed in 1823, from St. Etienne to Lyons, a distance of thirty-seven

miles, but which was not completely opened until 1832. The next law which was passed was in 1829, and from that year up to 1842, various other lines were sanctioned, in all amounting to nineteen. Up to the beginning of last year, the railways actually in operation in France were—

Number.	*Length. miles.*	*Capital.* £
19	552	10,276,000

And there are at this time in the course of construction, under grants made between 1842 and 1845, twelve lines of the aggregate length of 950 miles. The whole system of railways authorised by the French legislature in 1842, over and above the 552 miles already stated as completed, embraces 2,410 miles of railway, and are estimated to cost 18,617*l.* per mile, or 44,866,970*l.*, of which it is provided that by act that the government shall advance one-half, and the undertakers of the several lines the remaining half.

In Germany, up to the beginning of last year, 1,384 miles had been completed, 1,227 miles were in progress, and 1,734 miles had been projected, and are now more or less in progress, making a total of 4,345 miles. The cost of German lines has been very various, fluctuating from 1,700*l.* to 30,000*l.* per mile; but the nearest estimate which has been made as to the average cost, is 7,000*l.* for a single line, and 18,000*l.* for a double line, per mile. At this rate the completed lines, up to last year, will have cost about 10,500,000*l.*; those now far advanced in progress will represent a further sum of 10,000,000*l.*; and those partially commenced and projected will cost 13,000,000*l.* more, and, reckoning that one-half of the middle class are completed as far as expenditure goes, it may be said that 15,500,000*l.* have been invested, and that it will require 18,000,000 more to complete the entire system as at present determined upon. These do not include any of the numerous projects which have been made during the present year.

In America, up to 1840, the total number of railway companies incorporated was 176, whose lines embraced altogether 9,321 miles, of which 3,000 had been completed at an average

cost of 4,800*l.* per mile. By a statement made up to a more recent period (the end of 1844), we find that eighty-four lines are opened, embracing 3,688 miles, and have been made at the cost of 17,702,400*l.* The remaining 5,624 miles, to complete the projects of the companies alluded to, part of which are now far advanced, will require a further sum of 26,995,200*l.*, without including any of the new projects of 1844 and 1845. The following *resume*, therefore, shows the whole amount of capital at present invested in completed railways in actual operation, and that required to complete those in progress, and for which acts of the legislature have been obtained, and exclusive of all the new schemes.

TOTAL CAPITAL INVESTED IN RAILWAYS.

	Miles.	*Amount.* £	*Average per mile.* £
Great Britain	2,069½	64,238,600	31,048
Belgium	343	5,872,160	17,120
France	552	10,276,000	18,617
Germany	1,384	15,500,000	7,500
Ditto half of 1,227	613½		
America	3,688	17,702,400	4,800
Grand Total ..	8,650	113,589,160	13,131

Thus, exclusive of the short lines in Holland, and similar unimportant lines in various countries, showing that the whole completed railways in the world embrace 8,650 miles, made at an aggregate cost of 113,589,160*l.*, and at the rate of 13,131*l.* per mile.

CAPITAL REQUIRED TO COMPLETE RAILWAYS IN PROGRESS, OR AUTHORISED BY LAW.

	Miles.	*Amount.*	
Great Britain ..	3,543	74,407,520	Under acts obtained in 1844 and 1845.
Belgium ..	—	—	The concessions of the present year are not included.
France	2,410	44,866,970	Including 950 miles now constructing, and the whole system authorised by the law of 1842.
Germany ..	1,734	18,000,000	Not including any of the projects of 1845.
Ditto, half of 1,227	613½		
America ..	5,624	26,995,200	Not including any projected in 1845.
Total ..	13,924½	164,269,690	

ANNUAL ACCUMULATION OF CAPITAL.

Last year there were 248 railway bills brought before Parliament, all of which had complied with the standing orders, so far as having on or before the 30th day of November, lodged their plans, &c., with the Board of Trade. Of these 109 were passed; of the remaining 139 applications, a large number, in various stages of progress, stand over till next session, to be resumed where they left off; a considerable number were lost in consequence of noncompliance with standing orders, some few were thrown out altogether, and some few amalgamated with others and withdrew their application. But by far the largest number of the 137 applications remaining over from the session of 1845 will be brought forward again in the session of 1846. Next to these come the schemes of 1844, which were too late for compliance with the standing orders to be brought forward in the last session; and next come the innumerable propositions of the present year. To form anything like an accurate estimate of what those will amount to is impossible, until after the 30th of November, when we will see what proportion will have deposited their plans, &c., at the Board of Trade, to put them in a position to go to Parliament. The deposits upon the new schemes proposed are already estimated to exceed 30,000,000*l.*, and the proposed capital would therefore exceed 300,000,000*l.* But with regard to a very large proportion of these it is a physical impossibility that the necessary surveys and plans can be made by the 30th of next month, and they will therefore be unable to go to Parliament in 1846. There is, however, every probability that, large as was the sum which Parliament empowered the 109 companies, who obtained acts in the last session, to raise for the purpose of making railways, acts involving a much larger sum will be passed in the next session. When we consider that already so large a number of the bills of 1845 remain over to be taken up in the various stages of their progress, and the great number of new applications which will be made, the amount which will be required to carry out the

acts of next session will be beyond all comparison larger than in any preceding year.*

With such enormous liabilities on the capital of the country to sink in new and permanent investments, it becomes an important and interesting question to solve, at what rate accumulation of capital takes place in this country. On this subject there have been many opinions and conjectures offered, but there are no data on which it can be accurately and certainly determined. The most accurate means by which any estimate can be made of the annual accumulations, as regards personal property, is from the amount on which legacy duty is paid from year to year. The total capital which became subject to legacy duty in 1814 was only 27,299,806*l.*; and the following shows the gradual progress which has been made in its amount:—

CAPITAL SUBJECT TO LEGACY DUTY IN EACH YEAR.

	£
1814	27,299,806
1819	29,411,662
1824	35,852,824
1829	39,667,277
1834	41,574,628
1844	46,533,903

In the *Progress of the Nation* (section vi. chap. 2), Mr. Porter explains a mode, the most accurate which we have seen, derived from the proportion of deaths to the whole population in each year, by which the whole amount of the personal property in the country may be estimated in any particular year by the proportion of it which annually becomes subject to the legacy duty; to which work we refer those of our readers who may wish closely to investigate the principle. According to that calculation, Mr. Porter estimates the personal property of the country to have been, in—

	£
1814	1,200,000,000
1824	1,500,000,000
1834	1,800,000,000

and a similar calculation will make it for 1844, 2,250,000,000*l.*

* For the amount sanctioned in 1846, see Note, page IV.

This shows that the accumulations of the country in the last ten years, from 1834 to 1844, amounted to 450,000,000*l.*, or at the rate of *forty-five millions* annually. But this is only the accumulation which appears under the head of "personal property." Beyond this, a very large sum must be annually accumulated in the form of real property. In 1815, the last year of the old income tax, the income from real property chargeable with that tax in England only, was 49,660,728*l.*, and in 1843 the same was 80,519,084*l.*, being an increase of more that 62 per cent.—(See *Economist*, July 20, 1844.) If then, we take the real property of England, rather less than one-half consisting of land, at only twenty years' purchase, that would show a total value in 1815 of 993,214,560*l.*, and in 1843 of 1,610,381,680*l.*; the accumulation between the two periods being 617,167,120*l.*, or something more than *twenty millions* annually during the whole period. This enormously increased value has no doubt taken place chiefly by the application of capital to improvements of land, the opening of mines, the extensive improvements which have taken place in towns and buildings of every class. In the two great divisions of personal and real property, as thus explained, the annual accumulations appear to be 65,000,000*l.*; but from this sum a considerable deduction must be made, from the fact that what appears as the income from real property includes also the interest of mortgages and other sums borrowed on real property for the purposes of effecting improvements or otherwise, and which monies will, in the event of death, appear as personal property, and subject to the legacy duty, and, therefore, included in the calculation of accumulations under that head. Making a sufficient allowance for this consideration, we would estimate the average annual accumulations of the country at sixty millions sterling at least; nor does this appear a very large sum, when we consider that it is little more than the annual taxes of the country, and not equal to 2*l.* 5s. to each person of the whole population.

But, though this estimate may be quite true—and we are inclined to think it rather below than above the actual average—

yearly accumulations of property in this country, and especially so at a period when all branches of productive industry are in active operation, yet it must be borne in mind, that by far the largest proportion of those annual savings are required in the numerous branches of industry for their improvement and extension, and for the increased capital necessary to conduct the increasing business of the country. For example, the annual rental of real property increased from 1815 to 1843 by the sum of 30,858,356*l.* Now, this increase is not derived from the same number of houses, nor the same number of mines, and, though from the same *surface* of land, yet not the same condition of that surface. The increased value has arisen chiefly, if not wholly, from the expenditure of a portion of the annual savings of the country, whether those of the parties themselves or borrowed from others, in improving cities, building houses, enlarging factories, draining, planting, and improving land, opening up new mines, &c., and thus far the increased annual income derived from real property so improved, has formed an increasing source of wealth, by the annual absorption of the savings of the country, and in which we have already seen that railways have participated during the last twelve years to the extent of *five millions* annually. But there is another very important and equally urgent way in which the annual savings of the country are invested. The greatest accumulation necessarily takes place among the manufacturing, mercantile, and trading community. But with a rapidly increasing population, and the trade and general resources of a country being rapidly developed, as a general rule people in business require their accumulations for the extension of their own business, as rapidly as they are made. It is the nature of business when done best to extend fastest. And, therefore, when most money is made most is required to be added annually to the existing capital. And certain it is, that as long as a trader can employ his own accumulations in his own business, he will never find any other means of investment half so profitable. We do not speak of temporary speculations, which may make a fortune this year,

and bring ruin next. We speak of what is, happily in this country, the prevailing habit, in usual times, of the majority, and to which the country owes its greatness. For example, the whole of the shipping belonging to the United Kingdom in 1820 was 2,648,593 tons, and at the commencement of last year it had increased to 3,588,387 tons, notwithstanding all the ships which during that *twenty-four* years had been worn out or lost at sea. Again, we had cotton factories in 1820 capable of working up 151,000,000 lbs of cotton wool, and now we have extended them so, that last year we worked up more than 700,000,000 lbs. In 1820 we had woollen factories capable of working up 7,691,000 lbs of foreign sheep's wool, and now we have increased them till they have consumed last year 69,493,000 lbs of foreign wool, independent of the increase which has in the meantime taken place in the home growth; the silk, linen, and other manufacturing pursuits have extended in a similar way. But this has all been done by the annual investment of the savings of the country, either in absolute extensions of mills, or in improvements in the productive power of machinery. Again, the declared value of our exports in 1820 was 35,568,000*l.*, and the official value of our imports 31,484,000*l.*, but last year our exports had risen to 58,584,000*l.*, and our imports to 75,441,555*l.*; and the additional foreign credits, which our merchants have been able to give on our goods exported, and advances on those imported, have been by applying the accumulations of capital to the increase of their business,—and thus it is with every class of traders; and, at this time, when trade is in so excited a state, when the mining, manufacturing, shipping, and commercial resources of the country are so greatly increasing, there cannot be a doubt that a more rapid absorption of capital is now going on than at any former period in all these regular and uniform channels of private employment; all, no doubt, calculated materially to increase the income and means of accumulation of future years. So that, even admitting the annual accumulation of the country to be equal to *sixty* or *seventy* millions sterling, when it is considered that they are divided

over a population of more than twenty-seven millions of people, that the great bulk of accumulators have purposes of their own to which they can more profitably, than in any other way, apply their savings, it is a most exaggerated view to suppose that such accumulations are wholly, or even in a great part, applicable to the construction of railways or any other public work.

The most extraordinary drain upon the capital and annual accumulations of the country which ever took place, was in the beginning of the present century, during the continental war. We do not refer to this for the purpose of comparing that wasteful and unprofitable expenditure with the investment in useful and profitable national undertakings, in their ultimate consequences, but merely to see what amount of abstraction was possible from the usual channels of employment, and what was its effect. By a parliamentary report we find that, from 1802 to 1816, the annual expenditure averaged 75,696,669*l.*; and further, we find that, in the five years between 1810 and 1816, we expended 477,548,714*l.*, or a yearly sum of 95,509,743*l.* Taking our present average annual expenditure at 45,500,000*l.*, we find that in those five years, 1810 to 1816, it exceeded that of five years now by the enormous sum of *two hundred and fifty millions sterling*, and that in a way which was absolutely sunk, and was for ever unproductive. This took place at a time when the resources of this country were infinitely less than they are now. But that abstraction of capital did not take place without exerting an enormous influence on the value of money. The suspension of cash payments at the time, the unlimited issue of paper, the depreciation of the currency, and the existence of the usury laws, render it somewhat difficult popularly to explain those effects. But one direct and obvious consequence will be easily understood;—towards the close of the period capital became so scarce, that, though the government continued to borrow at a comparative low nominal rate of interest, yet the average price, from 1803 to 1816, at which the sums were borrowed from which that extraordinary expenditure was supplied, was 60*l.* 7s. 6d., for every 100*l.* of stock chargeable with interest;

so that, in truth, the government had really to pay an interest far above the legal rate, but accomplished in an indirect way. And while this temporary excitement, which arose from an expenditure of the *capital* instead of the *income* of the country, gave a flourishing appearance to the country, yet the reaction which immediately followed was severely felt for many years afterwards. There can, however, be no doubt that, had that expenditure taken place in improvements which would afterwards have developed the resources of the country, and ministered in all ways to its productiveness, the temporary effects would soon have passed away, and permanent benefit would have ensued; but it is difficult to conceive any improvements which would have paid the individuals concerned to have borrowed money, receiving 60*l.* 7s. 6d., for every 100*l.* of debt contracted. Nothing short of the most urgent State necessity could have justified such a system.

EXTENT OF PRESENT LIABILITIES FOR RAILWAYS.

However free we are to admit the advantages of railways as a means of investing the accumulations of the country, it is nevertheless a most essential thing that we should not attempt to carry out those improvements faster than the capital of the country will permit, and perhaps as much so in order that the construction of lines in useful and beneficial positions should not be prevented or rendered impossible for a long period, by the attempt to construct a great many lines in inferior and less important situations. Looking to the development of the system so far, it would be difficult indeed to say in what situation a railway would not be a great benefit, and where it might not ultimately be profitable. But it must be obvious that what would be desirable for an individual to do, if he had sufficient capital, is one thing, and what it is prudent to attempt or possible to do without it, is another thing altogether.

So it is exactly with the nation. Much may be desirable that is not possible; and an attempt to do all that even on good grounds appears desirable may prevent even the best part being accomplished; or may so far derange the application of the capital of the country in other more important and regular channels, as to do much temporary mischief for which even the permanent advantage of railways will not compensate; and which, from the same cause, may prove ruinous to those undertakings themselves—for they cannot injure the public without more immediately injuring the promoters.

In the last twelve years we have been able to apply five millions annually to the construction of railways, and, therefore, the aggregate sum so expended has been in that time 60,000,000*l.* in Great Britain, and in the same period, including Belgium, France, Germany, and America, the aggregate sum expended on railways has been 113,589,160*l.* At this moment in Great Britain railways have either been commenced, or are about to be so, which will cost 74,407,520*l.*, and including those other countries, 164,269,690*l.*, exclusive of the proposals originating this year. With regard to the period which will be occupied in constructing these railways in foreign countries, we are unable to speak, but in this country, with the improved methods, and better knowledge which now prevails, the construction of a railway is a matter of rapid accomplishment compared with what it was a few years ago. This is a fact, however, which has a double bearing on the question, as to the extent of undertakings for which capital can be found within a given time. If they are rapidly made, then is the capital more quickly required, and may press more severely upon the money market, and interfere more with its application to other purposes. On the other hand, the more quickly they are completed the sooner do they become productive, and begin to replace the sunk capital, as well as being a source of income to the proprietors, and of convenience and economy to the public. The desirableness, however, of these advantages must be subservient to the possibility of carrying out their cause. The whole of the acts passed by

parliament for railways, up to the end of 1843, provided for the outlay of 80,309,417*l.*; of this 64,238,600*l.* was expended in constructing, during the whole of that period, 2,069 miles. We have at this moment in progress, and to commence, a distance of 3,543 miles, and to provide 74,407,520*l.* for those objects. Now we believe it would be taking a very erroneous view of the power which the country has to accomplish this new work, to judge, even by the experience of the past twelve years, what we can in future accomplish. If we did, we should require to look forward at least *fifteen years* for the accomplishment of the lines for which acts are obtained. We are, however, free to admit that there are numerous considerations which will induce to a much more rapid progress of these undertakings. In the first place, the accumulations attributable to the completed railways themselves are at this moment greater than at any previous time, and rapidly increasing,—we do not mean from speculation, for that is no addition to the capital of the country, but by the increased economy and facilities afforded to trade and industry in every possible way. In the next place, during the period we have referred to, railways had to struggle against all the prejudices, doubts, and fears which always attach to new systems; now their real value to the country, and their ultimate profit to the promoters, have been tested by experience, and have become universally admitted. Instead, therefore, of the unwillingness to embark capital in railways, which existed some years since, a stronger feeling prevails now in their favour than ever did for any other channel of investment, and we now only allude to the *bona fide* employment of capital. It is, therefore, certain that a much larger proportion of the annual accumulations will, for a long time to come, be thus invested than has hitherto been the case. And when to these considerations we add the greater facilities for accomplishing the work itself, as well as the great economy, we must be prepared to see railways constructed with a rapidity in future which past experience would hardly entitle us to have expected. The manufacturing and factory undertakings of the country have been a wonder-

ful example of the power which all systems have to expand, which have within themselves a constant tendency to increased economy and reproduction of wealth. But while we admit the truth and force of the analogy, we must not forget that in its progress, so miraculously rapid as it has been, the factory system has suffered reactions of the most ruinous and intense character.

Calculating, however, that the most important parts of those lines, comprising 3,543 miles, leaving out minor branches which may be constructed afterwards, should be completed within the next four years, we must look forward to an annual expenditure of capital on their account alone of fifteen millions at least, and, for the first two years, of even a larger proportion, altogether independent of foreign railways and new undertakings.

POWER OF RAILWAYS TO INCREASE WEALTH.

Before proceeding to consider the immediate effect of the liabilities under which the country is now placed to complete works in progress, and for which acts have actually been obtained, which, it will be seen, amount in this country alone to 74,407,520*l.*, and in others with which we are intimately connected to the sum of 89,862,170*l.* more, we would shortly refer to two circumstances which of late years have set at liberty an enormous amount of capital for the extension of commercial and other profitable undertakings. The first is, the far more perfect banking system which has been introduced of late years, and its extension more generally throughout the country. By this means an incalculable amount of capital, which was formerly dispersed among the community generally in moderate sums, has of late, by the practice, now almost universal, of keeping banking accounts, and making payments merely by transfers from one banker to another by the use of cheques, been brought together, and a large sum

rendered productive which was formerly idle. The other cause to which we refer, is the extraordinary effects of railways themselves, and other means now used to facilitate the transit of goods and save the time of travellers. There is no other means by which the resources of a country can be so well developed, and its wealth so much increased, as by facilities of communication by which interchange is rendered easy and cheap, and when communication is once established, by facilitating it as much as possible. This effect is rendered most apparent when we consider how much both internal and external communication, when rendered more certain and expeditious, as by the use of steam-boats, railways, &c., tends to decrease the amount of capital required to carry on any given amount of trade. In the first place, the rapidity and certainty of conveyance reduces very greatly the amount of stock of goods and produce which it is necessary at all times to keep on hand when communication is slow and uncertain, in order to do a given amount of business; and in the next place, the amount of goods in transit is enormously greater with a slow than a quick conveyance. The amount of capital absorbed in merchandise of all kinds, which was merely in transit, thirty years ago, when our continental and coasting trade was all carried on by slow and uncertain sailing packets, and our internal trade by canals and stage-waggons, compared with what the same now is, when conveyed by steam-boats and railways, must be very great. For example, suppose Manchester and Leeds are supplied with colonial produce from London. When it took seven days to convey those goods by canal, there must always have been, on an average, seven days' consumption on the road. If now the same thing is accomplished by railway in one day, it is quite clear that the capital representing six days' consumption, which was formerly so locked up, is set at liberty for other uses; and when we look to the enormous extent to which this economy has taken place, not only in this country, but on the continent of Europe as well as in America, both by railways and steam-boats, the total amount of capital thus liberated must have been very great indeed. But the

same remarks are equally, or even more applicable, to the economy of time which they effect to mankind. A man can accomplish now in a day what he could not do thirty years ago, in three or four days. The labour, therefore, of the whole population is thus rendered infinitely more productive; and is so far exactly in effect what it would be if we increased enormously the productive population of the country without increasing its number of consumers. When a man has a railway, or a new machine, which enables him to perform double the work he did before, the effect upon the country is the same as if each man had a stranger who came and gave him his labour without any remuneration, or without consuming any part of the produce. Railways and steam-boats are, therefore, great new machines by which both the capital and labour of the country has been economised, and each rendered wonderfully more productive; and it is this great advantage experienced by the community individually, which leads to the extensive traffic and high rates of profit which they have made, and which, in fact, is the best indication of their public utility. The best, nay, the only true criterion of the utility of any given outlay of capital, is the extent to which the public find it their interest to use it, and consequently the profit which it creates. Thus, all undertakings which afford the largest profits to individuals (which are not monopolies) are also the most advantageous to the community. The profit is the result and evidence of the usefulness. We are, therefore, at once free to admit, that there has not been any purpose to which the spare capital of the country has ever been employed, or to which it can in future be employed, so well calculated to promote all the great interests of commerce, industry, social improvement, political stability, and general happiness, as railroads, or which is so well calculated rapidly to reproduce in many ways the national capital absorbed in their construction. And, moreover, they are peculiarly so, when compared with steam navigation with other countries, because, in our internal traffic we are happily released from the short sighted jealousies which exist between different countries, which mar

and interrupt all the great benefits which would otherwise arise from the facilities of communication under a free and uninterrupted intercourse.

EFFECT OF RAILWAY INVESTMENT (FOREIGN AND HOME RAILWAYS) ON THE MONEY-MARKET.

In considering how this expenditure is to be provided for, and the effect it will have on the money-market, it is necessary first to glance at the foreign railways as to their influence. A great distinction is made in the public mind as to foreign and home railways. In many respects, no doubt the distinction is great. It is so, as far as regards the employment which home railways afford to our population, and as far as, where they are finished, they tend to develope the resources of our own country, and, if equally profitable, as an investment of capital, are, therefore, preferable. But in the distinction, which is chiefly made as to the effect upon the money-market, the common impression we believe to be erroneous, and is one likely to lead to great mistakes on the part of bankers and others. We will, therefore, according to our promise, take some pains to explain our views, and the fallacies which we apprehend exist. In the first place, people seem to apprehend an influence on our money-market from foreign railways, only in proportion as they are made with English capital, which they see will be required in that case to go out of the country. On the other hand, they entertain no difficulty as to our power to make railways to any extent within the physical means of the country to accomplish, without any effect being produced on the money-market, because they think that the capital will merely change hands, and be transferred from one person to another, or from one banker's account to another. In both these ideas we believe there lurks a dangerous fallacy.

First: With regard to the effect of foreign railways. Many estimates have been made with respect to the amount of English capital engaged for foreign railways, but the slightest consideration will show that no such estimate can be of any value, for whatever is the state of the case to-day, it may be altogether changed by the sale or purchase of shares to-morrow. These shares, like the government stock of different countries, are now general securities, which are equally dealt in on our own Stock Exchange here and on the continent; and, like government stock, are another means by which the value of money will be equalised in this and other countries. It is not, therefore, a question as to who undertakes a continental railway, but as to who holds the stock, either entirely or partially paid up, and subject to future calls; and even though, at any particular time, the people of this country held no French shares, if a pressure were felt in Paris from the difficulty of paying up the calls, and the interest of money were to rise, the effect would immediately be, that either railway shares or some other stock saleable on our exchange would be sent from Paris for sale here, and our market in this country would immediately sympathise with that of Paris. Therefore, as far as the effect upon the capital of this country and the value of money, it makes little difference to us who makes the continental lines. The chief countries in Europe may be termed one money-market, for they all immediately act upon each other. If money be wanted in Paris to pay calls on railways, the interest will rise and the price of stock will fall, and if the shares are not sent to London for sale, English, or French, or Spanish, or some other stock which will pay best, will be sent and sold on our market, and English capital thus abstracted to pay up the calls of French shareholders; or the contrary may be the case, and, therefore, looking to the future effects on the value of money, it is quite as needful that we should consider what is to be done in the continental countries by the natives themselves as if first undertaken by us.

Then as to the construction of railways at home. The error to which we have referred has arisen from the almost

universal confusion between capital, and money as a mere instrument of exchange. People see the same money pass from hand to hand without diminishing in quantity by any internal work, and they therefore conclude that the whole matter is a mere transfer of capital from one to another. So many millions are paid for iron, but the iron-master receives it: the money passes from the banker of the company to that of the iron-master. True the iron-master then again uses it in his trade, but he only pays it to the coal-owner, or for the royalty of his mines, or distributes it among his work-people who again pay it to shopkeepers, into whose bankers it is paid, and thus the whole amount paid in constructing a railway is in fact only putting so much money into circulation to perform a rapid revolution among iron-masters, timber-dealers, bakers, grocers, farmers, &c., and out of one bank into another, but actually never suffering any diminution. The money is merely invested by one class of persons, and as far as they are concerned, it has sunk, but it is all gone into the hands of others, and as far as the country is concerned, it makes no difference. Such is the view commonly taken on this subject, and urged every hour in the day to show that railways may just as easily be constructed to the extent of 300,000,000*l.*, as now projected, as to the extent of one-tenth, *as long as they are all in the country.*

There is one part of the construction of every railway, whether English or French, which, as far as capital is concerned, has no effect—and it is an important part—the purchase of the land. This is simply and only a transfer of capital from one security to another. Consols are sold by one class of capitalists to invest in a railway,—they purchase a quantity of land, and if the landowner does not spend the money and so make himself poorer, but invests it in consols or other securities, the capital of the country is just as it was. It is a mere change of investment. But with regard to all the rest, except such portions as are actually saved by the various parties to whom it is paid, and which go into the general accumulation for the year, it is as absolutely sunk and taken

out of the capital of the country as if it had been all sent abroad, or sunk in the sea. Do not let us be misunderstood: we now speak of the first effects upon the capital of the country, as to its power to accomplish works; we do not refer to the future effects of such investment, or to its power of ultimately replacing itself by future profits: that we have already explained.

In order to explain this clearly, it is necessary that we should bear in mind that all capital employed in production of any kind, in order not to be diminished, must be replaced by the sale of the commodity; and that it is only that portion which the producer receives over and above his outlay of capital in wages, &c., that constitutes his profit, which he can expend, to preserve the capital entire. No doubt all commodities are produced to be consumed either at home or abroad. The way in which the capital sunk in our goods exported is replaced, is easily understood. The source from which the capital sunk in the various products consumed at home is replaced, can only be from the expenditure of income; and as long as no more than the income of the year is expended in railways or otherwise, no reduction of capital would take place, but the moment more than the income is spent, whether for private use or public works, to that extent the capital is diminished, and actually sunk until it becomes productive, and even then it is changed from floating to fixed capital. Suppose a railway company spend 100,000*l.* on iron: true the iron-master receives it, but, except the profit, it only replaces his capital, which has already been expended; and if he proceeds to distribute it in wages, which are paid to bakers and grocers and drapers, it only replaces (except the profit) the capital which these various parties have already expended on their various commodities; and so on through every branch of trade, it only (with the exception of profits forming the annual income) replaces capital already represented in the commodities given for it. But it is not replaced to the railway company; it may at some future time yield a good profit and facilitate increased production, but in the mean time it is

absolutely sunk. It is the difference between a merchant buying 1,000*l.* worth of commodities, which he sells again and is repaid with a profit, and one who with 1,000*l.* builds a house, which, though it ultimately pays him a good interest, is absolutely sunk and abstracted from capital, for all those who received the 1,000*l.*, only did so to replace their own capital and profit.

But there is another view, which will perhaps make this matter clearer, and show the way in which such an abstraction of capital first is felt on our money market; and which will show clearly that a very large portion of the money expended on our railways really does go out of the country. Let us suppose manufacturers in Lancashire paying five millions of pounds in wages; that money is expended in provisions, clothing, &c., by their work people; and a very large portion in commodities produced abroad; such as the sugar, tea, coffee, a great part of the material of their clothes, &c.; but all these commodities are paid for, by a portion of their labour, exported in the form of cotton goods. But on the other hand, suppose *five millions* paid for wages on railways; the same portion goesfor the consumption of imported commodities, tea, sugar, coffee, materials of clothing, &c.; but no portion whatever of their produce is exported, or can be so to pay for those commodities. Again, with respect to the money paid for iron; the demand for this article increases the quantity made, which is all absorbed in these undertakings, but the largest portion of the price goes to pay wages, which are again to a great extent expended in articles of foreign import, while no equivalent of export is produced against them, so that a large portion of the whole money expended in railways is actually paid for imported commodities, while no equivalent of export is produced. Now, this state of things acts in two ways on the commerce of the country, next upon the exchanges, and quickly upon the money-market. The extraordinary expenditure at home increases very much the consumption of all commodities, both of foreign import and home production, and raises their price, as is the case at this time. The high

price of foreign commodities induces to a large importation; the high price and home demand for domestic produce cause a decreased export. The exchanges are thus turned against us, and we must remit money for the payment of that balance created by the use of those foreign commodities consumed in this country by those, no part of whose produce had been exported to represent their consumption. One of the most certain symptoms that can be shown of an undue absorption of capital going forward in internal investments, is when we see our imports increasing more rapidly than our exports, or when the former are increasing and the latter are diminishing.

This is a point which cannot be too closely watched by all parties engaged in commerce, and especially by bankers. These symptoms have already made their appearance. Our imports are rapidly increasing, and up to the end of last year the exports increased equally much. Thus, not only is the capital employed in constructing home railways, as absolutely absorbed as if it were used to construct French railways, as far as the money-market is concerned, but in reality a large portion actually does go abroad in payment of commodities used by those who construct the railway and provide its materials.

E49354

CAPITAL, CURRENCY, AND BANKING.

ARTICLE I.

The Bank Act of 1844.—System of Barter.—A Standard of Value.—Introduction of Money.—What is a Pound?—Banks of Deposit.—*March* 8, 1845.

We think it will be generally conceded that Sir Robert Peel's currency measure of last year, was not subjected to that discussion, either in Parliament or by the press, that we might fairly have expected, considering its vital importance to the country at large, as well as the powerful private interests which it was calculated immediately to affect. This probably arose from the fact, that the abstract principles of currency and banking had really attracted the consideration of a very small number of individuals. It was equally apparent in the House of Commons, and in the country at large, when the Minister produced his measure, that men generally were totally unprepared to give any intelligible assent to, or dissent from, the fundamental principles on which it was based. This was evident in a remarkable degree in the House of Commons. Sir Robert Peel himself, and most members who spoke in those debates, and some who, on the occasion, "*rushed into print*," supported the measure by views so palpably erroneous, as to prove, beyond any doubt, that they had a very imperfect notion of the fundamental principles on which they were proceeding.

The discussions of last year, however, have at least had the effect of drawing a considerable degree of attention to the subject in the interval; and though we fear no very great progress has yet been made in clearing away the popular errors and mystifications in which the subject was enveloped, yet we believe there is more disposition to admit that the principles

on which Sir Robert Peel proceeded, almost by acclamation, are yet fairly debateable, and many have already a very strong conviction that the whole superstructure proceeded upon hypothesis, groundless and unsupported by facts.

As a further application of the same principles to banking in Scotland and Ireland is about to be proposed to Parliament, when occasion will again arise for discussing the fundamental grounds on which the Minister proceeded, as well as their suitableness to the new cases to which they are to be applied, we think it worth while to enter into the subject more at large than the scope of a weekly periodical will usually admit of to any one subject. It has been intimated by Sir Robert Peel, that he does not intend to introduce any measure in regard to the banking of Scotland and Ireland till after Easter; and we, therefore, propose to consider, in this and following numbers, in as concise and popular a way as lies in our power:—*First*, The fundamental principles on which currency and banking are based, and by which they are regulated. *Second*, The application thereof to the currency and practice of banking in past times in England. *Third*, The application thereof under the bill of last session. And, *fourth*, Their application to the Scotch and Irish systems of banking, including a consideration of any differences which exist between them and the banks in England, in their necessary connexion with the working of the new bill here.

The chief practical and immediate object which we have in view has relation to the threatened legislative interference with the bankers of Scotland and Ireland. In the former country a strong excitement has prevailed on the subject for some months back, but we have purposely reserved our observations thereon until this time, when it acquires a practical and legislative importance. We cannot, however, avoid remarking, in the outset, that if the claim of the Scotch system of banking rested only on the reasonings adduced in its favour in the numerous speeches and documents which have come before us during the last six months, it would have as little chance, as indeed it would have a just right, for any consideration on the

part of the Government. The mass of absurd exaggeration which has been spoken and written in favour of the system, in some of the newspapers particularly, has only been exceeded by the incredible folly that has been vented against it. We believe, after the most careful and most earnest investigation, that the Scotch banking system is founded on the most correct principles, both of science and practice, and it has grieved us beyond measure to see so much ignorance and exaggeration pressed into its support as it has been our lot to read of late. These may no doubt be looked upon as the result of a sort of instinctive regard for a system, the practical operation of which had been found highly and generally beneficial—of a system which had acquired the attachment, almost veneration, due to ancient institutions, which have diffused almost unmixed good; but it must not be a matter of surprise, when the question comes to be tested in debate in the House of Commons, if Sir Robert Peel, in his great adroitness in discussion, is found making an apparently strong case, by confining himself to combat the numerous and flagrant errors which have been put forth, and leaving altogether untouched the more substantial arguments and principles involved. From these remarks we would, however, exclude the clear and intelligible resolutions published by the Chambers of Commerce of Glasgow and Dundee, and some other documents. With this explanation of our object, we will proceed to a consideration of,

First, The fundamental principles on which currency and banking are based, and by which they are regulated.

In treating this subject throughout, we will assume a perfect agreement as to the necessity of paper issues being *at all times* and *immediately* convertible into the coin they represent, and we will therefore not feel it a duty to go out of our way to prove the necessity of this principle being steadfastly adhered to as the only security for a safe currency; though, incidental to some of our other illustrations, arguments and reasons may be derived in favour of that principle. In doing so, it is not that we wish to pass any slight upon those who hold a different

opinion, but that we do not wish to encumber this discussion with that question. Further, we will concede to Sir Robert Peel, in the most unqualified terms, an agreement with him, when he said last year—

"We should infer, certainly, from reasoning, that free competition in the supply of any given article will probably ensure us the most abundant supply of that article at the cheapest rate. But we do not want an abundant supply of cheap promissory paper. *We want only a certain quantity of paper, not, indeed, fixed and definite in nominal amount, but just such a quantity of paper, and that only, as shall be equivalent in point of value to the coin it represents, If the paper be cheaper than the coin, it is an evil and not an advantage.*"

With the opinions expressed in the latter half of this quotation in *italics*, we perfectly agree, and with the former half also, if such a supply is referred to as could possibly destroy the essential quality represented in the latter.

In the general inquiry before us we will not travel back to consider the necessities which first led to the use of money to facilitate exchanges. We will commence when the practice of barter ended, and the necessity presented itself of determining upon some commodity as a *common standard of value*, in relation to which that of all other articles should be referred. During a state of barter, and before any common standard was fixed, the relative value for which all commodities would exchange would be determined *immediately* by the proportion of the supply and demand of the various articles, but *ultimately*, and *in the long run*, by the actual cost of labour in producing each. It might cost exactly the same labour to produce *a quarter of wheat, an ounce of gold, a ton of iron*, and *a load of timber*. But, by some accidental circumstance, a greater demand for *wheat* and *iron* might arise than usual, and the immediate demand for these two articles might cause a quarter of the one and a ton of the other to exchange for *an ounce and a half of gold*, or *a load and a half of timber;* but if the labour required for their production continued still the same, a greater portion would be applied to the production of those most in

demand, until again similar quantities of all would exchange for each other. Thus, in the state of barter, supply and demand are the immediate regulators of exchangeable value, and cost of production, the ultimate. And when the inconvenience of the barter system led to the fixing of a common standard of value, this principle was in no way altered.

In fixing upon any one commodity, as the common standard in relation to which the value of all others should be expressed and determined, for obvious reasons it was desirable to select that which varied least in its cost of production, which presented in any given weight or bulk the greatest value, in order to render it most portable, and which afforded the facility of an easy subdivision into different sized parts to represent various quantities of other commodities. For all these purposes the precious metals presented the most favourable combination. We accordingly selected gold as our standard. The necessity for selecting only one article, a *single standard*, will be apparent, when we consider that, virtually, the system of barter, though nominally abandoned, was still as much as ever practised, with this difference, that instead of a *ton of iron*, *a quarter of wheat*, and *a load of timber* being exchanged for each other, each became exchanged for its equivalent in gold, the standard in respect to which the value of each was expressed. Still, however, the actual relation of cost was preserved between the standard of value and other commodities. As in a state of barter, the value of every article still varied in proportion to *its* cost and the cost of gold, or the quantity of labour necessary to produce them. But if a double standard, say of gold and silver, were adopted, as these two commodities would vary from time to time in relation to each other in the cost of their production, no other commodity could at all times be expressed by any fixed relation to both. If silver became more plentiful, a quarter of wheat would exchange for a greater quantity of silver, while it would exchange for no more gold. It is, therefore, essential, whatever standard be adopted, that it shall be of a single value, though that value

may fluctuate like other commodities, but the less so the more convenient will it be as a standard.

Having fixed the commodity by which the value of all others should be expressed, and which should be used as a medium of exchange for all such other commodities, it became necessary to test the *weight* and *fineness* of the metal so used, as well as to subdivide it into convenient quantities to represent the different portions of other commodities required to be exchanged. For this purpose gold was subdivided into certain pieces of uniform weight and quality; and as a guarantee to the public that each piece did contain the professed weight, and was of the proper fineness, the Government affixed a mark, which constituted the coin or money in which value became expressed, and accounts kept, and which coin corresponds now with the denomination "pound."

But it was found, in practice, that we required smaller subdivisions, or coins, than gold could be conveniently made to answer, and we were obliged, for lower denominations, to have recourse to cheaper metals. Silver and copper were accordingly adopted, and coined in their relative value to gold into shillings and pence. But as we have before shown, that although these metals might be at the time, when the weight of each denomination of coin was fixed, in exact relation to their actual respective values, yet that they are exposed to a change in that relative value inconsistent with their being considered a standard of value in themselves. To prevent any inconvenience, therefore, from their use as money bearing a uniform relation to the gold coin, it is enacted that they shall only be a *legal tender* of payment to a given sum—silver to the extent of forty shillings; so that any slight variation which may take place, between the intrinsic value of gold and silver as commodities, can never disturb the value of our coinage to a greater extent in any one payment than that slight variation amounts to, in forty shillings.

We adopted the term *pound*, for reasons unnecessary now to refer to, as our chief money in account; and the first step in our coinage was, therefore, to determine what quantity of gold each of these pieces representing a *pound* should contain. This was fixed so that *one ounce* of gold shall make *three of such coins*, and a portion of a fourth equal to 17s. 10½d., of the subsidiary coins. Thus, if 100 ounces of gold are coined, they will produce 100 times 3*l.* 17s. 10½d., or 389 sovereigns, with a fraction worth 7s. 6d. left over—that is 389*l.* 7s. 6d. It is thus that gold is said to have a fixed price of 3*l.* 17s. 10½d. the ounce, which, however, leads many into great error on this subject, by supposing that the value of gold is fixed, while it is only that the weight of the coin is fixed. It is not strictly correct to say that 3*l.* 17s. 10½d. is the price of an ounce of gold. It would be more correct to say that an ounce of gold coins into 3*l.* 17s. 10½d., while however, each coin, or the ounce itself, will vary in value in relation to all other commodities, by the common law of supply and demand. A pound does not vary in its relation to an ounce of gold, nor does the ounce vary in its relation to the pound; in fact, the effect of the whole, on which so much mystification has existed, is simply to determine the *weight* of the coin called a *pound*, but has nothing to do with its value.

It is, however, essential to bear in mind, that neither the adoption of gold as the standard of value, nor its being coined into money, have the effect of altering its intrinsic relative value to other commodities, nor the original laws which determined the changes in that value. Gold, as the *standard of value*, and as a *coin*, *is* exactly what gold *was* when a rude and *simple commodity of barter*; the only difference being that all changes of value are now expressed in the one commodity of which the coin consists. There are four simple ways in which two articles can fluctuate in their respective values. For example, take wheat and gold, and suppose one quarter of the one exactly equal to one ounce of the other.

First, Wheat might become very scarce, and double in value, while gold was stationary; and thus, one quarter of wheat would become worth two ounces of gold; or

Second, Gold might become very plentiful by increased

supplies from the mines, and of half the value, while wheat remained stationary; and thus, also, one quarter of wheat would become worth two ounces of gold.

Third, Wheat might become very abundant, and worth only half its former value, while gold was stationary, and thus one ounce of gold would become worth two quarters of wheat; or,

Fourth, Gold might become very scarce, and worth double its former value, while wheat was stationary; and thus, again, one ounce of gold would become worth two quarters of wheat.

The same effect may take place in the relative or exchangeable value of two commodities, either by the increased supply and lower value of the one, or by the diminished supply and higher value of the other. This *was* the case with an ounce of gold in its original simple state as an article of barter. It *is* still the same in its new state, coined into 3*l.* 17s. 10½d. of money. The only difference being that, in the former case we should have said indifferently, "*an ounce of gold is worth two quarters of wheat*, or *two quarters of wheat are worth an ounce of gold*," whereas, since we adopted gold as the common standard or measure of all value, we now invariably express all fluctuations of value in that standard, or the coin representing it; and we say two quarters of wheat are worth 3*l.* 17s. 10½d., or 38s. 11¼d. the quarter. If gold, as a commodity, becomes scarce, the values of all other articles are expressed by smaller amounts of coin, and become nominally cheaper. If gold becomes more plentiful, the values of all other articles are expressed by larger amounts of coin, and become nominally dearer. Or, if any one commodity becomes more or less plentiful, its price in coin varies accordingly, and the relative prices of any number of articles accurately describe the various changes which take place in their intrinsic relative values from time to time. But there is nothing in all this varying in any one essential point—the original system of indiscriminate barter between gold, wheat, timber, iron, or any other commodities.

The "*prerogative of coining*," concerning which such foolish

and extravagant notions exist even among intelligent men, is nothing more or less than simply attaching an authoritative stamp on a given piece of metal, by which it is known to contain a given weight of a given fineness; and simply to save the great trouble and interruption to business which would arise from the necessity to weigh and assay every piece of gold offered in payment, and to calculate its value in money in account, that is in the proportion which one ounce bears to 3*l.* 17s. 10½d.

It is, however, apparent, that when a standard of value was thus agreed upon, and coined into money as the immediate instrument of exchange, it became necessary that the pnblic should furnish themselves with as much of such coin as was needful to conduct the business of the country, and to form a medium for the internal circulation of commodities. On this point much misunderstanding and ignorance prevail. When we talk of gold being the universal standard of value, by which the price of any other commodity is determined, and into which every money obligation is resolveable, people cannot comprehend how that should be so, seeing there is so small a quantity of gold in proportion to the amount of obligations and commodities. It will, however, be remembered that the bulk of property consists of commodities in stock in the course of conversion from one state to another, or waiting to supply the wants of the community, in the stores of the dealers; and that the only purpose for which money is required is as the simple means of transferring them direct from one hand to another. The same identical coin may be used in one day to transfer its value in commodities a hundred times or oftener. Nor does any one retain more coin in his possession, as a common rule, than is needful to conduct his business. A shopkeeper may never have a stock of less value than five thousand pounds; but he may never have or require a larger amount of coin at any one time than one hundred pounds. So with all book debts and obligations expressed in money. The real objects exchanged, borrowed, or repayed, are various commodities. Money is merely the instrument by which the act

is performed, and in which the account is kept and the relative values calculated. There is, therefore, no other limit but time and individual activity, as to the number of accounts and payments, for the settlement of which the same money may be used. But, though a comparatively small sum of coin was required to conduct the business of the country, yet it is evident that each individual must have as much money at his command as he required for his own daily uses; and as he could not convert his stock into money at all times when he might require it, without sacrifice, it became necessary that he should accumulate money in his possession from his daily receipts to meet payments falling due on a distant day, or to make further purchases of commodities as he required them. And thus a large amount of money was withdrawn from the circulation, and remained for a time idle and unprofitable, and at a certain risk, in the tills of individual dealers, which could only be a loss to the community at large by so much capital remaining idle, for which the additional profits of business must compensate the dealer.

This loss and inconvenience led to the establishment of banks of deposit. A man of known property took all the spare capital of individuals into his possession and keeping, on the condition that he would repay it at any time on demand. The banker took upon himself all the risk of its safe keeping; he undertook to perform certain services for his customer in keeping his money accounts, and in most cases to pay him a certain rate of interest for the money so deposited. To enable him to do all this, and to be remunerated for the trouble and risk which he took upon himself, the banker was understood to use the deposits of his customers in such a way as yielded him a larger interest than he allowed. But as the banker was under the obligation to return the money so borrowed whenever demanded, he could only lend a certain portion of it, and even that for short periods, or on such securities as were easily again convertible, if he required the money before it was returned to him. In the course of time each banker obtained by experience a correct knowledge of what portion of his deposits he could on an average safely invest or lend to others, so as not to endanger his power of meeting all usual demands upon him. But it is quite evident that in this respect the experience of any one banker would differ very materially from that of others, according to the nature of his business. A city banker who keeps the money of merchants or stock-brokers whose object it is never to have more unemployed money than is absolutely necessary, but who have large payments to receive and make, and therefore whose balances at their bankers will sometimes be very large, and at others comparatively as small, would have to follow a very different rule from that which it might be safe for a West End banker to do, who kept the money of noblemen and gentlemen, and which was drawn out gradually for expenditure, and replaced periodically when their rents or incomes are received. No general rule or law could be framed applicable to all cases. Individual prudence, caution, and discretion could alone be relied upon; not only as to the extent to which balances might be used at all, but also as to the manner in which they could safely be used, in order to enable the banker to meet all demands upon him regularly, and to secure him against insolvency.

But one thing is quite evident,—the more profitable, consistent with safety, the use of such deposits could be made to bankers, the more would they be willing to give to the public for the temporary use of their spare money, that is, provided the business were open to free competition.

By the establishment of banks of deposit, we therefore see that much less money or coin became requisite to conduct business; for, instead of every individual keeping beside him the necessary funds to meet his future payments, or make his future purchases, each lent them to his banker with the confidence of receiving them back when wanted, and the banker used them in such a manner as to facilitate business and encourage production in other ways. The banker, therefore, became the simple agent between a numerous class of lenders, and a numerous class of borrowers, interposing his security to the former, with his superior knowledge of the condition and

character of the latter, by which means the capital of the country was so economised, and rendered as much more effective, as if a real addition to its amount to the same extent had taken place.

In the further pursuit of this subject it will be more apparent than it may now be, to our readers, how necessary it was to lay this basis for the practical superstructure which we shall rear upon it.

ARTICLE II.

The Bank Act of 1844 Continued.—What is Meant by a Contract to Pay a Specific Sum?—Difference between Capital and Currency or Circulation.—Confusion by not Observing the Distinction.—Effects of the Efflux or Influx of Bullion upon the Circulation.—Parallel Effects upon a Purely Metallic Currency, and one Mixed of Convertible Paper and Coin.—*March* 15, 1845.

After having fixed upon gold as our standard of value, and determined how much of that metal each coin should contain, it is clear that every contract or transaction, expressed in money, did in reality refer to a certain corresponding quantity of gold. If a person made a purchase of any commodity to the amount of 3*l.* 17*s.* 10½*d.*, and paid for it in coin, he did in reality exchange *one ounce* of gold for such commodity. So, also, if any person, in making a purchase, stipulated to receive six months' credit upon such purchase, the money value was ascertained at the time, and it became a debt of so much coin or gold, and payable at the termination of the period of credit, in such quantity of coin or its equivalent. If a man contracts a debt or grants an acceptance to be paid in twelve months for 3*l.* 17*s.* 10½*d.*, or 46*l.* 14*s.* 6*d.*, or 467*l.* 5*s.*, he really does undertake to pay *one ounce*, or *one pound*, or *ten pounds* of gold for the respective sums named, or their equivalent. It is not, however, necessary that debts should actually be paid in gold, nor is it even probable that they will be so in a society at all advanced in commercial and banking institutions. It is more likely they will be paid by a mere transfer of a credit with a banker, either by means of a cheque or by referring the holder of the acceptance to a banker for payment. Nevertheless, in whatever form payment takes place, or whatever shape a debt in money assumes, it is still *so much gold* that is indicated by any sum of money in account. Hence, when governments or monarchs interfere with or alter the intrinsic value of money, a practical fraud is committed on all existing creditors if its value is depreciated, and on all

existing debtors if its value is appreciated; all new and future transactions would be accommodated therewith; but in respect to existing liabilities, a fraud would be committed as much as if a portion of gold were forcibly taken from one man and given to another. It is a mere conventional arrangement, and matters little how much gold, money in account, originally, is made to contain; but once determined, and transactions entered into in respect thereto, it should be held as inviolable as any just claim between man and man can be. Still, even with the most strict adherence to the value of the coin, the community is not altogether exempted from fluctuations, favourable to some and unfavourable to others, in so far as the intrinsic value of gold itself, as the standard of value, may vary. Thus, if, by a sudden increase from the mines, gold becomes more abundant, and its value in relation to other commodities falls, all creditors at such a time suffer that depreciation, and debtors are correspondingly benefited; or, if a sudden extra demand were to arise for gold, for example, totally to displace an extensive paper currency, or the various forms of banking credits, the value of gold as a commodity would rise, all existing creditors would be benefited, and existing debtors would be so far injured. This, however, is a liability which must attach to any article whatever, that is fixed upon as a standard of value, but less so with gold than any other, as the circumstances of its production and the objects of its use are more uniform than those of any other commodity.

Before entering further into a consideration of the practice of banking, we think it in the first place essential to clear up what we may almost term a universal confusion among writers and expounders of currency and banking, viz., in mixing up, and in no way discriminating between money, coin, or bullion, as *capital* and as *circulation* or *currency*.* To an absence of any proper discrimination of money or coin as performing the function of currency, and as representing capital, we think we

* Mr. Tooke is very clear in this distinction in his last pamphlet.

can clearly trace the origin of what appears to us the fundamental errors of Sir R. Peel's banking measure, and of that system or principle of currency on which it is obviously, though not avowedly, founded. And, therefore, to this part of our inquiry we must crave an earnest and close attention, as many of our subsequent reasonings and arguments will have reference thereto.

We will premise, first, that we shall throughout treat *coin* and *bullion* of corresponding weight as of the same identical value, for in the absence of any charge for seigniorage on coining, and with perfect freedom to export and import alike the one or the other, no difference can exist in their intrinsic value as a mere commodity, as representing capital, or for transmission to foreign countries; and, next, that at present we are treating of a supposed case, in which metallic money was alone in use, and before the introduction of paper.

In our last article we showed that, when gold was first adopted as a standard of value, and money coined, it became necessary for those having payments to make to supply themselves with a portion of this coin necessary to perform that object; and, in the first place, a portion of the capital of the country must have been invested in coin to accomplish this necessary function; for, it will be borne in mind, that the portion of coin used as currency has no value or utility whatever, except as a mere instrument of exchange—except as a medium of transferring commodities indirectly that cannot so conveniently be passed directly. In fact, it is simply to avoid the obvious inconvenience of barter that the community consents, and finds it more profitable, to invest a portion of its capital in gold coin, to be used only as an instrument of exchange; and there is no doubt that the time and labour which are saved by the interposition of coin, as compared with a system of barter, forms an ample remuneration for the portion of capital withdrawn from productive sources, to act as a simple circulator of commodities, by rendering the remainder of the capital of the country so much more productive. Still, whatever coin is actually used in circulation, although it may aid the productive-

ness of the general capital of the country, is itself so much withdrawn from productive uses to perform the simple function of currency. It is, therefore, obvious that the smaller the quantity of coin which can be rendered efficient for that purpose, consistent with the safety of public and private interests, the better for all.

Well, then, when money first came into use, a portion of the capital of the country was invested therein to supply the wants of the community; but, as we showed in our last article, a much larger quantity of currency was required for a given trade before the establishment of banks of deposit than afterwards. Before the establishment of banks, every tradesman and private person, independent of the money actually in use at any given moment, required in addition, to keep certain reserves, in proportion to their transactions, to meet accidental demands or liabilities becoming due. In consequence of this necessity, the amount of capital withdrawn for the purposes of currency was greater, at all times, than the actual circulation of commodities required.

The establishment of banks of deposit, as explained in our last article, effectually cured this evil, as far as their influence extended, and was the first step to economise the currency. Remark carefully how that was accomplished. The reserves, before required to be kept by private individuals and traders, were accumulated in the hands of the banker, who was able by certain rules and plans, to which we shall afterwards more particularly allude, to employ a large portion of them in aid of additional and new productive power, at the same time securing to each depositor the return of his money at the moment he required it. Now, it must be quite clear to those who are at all familiar with such subjects, that by this means a large portion of the money or coin hitherto used as *currency* or *circulation*, without impairing those functions, was transferred to capital—was abstracted from the unproductive coin in the hands of the public as circulation, and, through the medium of the banker, restored, as capital, to such an extent as circumstances rendered prudent, to productive purposes. The

effect, in point of fact, was the same as if so much new capital were added to the wealth of the country.

It is, therefore, clear that only that portion of coin or money which is at any time in the hands of the public, employed in performing the exchange of commodities, is entittled to be deemed *circulation*, while all the coin, or money, or bullion, lying in the hands of bankers or merchants, seeking an opportunity for profitable investment, is *capital*– capital, it may be, withdrawn from the circulation, either permanently, by the introduction of an economising principle; or temporarily, at particular periods of the year, when less circulation is required. Nor is the matter changed in any way because deposits are for short periods and always at the command of the depositors; for, if withdrawn by one, they are replaced by another, and the general average does not vary much. The variations in the amount of deposits that do take place, arise far more from the amount of the private capital of individuals temporarily disengaged and seeking employment, than from any variations which occur in the circulation.

Let it, however, be observed that the yielding up of this spare coin from the circulation in the hands of the public, to deposits in the hands of bankers, is a voluntary act, and will only be done as far as the convenience of the community and the necessities of trade permit, and that the advantages of such aneconomy of circulation, though of immense importance to the country at large, yet are very subsidiary to the individual traders, compared with the greater objects and functions of currency:—and that currency on the largest scale on which it can ever be required is so trivial in proportion to the whole capital, the productions of which it is used to circulate, that the public will never yield up to the uses of bankers more than is perfectly convenient and consistent with their wants.

The public convenience and command of capital and circulation are the cause—deposits and bankers the mere effect, in the relative positions in which each stands to the other. The former can always act powerfully on the latter; but the latter can at any time act but very feebly on the former. In the

case before us, it is quite clear the banker would have no power whatever to influence the amount of *circulation*, which would be determined only by the actual amount necessary for the public to retain in their hands to accomplish the daily exchanges. If trade increased,—if a greater number of labourers became employed, if more wages were paid, and if commodities rose in price, the public would find that they required to keep a larger portion of their capital in money to answer these new calls; the circulation would increase and deposits would decrease, and, as the amount to be lent would become smaller, while the desire to borrow would, from similar reasons, become greater, the rate of interest would rise. The reverse of this would occur if trade diminished, fewer labourers were employed, and commodities fell in price; less coin would be required for circulation; after a time capital would be disengaged, deposits would increase, and the rate of interest would fall. But in all this THE BANKER IS THE MERE PASSIVE AGENT.

But if the confusion of ideas is great as to the true difference between *coin* or *money* performing the function of *circulation* and that performing the function of capital, it is rendered even greater by extending this indiscriminate association of ideas alike to coin in circulation, coin in the possession of bankers, either waiting for investment as capital, or held as reserves to meet unusual demands upon them, and bullion in the hands of the import merchant, or held by bankers as reserves to answer the demands of their depositors in the event of an adverse foreign exchange.

A very general notion exists that our circulation or currency, if it were, as we have now been supposing it to be, purely metallic, would expand and contract exactly in proportion as the precious metals flowed into, or out of, the country. Very little consideration will show how utterly groundless such a notion is in reality. Important as gold may be in the performance of its function as a circulating medium, it is not less so in many other capacities. It has another distinct function to perform in its character of *reserves*

of capital held by bankers to meet demands upon them, and in this capacity may be actively used to a great extent without, in any way, affecting the amount of coin acting as *circulation*. Large sums of money may become due by the customers of a banker A, to the customers of a banker B, and on a given day the former may withdraw such sums from their banker, but they would only be transferred to the banker of the latter, to be used again by him to meet the current liabilities of his customers. The amount of the precious metals necessary to be held by bankers for these purposes, will depend, in a great measure, upon the perfection of banking arrangements for transferring capital, upon the character of their individual business, and upon the confidence entertained of their solvency. But nothing can be more clear than that no one rule can be equally applicable to all, whatever may be their credit or the nature of their business.

Circumstances may arise which may render it desirable for bankers to increase those reserves, or which may render it safe and more profitable to diminish them, and a greater or smaller amount of gold may be required at such different periods; which, however, could never be effected by any action on the circulation, but by a decrease or increase of the rate of interest. It is quite true, that, consequent upon a material change either way, the amount of circulation might be ultimately affected; if, by diminishing the rate of interest, more industry were called into exercise, and a larger amount of commodities required to be circulated, the coin retained in the hands of the public as *circulation* would be increased; or if, on the other hand, by raising the rate of interest, less labour were employed, and a smaller amount of commodities were required to be circulated, the coin retained for that purpose would be less, and a larger portion would find its way to the deposits with bankers, or would be invested in interest bearing securities. But the essential thing to bear in mind here, is that the action on circulation in either cases is the *effect*, and that somewhat remote, and not the *cause*, of a change in the amount of bullion held on the part of bankers.

It is the *ultimate consequence* of their efforts to obtain more of the precious metals, and not the *means* by which they can accomplish that object. *This distinction is of the utmost consequence*,

Again; another and far more extensive use of the precious metals, whether as coin or bullion, is for the purpose of transmitting capital from one country to another; and to balance the mercantile exchanges. This commodity is employed in preference to any other, because it has a more uniform value in all countries, and is allowed to be imported and exported altogether free of duty. Suppose, therefore, the trade of this country shall have been for a considerable period much depressed from any cause, and the price of our products unusually low, a large export of those goods would be the consequence; and, if a corresponding consumption of foreign commodities did not take place at home, the demand for them would cease, and their import would leave a loss, and especially if our fiscal regulations, as in the case of the sliding scale of our corn laws, raised up a barrier against imports at the time when they are usually most required to balance increased exports. The exchanges would be turned in favour of this country, and large and continuous imports of bullion would take place, until the capital of the exporter was replaced in this country.

But the replacing of that capital, by the commodity bullion, would not, in the first instance, have any more effect on the quantity of coin in circulation, than had it been replaced by corn or wool. On the contrary, as far as *circulation* is dependent on private expenditure, if any other commodity had been imported which yielded a profit to the merchant, it is more likely his expenditure would have increased, than by importing bullion, which can never yield much, and may be, no, profit. It is, in fact, a means by which a merchant brings back his capital to this country with the least loss, when other merchandise will not leave a profit, the immediate effect of which may be to *decrease the circulation* and to lower prices in two ways: first, by the lessening of the private expenditure of

individual merchants, owing to a decrease in their profits; and, secondly, by diminishing the demand for home products as long as merchants see no probability of entering on more profitable or successful transactions, and thus lowering the rate of wages, lessening the internal demand for, and consumption of, commodities, and reducing prices.

Thus, coincident with a large import of bullion under such circumstances, the internal circulation would be diminishing, and the quantity of coin in deposit with the bankers would be correspondingly increasing. Merchants who had imported bullion, seeing no prospect in the meantime of profitably renewing their mercantile speculations to the same extent as before, would no doubt convert their capital (bullion) into money, and endeavour to employ it at interest. In the first instance it would appear as increased deposits in the hands of bankers, where it might remain if their practice was to allow interest; but, if not, it would find its way to the public funds, or other government securities, the prices of which would rise correspondingly, or be handed over to bill brokers, to be employed in the discounting of commercial bills. But this great competition to employ capital, at a time when there was so little need for it, would greatly reduce the rate of interest, lessen the profits, in the first place, of large classes of traders, including bankers, diminish demand, and keep prices low. Nor would this state of things be checked, until increased competition, activity, and ingenuity among producers, aided by the low rate of interest, had so far reduced the cost of production, that an extended foreign demand was once more experienced, when merchants could again resume extended shipments with a fair prospect of benefit; until increased production ensued, and a rise of price of the raw materials of foreign produce again encouraged and promoted a larger import.

In the meantime, the extreme low rate of interest in this country would promote a disposition to investment in foreign securities; and between this cause and the increased imports of foreign raw commodities, the surplus capital might be at

length absorbed, and the interest of money might rise to the original rate. The increased demand for labour, the increased quantity of commodities to be circulated, and the increased prices, would then restore the coin required for circulation to its original amount.

This is precisely the principle which has been in operation during the last three years, acting under a combination of all the circumstances and causes to which we have now referred. There is not a banker, merchant, or manufacturer of any importance who will not clearly identify this description with the experience of that period. But this is in direct opposition to the principle of Sir Robert Peel's Bank measure, and of the doctrine of currency so ably advocated by Mr. Lloyd, Mr. Norman, and Colonel Torrens, who, in common with Sir Robert Peel, place implicit confidence in the effect of an import of bullion to increase the circulation, to raise prices, to encourage imports, and to correct the exchanges. Whereas, we have shown that the same cause which most commonly operates to produce an influx of bullion, will, at the same time, operate to reduce prices and diminish circulation; and that it is not until other causes come into operation, which at the same time tend to an export of any surplus quantity of bullion, that either prices can be raised or circulation increased. And in our positions we are held out most strictly by the experience of the last three years.

The truth is, that imports and exports of bullion we believe to have no direct effect whatever on circulation (and we are still all along speaking of a purely metallic currency); but we believe that it can be proved, beyond any doubt, that, in all the ordinary cases where bullion is exported or imported, the same causes which promoted the one or the other, would act on the quantity of coin in circulation, in the first instance, in the opposite way to that indicated by the measure of Sir Robert Peel and the theory of Mr. Loyd.

We believe that this fundamental error, apparent to us, and supported so remarkably by the experience of the last three years, to have ar[illegible] from overlooking the character in which

bullion is imported or exported under such circumstances. The advocates of that doctrine have overlooked the fact, that such imports of bullion are not in consequence of an absolute increase of the quantity of the precious metals, but are, in fact, owing to a simple change in their distribution, in order to transfer capital from one place to another.

If a large import of bullion took place direct from the mines, and the whole stock was thereby materially increased, no doubt then the price of all other commoditie would rise in relation to gold, and the quantity of coin required to circulate them would be correspondingly increased; but a similar rise of price would take place throughout the civilized world.

Nor shall we find that Sir Robert Peel's measure is likely to be more successful in the object it professes to secure, in the case of an adverse exchange, than recent experience and reasoning have shown it to be in the case of a favourable exchange. We will still adhere to the case of a purely metallic currency, because that is the test to which it is his great object to make our circulation conform. The cause which has most frequently produced, and which is most likely again to produce, an adverse foreign exchange, is the sudden necessity of importing large quantities of corn in the case of a deficient harvest. Now, suppose, with a purely metallic currency, trade generally is in its usual state, the quantity of coin retained by the public to perform the functions of circulation at its lowest convenient point, and the most economical distribution of the capital of the country, through the medium of bankers and otherwise, most perfectly obtained, and bankers holding their usual reserves of coin or bullion, to meet the demands of depositors:—Let us further suppose in this even and apparently safe and prosperous state—similar to that which this country enjoyed in the first half of 1838—that the approach of the harvest led in a short time to a rise in the price of wheat from 50s. to upwards of 70s. per quarter, and that an import of more than *three millions of quarters* of wheat became necessary, as was then the case, that the exchanges were turned

violently against us, and a demand set in for the precious metals.

What would then be the effect on the circulation? The same cause which led to an import of foreign grain, and a drain of bullion (namely the high price), would also lead to an increase of the quantity of coin required for circulating the higher priced commodity. Coincident with a drain of bullion from the bankers to pay for foreign imports, there would also be a drain of coin to increase the internal circulation. Bankers would have no controul whatever over the circulation; they might raise the rate of interest, they might even refuse to discount bills at all, and entirely discontinue their usual accommodation to their customers;—the more they did so, would inducements be held out to others to withdraw their deposits, and the necessities of trade would retain in circulation a sufficient portion of coin to conduct the internal exchanges in spite of any efforts on the part of bankers to curtail the amount. For it must not be overlooked, that the case of increased price of the first necessaries of life differs from every other article. Whatever be their cost there is little or no difference in the quantity consumed as long as people have the power of obtaining them, while a higher price of other less necessary articles is often immediately compensated by a reduced consumption. It is true, that before long the high price of food would lessen the consumption of manufactures and other commodities, and the high rate of the interest of money would assist to reduce production; people would be thrown out of employment, and in the course of time the higher price of food would be compensated by the smaller expenditure on other articles, and their reduction of price; and then the circulation would again fall to the former rate, or even below it. But the first effect of the high price, and coincident with the early period of a drain of bullion, in spite of all the efforts of bankers, in spite of all the efforts of legislation, the actual coin in the hands of the public (in the case of a purely metallic currency) would increase and not diminish, as Sir Robert Peel's doctrine infers it would. And

this inevitable consequence, in the case of a purely metallic currency, is, according to Sir Robert Peel and the advocates of his adopted doctrine, "*the head and front of offending*" of the mixed currency, which has of late years circulated in this country; and to compel which to conform with what would take place with a purely metallic currency, the banking measure of last year was passed.

If any one will examine the imperative consequences which we have now shown must follow from an adverse exchange, and a drain of bullion in the case of a purely metallic currency, with what did occur in the autumn and winter of 1838 and spring of 1839, with our currency mixed of coin and *convertible* paper, they will find them in every respect parallel. In our next article we will proceed to examine the other parts of the subject, as intimated at the outset, and illustrate these principles by the experience of the past.

ARTICLE III.

The Bank Act of 1844 Continued:—A Consideration of the General Principles Applied to Banking, as it Existed prior to 1844.—The Fundamental and Essential Principles on which the Success of Banking Depends.—Deposits.—The Element of Profit in London Banking.—The same in Country Banking.—Banking in Scotland.—Economy of the Currency.—*March* 22, 1845.

HAVING thus far considered the fundamental principles on which currency and banking are based, and by which they are regulated, we will proceed to our next proposition, and consider,

Second, The application of these principles to banking, as it existed in England prior to the late act.

For our present purpose it is not necessary that we should travel back to examine the history of our banking institutions, or the various changes to which they have been subjected. It will be more to the purpose to confine ourselves to a consideration of what is worthy of remark in their modern history and condition.

Banking, generally, as it has been conducted in England, has not had the tendency to attract much capital either for direct occupation as a business, or as a means of permanent investment for the capital of depositors. No banking business either requires or attracts much capital in the former capacity, and the construction of the English banks, as well as the principle on which they have been conducted, have been unfavourable to the encouragement of large and permanent deposits as investments.

As a general rule, the independent capital of bankers constitutes but a very small portion of the means upon which they trade. As we have before observed, bankers are rather the medium through whom the capital of others is lent and borrowed than dealers in their own capital. The private and independent paid up capital belonging to banks may be looked upon rather in the light of a guarantee to the public for their security against the risk which it is known bankers must incur

in the use of the deposits placed in their hands, than as constituting any very important portion of their means of trading.

A banker being essentially, in the first place, a borrower of money, returnable on demand, the great art of his profession is to employ those funds in such a way as will at all times, and under ordinary circumstances, enable him to meet such demands. The prudent employment of such funds entrusted to his care is an infinitely more important consideration for a banker than the possession of a large independent capital. As, however, the credit which a bank can obtain with the public, on which its deposits must depend, can only be the result of implicit confidence, it is essential that so much *bona fide* paid up capital should be known to exist, as, in addition to the reputation and character of the parties concerned, will give perfect faith to the public. Apart from this consideration, a large capital is generally felt rather as an inconvenience than as an additional means of making banking profitable. A well conducted bank should be able, in all ordinary times, and with the exercise of due caution in the selection of its securities, even in the times of pressure and panic, to conduct its affairs with what may be termed, strictly speaking, its banking funds, and without infringing upon its capital.

Nor has the constitution of English banks, nor the principles on which they have conducted their business, been favourable to attracting any very large portion of permanent deposits of capital for employment. In the first place, there have been too many interruptions to the credit and soundness of English banks, to entitle them to that degree of confidence which must exist before banks are selected as the places of permanent deposit for private and, more particularly, for trust funds. And, in the next place, the practice of allowing interest on deposits is not general, and in London, with some slight exceptions, on special terms, quite unknown. Such capital, therefore, has generally been invested in the Funds, or other Government securities.

The main capital on which banks in England conduct their business is the deposits of the aggregate amount from time to

time of the spare money which the vast magnitude of the trade and income of the country release from occupation for temporary periods, too short or uncertain in their duration to induce to any permanent or more profitable investment.

Merchants, manufacturers, retail-dealers, farmers, landowners, the recipients of public salaries, and of interest from the Funds, have all at particular times considerable sums of money in reserve to meet their liabilities and future expenditure. Besides these monies, there are always large amounts of capital, which, having been released from one channel of investment or speculation, are waiting for investment in some new channel; and it is these accidental funds that constitute the chief means by which banks conduct their business—which, though accidental in each particular case, are yet remarkably certain on the general average. One half of a banker's customers may be lenders at one time and borrowers at another, but amid a constant change in the relation of each as his debtor or creditor, the actual amount of means in his hands may vary but little. In short, we may consider a banker as an agent, acting between the lenders and the borrowers of money at any particular moment—always ready to borrow, and always ready to repay.

The two great essential and fundamental principles, therefore, on which the success of banking depends, and to which hitherto very little attention has been paid in all the discussions which have taken place on the subject, are—

First, By what means can a bank attract the largest amount of deposits.

Second, In what way can a bank employ those deposits to the greatest advantage, consistently with the conditions on which they are made; that is—repayment on demand.

These two propositions really do involve the whole art of banking, whether viewed as a source of profit to bankers, or as a source of economy, safety, and convenience to the public. We will consider them separately.

First, By what means can a bank attract the largest amount of deposits.

The first and essential property which a bank must possess, is a perfect confidence on the part of the public. The small amount of benefit which a banker can afford to give his customer for placing his money in his hands, can never be sufficient to induce any man to run a hazard; and, more particularly, the mere difference of terms which one banker can afford compared with another cannot be sufficient to induce any man to give preference to more tempting terms, when weighed against a greater security and confidence.

The want of this confidence, to a sufficient extent, and for a sufficiently long and uninterrupted period, has done more to injure the business of banking in England than any other circumstance. In this respect, and in the effect which the absence of confidence has exerted over the amount and character of the deposits of English banks, we discover a striking contrast between them and the banks of Scotland. Much of this fundamental defect in the character of English banks, if not all, we believe can be traced to the effects of legislation. Since the Bank of England was erected into a corporation, the restrictions which the Government has, from time to time, imposed on the exercise of capital and the independent efforts of individuals, whether singly or in a combined form, in order to preserve the privileges of that establishment, we believe to have been the root of much, if not all, of the mischief and discredit which has attached to the banking practice of England. But for the peculiar privileges granted to the Bank, from time to time—but for the restrictions thus placed on private enterprise, and the constant interference of the Government to tinker and patch up evils to which their own previous acts had led, there can be no doubt whatever that, many years ago, we should have had our banking establishments placed on the highest, safest, and most beneficial principles which free competition, intellect, and energy could suggest and carry into practice. Banking, above all other professions, is that which, under entire freedom and non-interference, would soonest be placed in the most perfect position. The public will not employ an

unsafe bank while they have those of perfect safety with which they can deal, and who are ready to afford them all the facilities which banks can do. It may be said that some men, who are chiefly borrowers, have no choice with which bank they can deal. But to suppose that bad banks could be supported by borrowers, with an indifferent credit, is absurd. It is the *lenders* and not the *borrowers*, and, least of all, the *inferior borrowers*, that constitute the strength and power of banks. We know what has been the result of the restrictions imposed on banking, by the law, in this country, and we have only to look to Scotland to see what has been the effect of a long career of perfect freedom and competition upon the character and credit of the banking establishments of that country, as well as in affording the greatest convenience and satisfaction to the public.

Confidence is the first essential of banking, and it will be much in proportion as the banks of a country possess that essential that they will attract large deposits. Comparatively inferior banks may command a certain kind of mere temporary and fleeting deposits, but great stability alone can secure such large and more permanent deposits as constitute the power and strength of the Scotch banks. Nor is the advantage thus derived from any principle which leads to a large amount of deposits in the hands of bankers, felt more by the banker himself than by the community where he is placed; for it is a means by which the spare capital of every locality is kept within itself, and is used, through the medium of the banker, to encourage productiveness and improvements in the neighbourhood. But for some safe means of investment at home, the spare capital of every district will have a tendency to find its way to the metropolis for investment in the public funds or other securities, while, through the medium of a safe bank, it might be retained at home to effect important local improvements and facilitate manufacturing and agricultural pursuits.

But, independently of the great requisite of *confidence* which a banker must possess, there are other important

causes which materially affect the amount of deposits in bankers' hands. Bankers, as borrowers and safe-keepers of the money of the public, must not only be paid for their services, but must also be reimbursed the expense of the establishments necessary to conduct their business. There are, however, various practices as to the mode in which bankers are so paid and reimbursed, and which, in their practical effect, tend more or less to encourage or discourage large amounts of deposits. The Bank of England derives its profits from its circulation and the use of a portion of its deposits, for which, however, it gives no interest, and which are, therefore, always kept at the lowest amount which is consistent with the convenience of their customers. The other bankers in London, with very trivial exceptions, and those under special conditions, give no interest on deposits. Nor do they charge any commission for the trouble of keeping their customers' accounts, collecting their bills when due, paying their cheques, and performing a variety of services which would otherwise cost each individual much labour and no little risk; but they are remunerated by the balance which it is understood each customer will keep at his account, the aggregate of which constitutes a fund which the banker can invest in securities, bearing interest, along with a given proportion of the other accidental balances, at all times averaging a large sum, which these various customers have in their hands. But, in consequence of this principle of conducting banking in London, by which no interest is paid on deposits, it must be obvious that even the sums left temporarily with bankers for employment will be always at the lowest level consistent with public convenience. Out of this defect in the London banking a new class of money-dealers have been called into existence, or rather an old trade has changed its character of late years. Some years ago the London bill-broker was merely an agent who negociated between the merchant having bills to discount and the banker having money to invest in such securities, and he was paid by a small brokerage for his trouble; but

the practice of bankers not allowing interest on deposits has at length changed the character of the bill-broker to that of a banker, taking deposits (money at call) at a given rate of interest from one man to lend it by discounting bills at a higher rate of interest to others, at the same time that he acts as a medium for transferring the spare capital which accumulates with bankers in one part of the country to those in other parts, where trade and commerce create a greater demand for it. It must, however, be evident that, were the London banks constituted so as to allow interest on deposits for short periods, they would not only secure a much larger amount of deposits, but with them they would secure the discounting of a large amount of the bills which, at the present time, are done by bill-brokers. And many who now make temporary investments in exchequer bills or consols would leave their money with their bankers at a low rate of interest, and thus increase their means of extending their transactions in bills of exchange and other securities. Bankers may reply, that, as it is, they have sufficient difficulty to employ their present deposits in good securities, but they forget that by their present practice they raise up competitors in every man who requires a temporary investment for the same securities. The best bills are taken out of the market by the money *at call* left with the bill-brokers.

Among the country banks various modes are adopted for remunerating the banker for his trouble and expense. In some cases a banker allows interest on deposits, charging a commission on all transactions with his customer. The great disadvantage of this system is, that much more capital remains idle in the hands of the public, for a man will never pay money into his bank account, unless he can spare it for such a time that the interest which he will receive will exceed the commission which he will be charged for paying it in and drawing it out; and thus one of the great objects of economy of capital effected by banks is lost, and the amount of deposits in bankers' hands is necessarily much curtailed. This difficulty has been met by some bankers, who have charged a fixed sum

per annum for doing business instead of a commission (this plan has been pretty generally adopted between country bankers and their London agents), allowing interest on deposits placed in their hands for a given fixed period, or subject to a certain notice before withdrawal, but not upon those which are operated upon in open account. But in this case one of the inducements to place money with bankers for short periods is removed, and much more idle money is left in the hands of the public. The principle of conducting banking, which has tended to the greatest amount of deposits, and generally to the greatest success of the banks themselves, while the greatest advantages have been secured to the public, has been that pursued by the banks in Scotland.

In the first place, they are constituted on a principle to afford to the public the greatest amount of confidence in their permanent and ultimate safety. By the profits derived from their circulation they are enabled to allow interest on all deposits for however short a time; and they derive a further profit from the higher rate at which they are enabled to invest a considerable portion of such deposits. The rate of interest which they allow on deposits is generally equal to that which could be obtained by investment in government securities, especially when people consider the charge of brokerage, and the risk of a fall in such securities when they may happen to require their money, and, as they allow the same rate of interest for however short a period a deposit is made, the consequence is, that almost every man keeps a banking account, into which he pays whatever money he can spare at the conclusion of the business of each day, looking to the day's interest which he will receive. The combination of advantages which result from this system to the banks themselves, but more particularly to the community at large, is greater than, at first sight, will be very plain to those unacquainted with the practical effects of the system. The first effect is to economise the currency of the country to the greatest degree that, under any circumstances, would be possible. The strongest inducement is held out for every man who has spare funds in his hands, to

keep a banker's account, and to keep no money, even for a day, for which he has not immediate use. In consequence of this, the whole trade of Scotland is performed with a circulation of only 3,500,000*l.*, including notes of all denominations from *one pound* upwards, while the circulation of England in coin and notes cannot be less than from 50,000,000*l.* to 60,000,000*l.* The population of England and Wales is *six* times greater than that of Scotland, and therefore a currency of 21,000,000*l.* ought to perform the functions of exchange as well here as one of 3,500,000*l.* does in Scotland. Nor can it be said that a greater commerce existing in the one country in proportion to the other is the cause. In the first place it is doubtful if such is the fact; but, whether or not, the large transactions of commerce are not those which require the aid of the common circulation of notes and coin, the use of which is chiefly confined to retail transactions, payment of wages and private expenditure.

The next striking result of this great economy of capital is the enormous amount of deposits which are placed in the hands of the Scotch banks, and on which their great strength chiefly rests, amounting, as they do, to more than 30,000,000*l.*

The bank of England, with a capital of 14,500,000*l.*, and with a circulation of 20,000,000*l.*, independent of what it holds on the part of the Government, commands deposits, even at the present moment, to the extent only of 10,000,000*l.*,* a large portion of which are merely the reserves of the London bankers; while the Scotch banks, with a capital of less than 10,000,000*l.*, and a circulation of 3,000,000*l.*, commands deposits to the extent of 30,000,000*l.* for investment and use. The effect of this system, as regards the public is far more important than the mere interest which each receives from his spare cash. It is in effect increasing the actual capital of the country, by rendering much of it productive that would otherwise be idle; and, moreover, it keeps large sums at home, and in

* Of which upwards of 2,000,000*l.* are the deposits required by law from the applicants for new railway acts.

each locality, that would otherwise be sent for investment in government securities. And thus, through the medium of the banker, the spare capital of each neighbourhood is rendered available for the promotion of improvements and general industry, which, did the banks not allow interest, must necessarily have been sent to a distance for investment. And there can be no doubt that much of the agricultural improvement for which Scotland is so remarkable has been owing to this local application of the spare capital of the country.

We shall have occasion in the future parts of this discussion, to refer more particularly to the influences exerted on the prosperity of the banks, as well as the people of Scotland, through this principle, by which they attract and permanently retain, such large amounts and deposits, and which we conceive to be highly deserving the attention not only of bankers in general, but also of statesmen and politicians. In our next we will proceed to consider the nature of the various securities in which bankers may most safely invest their deposits, in order to combine a fair amount of profit with the most perfect security, and consistent with the peculiar conditions on which they hold them.

ARTICLE IV.

The Bank Act of 1844 Continued :—The Character of a Banker's Business.—The Essential Character of Securities which Bankers hold.—Bills of Exchange.—Advances on Merchandise.—Personal Loans.—Remarks on a Mixed Currency of Bank Notes and Coin.—On Inconvertible Paper.—On Convertible Paper.—*March* 29, 1845.

At the conclusion of our last article, we proposed next to consider by what means a bank can employ its deposits to the greatest advantage, consistently with the conditions on which they are made—that is, repayment on demand. As we may again have to refer, in a subsequent part of this discussion, to the effect of the new law at a time of pressure upon the securities held by bankers, we do not propose to devote much space to this consideration in this place.

The business of a banker is to borrow and lend; but as he borrows generally on the condition of repayment on demand, it is necessary that his loans shall be made on such conditions and on such securities as will enable him to rely upon a return of his funds in a given time, or to have them represented by such securities as, in the case of unexpected need, can be converted into money. It is, therefore, equally as necessary that a banker should look to the convertibility of his security as to its ultimate safety. On this account mortgages on real property have now become universally repudiated as proper banking securities. Strictly speaking, a perfect banking se-security should combine ultimate safety, a certainty of payment on a specified and not distant day, a capability of being converted into money in case of unexpected emergency, and a freedom from liability of depreciation. The first and last of these requisites are common alike to all banks; the second and third will admit of some modification, according to the state of the money market and the peculiar character of the business of particular banks, and especially whether deposits

are by practice of a very fluctuating or of a more permanent character.

On the whole, the first class of bills of exchange may be said to possess all the requisites of a perfect banking security in a degree superior to any other. The united guarantee of drawer, acceptor, and indorsers, insures the ultimate, and generally the punctual, payment. The period for which such instruments are drawn is generally short. They are always capable of re-conversion under ordinary circumstances, and even in a period of the greatest pressure, money can be obtained upon them in preference to any other security, though perhaps at an advanced rate of interest, and the sum to be paid is not exposed to depreciation. But though bills of exchange combine most perfectly all the requisites of a banking security, they unquestionably require an exercise of more prudence, caution, and knowledge of individuals than any of the other usually received securities, as their value depends altogether on personal responsibility. In short, more strictly speaking, bills of exchange may be termed the only security in which bankers can with propriety absolutely *invest* their deposits, or in which prudent bankers practically do so. All the other means of using deposits are rather in the shape of personal loans, guaranteed by collateral securities, such as exchequer bills, consol warrants, the scrip of public companies of a well known and convertible value, the warrants of merchandise lying in our public warehouses, or of any other property at all times and easily convertible into money. In most cases the investment of money on merchandise is made through the instrumentality of brokers who are personally liable for the sums advanced, and who have a power of sale over the property to release the funds in order to provide payment for the loan in due time. In all such loans, however, it is the practice only to advance a portion of the value of such property, to secure the banker against any depreciation in its market price when it is sold; and, in order to give to such loans the further attributes of a banking security, of convertibility at pleasure, and

fixing a day for repayment, the promissory note of the borrower is not unusually deposited with the warrants.

But though personal loans, made by bankers with such precautions, may fairly be considered a legitimate use of deposits, it will be apparent that an actual investment in any of these securities could hardly be considered in that light, as a banker would, by such a course, expose himself to all the consequences of a fluctuation in the value of such commodities, and would become a speculator in government securities, railway shares, or foreign produce, as the case might be, instead of a mere lender of money at interest. But though it is inconsistent with the business of a banker to invest money in such securities, except as a collateral guarantee for a personal loan, it is not always inconsistent with safe and judicious practical banking to lend money with such collateral securities, and depending only on the personal credit of the borrower. The propriety of such investments must, of course, depend entirely on the prudence and caution exercised in the transaction. But it certainly cannot but be considered a legitimate transaction for a banker to lend money to a customer in whom he has perfect confidence, at a particular period of the year, when it is well known the nature of his business requires the use of a larger capital, and whose spare funds the banker is in the habit of holding at another period of the year when he less requires his capital. In the agricultural districts this practice exists to a greater extent, and is attended with less danger, from the simplicity of a farmer's transactions, and the more intimate knowledge of his affairs possessed by the banker than can possibly prevail in large mercantile and manufacturing communities. If a landowner requires a large advance of money, to carry out particular improvements in anticipation of his next rents, his banker can always judge of the propriety or safety of making such advances, from his local and personal information. If a farmer requires an advance at a particular period, either for the purchase of stock, or the payment of his rent, his circumstances, character, and his crop in hand, are usually so well known to his banker as to enable him to judge of the propriety of making such an advance, and of the certainty of its repayment on the day stipulated. Such advances on mere personal security, though more common in the agricultural districts, are by no means, however, confined to them; but in whatever cases they prevail, much must depend on the discretion and peculiar circumstances of each individual banker as to how far he can so employ the deposits in his possession; and in all cases the four general rules for the use of deposits should never be lost sight of, though in each individual case it must be left to the discretion and judgment of the banker himself how far any particular investment which offers, secures him in those respects. *First*, That it is ultimately perfectly safe. *Second*, That it be repayable within such short periods as comport with the nature of the deposits in his hands, and to enable him, by the frequent return of his funds in the regular course of business, to contract his loans if the state of his deposits or of the money market renders such a course desirable. *Third*, That it should generally be of such a nature as to be capable of being reconverted in case of need, or, at least, that a sufficient proportion of the deposits or other means of the banker should be held in such securities in reserve as will enable him to command money for any unforeseen emergency. And, *Fourth*, That it presents a perfect guarantee against depreciation of the principal sum during its currency, or such a margin as will at least secure the banker against any ordinary fall of price.

The whole of our remarks hitherto have been strictly applicable to banking conducted with a purely metallic currency; and we will now pass on to a consideration of the effect, and more particularly as it has of late years existed in this country,

OF A MIXED CURRENCY OF BANK NOTES AND COIN.

We have already explained under what circumstances coin was originally introduced as a medium of exchange, how a portion of the capital of the country was abstracted from productive uses to perform the function of currency, and how that necessary amount of capital became economised by the intro-

duction and instrumentality of banks. In the progress of time many other plans have been adopted for the purpose of further economising the capital invested as coin requisite to conduct the internal exchanges.

Bills of exchange have been resorted to as a means of making payments between different parts of the country, instead of transmitting money to and from various districts for each payment; and the practice now so general of making bills of exchange payable at a banker's in London, is an important additional means by which the use of a large amount of money is dispensed with. Again, bankers' cheques have been now almost universally introduced for making payments between individuals resident in the same town, instead of money being passed to and from various individuals for each payment; and thus all the money that is required to conduct the whole of these transactions, whether between parties resident at a distance from each other, or in the same place, is the sum which one banker has to receive from another as the final balance of these various orders which they hold upon each other. The same function which a bill of exchange performs between parties at a distance from each other, is performed by cheques between parties resident in the same place.

But the most important way in which the use of money has been economised since the introduction of banks of deposit, has been by the use of bank notes issued for small sums and payable to bearer on demand. From the long habit of an indiscriminate use of notes and coin as a circulating medium, much confusion prevails as to the precise nature and character of the former. By no one has the relation between them and money been stated more clearly, or in fewer words, than by Mr. Huskisson in the following sentence:—

"Money is a given quantity of gold or silver . . . Money, or coin of a country, is so much of its capital. Paper currency is no part of the capital of a country. It is so much circulating credit. Whoever buys, gives—whoever sells, receives—such a quantity of pure gold or silver as is equivalent to the article bought or sold: or if he gives or receives paper instead of money, he gives or receives that which is valuable only, as it stipulates the payment of a given quantity of gold or silver. So long as this engagement is punctually fulfilled, paper will of course pass current with the coin with which it is thus constantly interchangeable. Both money therefore, and paper promissory of money, are common measures and representatives of the value of all commodities. But money (gold) alone is the universal equivalent—paper currency is the representative of that money."

Thus bank notes are to be considered as means of transferring a claim which one man who holds them has upon the issuer of such notes, to another man to whom he pays them. Instead of so much absolute coin, he hands over a document entitling the owner, on presentation, to receive the specified quantity of coin; in a similar way that a man, in paying an account, instead of handing over the actual money, gives an order or cheque which entitles the bearer to receive it from his banker. It is true the latter instrument seldom continues in circulation, while the former passes from hand to hand for an indefinite period, and is subject to different legal regulations; but in its simple function, as a medium of exchange, and as a means of economising the coin, it is precisely the same. And we think it will be readily admitted by all, that if such bank notes were established upon a principle which would give to the public satisfactory security, and which would really act in every way as the coin they represent would act by itself—which, in short, would perform all the functions of currency and preserve their value as perfectly as coin, that the economy consequent upon their use would be a source of great gain to a country:—First, in saving the wear and tear of the coin which they would displace; and, next, by restoring to productive uses some portion of the capital which the coin in circulation had abstracted for the purposes of currency.

The paper currency which has been issued in various countries, and at different times, has materially and essentially varied in its character, but it may be generally divided into the two general classes of inconvertible and convertible, and on which we will bestow a few remarks separately.

First, INCONVERTIBLE PAPER CURRENCY.—This may again be divided into two kinds: *First*, Paper issued by a government for its general expenditure, nominally representing some coin, but not convertible into such coin. If the quantity of

such paper issued were always kept somewhat below the smallest amount of currency required in a country at any given time, so that the additional quantity had to be supplied by coin, and thus coin and notes freely circulated together, there is no reason whatever why such notes should suffer depreciation. But the moment the quantity issued exceeded the amount of currency required at any moment, the precious metals, having an intrinsic value both for purposes of manufacture and for foreign exchanges, would be withdrawn altogether from circulation, and the paper would have no limit to its depreciation, except the quantity in which it was issued. *Second*, Paper issued by a bank exclusively in the discount of bills of exchange, or on loan for short periods. It is an opinion which many of the ablest writers on currency have held, that inconvertible paper notes might be issued to any extent that legitimate transactions required them, provided such issues were confined to the discount of good bills of exchange, and to loans for short periods, without any risk of depreciation, because a larger quantity never could be so issued than was again shortly returnable to the bank in payment of such loans. The most able reasoning with which we have met in favour of this proposition, is in a very clever work by Colonel Torrens, published in 1812. Against this view it has been urged that, though a merchant might require a sum, say of 10,000*l.* to-day, it did not follow that he would require it for any length of time, and that, as it was not returnable to the bank until the repayment of the debt or bill on which it was borrowed became due, the currency might in the interim be redundant and so much depreciated. But those objectors overlook the fact, that if the same merchant did not continue to require the use of the money for more than a few days, he would either invest it in interest-bearing securities, or, through the medium of a banker or bill-broker, it would be used to discount other bills for other parties at a lower rate than that charged by the bank, and would thus intercept such bills or securities on their way to the bank, which in the meantime would be receiving its notes in payment of loans and bills falling due from day to day, and, if not re-issued to the same extent, the currency would be contracted to the wants of the day by this means, just as much as if the 10,000*l.*, no longer required by the first borrower, had actually and immediately been returned to the bank. It is quite clear that in this way no larger quantity of notes could be kept out than the purposes of currency actually required; for the moment a man held notes for which he had no use, he would with them intercept some interest-bearing securities on their way to the bank, and, while other notes were flowing in, in repayment of bills or loans falling due, he would to that extent prevent further re-issues. But it is also evident that the instant such a bank began to lend money to a government on securities not redeemable, that in such a case, as with the government itself, as soon as the quantity of notes in circulation exceeded the want for currency, that moment depreciation would commence, and would go on just in proportion as the issues exceeded that limit. In practice, therefore, we conceive such a principle far too dangerous for one instant to be encouraged. Still, it is well that the distinction which we have pointed out should be understood.

Second, CONVERTIBLE PAPER CURRENCY; which we may also consider of two kinds: *First*, Paper which is convertible into its representative of gold, but not always, at the will of the holder, but at some specified, though not far distant, time. However secure such paper may be of payment at the time stipulated, or whatever may be the credit of the issuers, it is not free from the risk of depreciation; if gold be required for immediate use to balance an adverse foreign exchange or any other purpose, any instrument, however secure of ultimate payment, will sink in value. Thus, for example, exchequer bills rise and fall in price in the market, as the demand for money rises and falls; but it is clear that, with securities to which no hazard attaches, these fluctuations will be confined to the extent to which parties will be induced at any particular moment to take them as investments, for the sake of the interest they will bear. But in times of great pressure and

discredit, when there is a great demand for money, and few lenders, the price of exchequer bills may fall very low, without implying any doubt whatever in their ultimate security; but simply from the fact that they will not command money or coin if wanted at the moment. Again, in past times, it was not uncommon for banks to issue notes payable on demand, or at a distant day from that of presentation, at the option of the issuer, but in such case the notes bearing interest till the day of payment. However secure such notes might be of ultimate payment, they were never free from the risk of depreciation at times of pressure, or an adverse exchange, and on this account have long been abandoned in this country as part of the currency. *Second*, Paper which is at all times convertible, at the option of the holder, into its representative in coin—such as is the whole of the paper currency now circulating in the United Kingdom; for though country bankers can pay their own notes in those of the Bank of England, yet as the latter are immediately convertible into their representative in coin, so for all practical purposes this arrangement does not interfere with the convertibility of country notes, while it has the desirable effect of keeping a large stock of bullion centred in London, where it is always available for transmission to foreign countries, instead of being scattered throughout the country in each banking establishment to a greater extent than is necessary for the internal purposes of currency. Indeed, we consider this arrangement a highly desirable and useful mode, by which a considerable economy of the use of bullion is effected, and the stock of that commodity, thus centred in the Bank of England, is rendered more effective for all purposes than if held in considerable quantities by private bankers throughout the country, as reserves against their liabilities.

Until of late, all writers worthy of any respect, from Adam Smith downward to Ricardo and Huskisson, whatever different opinions they held in other respects regarding the currency, were agreed at least in this principle, that immediate convertibility of notes into the coin they represent, at the option of the holder, would be at all times an infallible guarantee against any depreciation of their value. The correctness of this opinion is now, however, doubted by some and denied altogether by others. It is asserted that, notwithstanding the convertibility into coin at the option of the holder, notes may be issued in excess, and may depreciate in value. On this principle the bank measure of last session was founded, in introducing which Sir Robert Peel said,—

"We want only a certain quantity of paper, not indeed fixed and definite in nominal amount, but just such a quantity of paper, and that only as shall be equivalent in point of value to the coin it represents. If the paper be cheaper than the coin, it is an evil and not an advantage. That system, therefore, which provides a constant supply of paper, equal in value to coin, and so varying in amount as to insure at all times immediate convertibility into coin, together with perfect confidence in the solvency of the issuers of paper. is the system which ought to be preferred.'

This is unquestionably true; but it appears to us the most difficult of all conceivable propositions that bank notes, convertible into coin at the option of the holder, can ever be "cheaper than the coin," or can ever be other than "equal in value to coin." To suppose otherwise would be to admit that people would voluntarily retain in their possession one representative of currency of inferior value which they could at option exchange for another of superior value. But Sir Robert Peel appears to be of that opinion, for he denies that convertibility at pleasure is a security against over-issues and depreciation. He goes on to say,—

"Now, unless the issuers of paper conform to certain principles, unless they vigilantly observe the causes which influence the influx and efflux of coin, and regulate their issues of paper accordingly, there is danger that the value of paper will not correspond with the value of coin."

But, in a future stage of the debate, Sir Robert Peel, in replying to a question put by Mr. Newdegate, appeared to forget altogether the fundamental charge against the existing system of paper issues, and supplied a most perfect reply to his own assertions, that convertibility at pleasure is not a guarantee against depreciation. We quote from his speech reported in the *Times* of the 21st of May, 1844,—

"First, I beg to inform the hon. gentleman that I do not admit that this is an extension of the principle of the act of 1819. I say it is a complement to the act

of 1819, and a measure that will fulfil it; but it is not an extension of the principle of that act. The act of 1819 recognised this principle, that there should be a standard of value in this country—that that standard of value was a given amount of gold; and that he who issued paper should be obliged to fulfil his engagement, and pay it in gold. The measure I propose does not carry that principle any further. My answer to the question is this:—I say there is a standard of value, and that that standard of value is a definite quantity of gold, of certain fineness. He who issues paper promises on the face of that paper to pay a certain amount of gold. The paper, then, ought to conform to the gold. I admit the operation of this measure may for a time affect a limitation of prices; but I say that all increase of prices, arising from an excess of paper, is an illegitimate increase; and that there is no advantage in any increase of prices that arises from an issue of paper beyond the value of the metal it represents. I bring the matter to this simple issue:—

Suppose you have depreciated your paper, and your paper still remains convertible into gold, do you think that every man who had a right to insist upon receiving five sovereigns for his 5l. note, would not immediately insist upon that right the moment he found that gold was more valuable than paper? Don't you suppose, that if the great dealer in exchanges in London, Mr. Rothschild, found that by presenting 500,000*l. of paper at the Bank of England he could get* 500,000 *sovereigns, and that they were more valuable than paper, he would avail himself of the power the law gave him, and demand the gold? And don't you suppose that every other man, whose transactions were less extensive, but who had a right to receive five sovereigns for his 5l. note, would immediately demand it? Does not all experience show that, though there may be a temporary increase of prices, a time of reaction —of revulsion—will arrive? I say that no increase in the price of paper beyond its value in gold can be of advantage to the country—it cannot be permanent."*

In our next article we will enter into a consideration of "those principles" to which Sir Robert Peel would have "the issuers of paper money to conform," in order that the same action may be maintained on a mixed currency of paper and coin, as would take place upon an entire metallic circulation, in the event of an influx or efflux of bullion; and this we shall have more facility in doing, having already, in our former articles, closely examined the effect of such events on a purely metallic currency.

ARTICLE V.

The Bank Act of 1844 continued:—The circumstances which led to this measure. —Five Assumptions upon which the expediency of that bill was defended.—Can convertible paper be depreciated?—Conformity of a mixed currency with the variations of a metallic currency.—*April* 5, 1845.

DURING the suspension of cash paymer ts by the Bank of England, and more particularly in the discussions which took place on the subject of the currency from 1810 to 1819, it was common to refer all the great fluctuations of commerce and the revulsions of credit to the capricious expansions and contractions of the circulation of the Bank, under circumstances which enabled that establishment to depreciate or appreciate the currency at pleasure, according to the amount of its issues.

Greatly, however, as the influence of the Bank over such commercial revulsions was then exaggerated, and fatal to the future interests of the country as was that error, inasmuch as it prematurely closed the door of investigation into other and more important causes, still the whole theory of the baneful influence of the bank rested on the issue of inconvertible paper, the fluctuations in the quantity of which, it was asserted, not only caused a material variation in facilities for mercantile credits, but also (which was no doubt the case) raised or lowered the *nominal* price of goods, as the notes appreciated or depreciated. By all, however, it was agreed, that a return to cash payments—that a restoration to convertibility of bank paper into coin of standard weight at the option of the holder —that a removal of the restrictions on the export of coin, and, in short, the provisions embraced in the Bill of 1819, would effectually secure the country against over-issues, and consequent depreciation, of bank notes, and prevent for the future any fluctuation in the value of the currency; and had the anticipations of the effects of that measure stopped here, we know of nothing that has since occurred which, when patiently investigated and well understood, could be said to have falsified

those expectations. But the advocates of a return to cash payments went further—they had attributed much of the frequent occurrence of commercial crises and revulsion to the suspension under the act of 1796; and they accordingly anticipated, with the resumption under the act of 1819, a material, if not entire, preventive of all future commercial derangement. The subjects of *currency*, and *capital*, of *circulation*, and *credit*, though as distinct as things can possibly be in their nature, and in the laws which govern them, were commingled in men's minds in one mass of intricate confusion, and led greatly to an erroneous estimate of the past, and of the benefits to be anticipated in the future. This confusion is apparent in most of the discussions and writings of that time, and in a great majority of all that have appeared since, and in no place in a more remarkable degree than in the speeches with which Sir Robert Peel introduced and supported his New Bank Bill in 1844.

The occurrence of the panic of 1825-26, bringing with it derangement and havoc without any previous parallel while it lasted, at once convinced every one that a grave miscalculation of the effects of the bill of 1819 existed somewhere. This is not the place to go into a close investigation of the causes of that crisis, but the government of the day, falling into the common error, and not distinguishing between *credit* and *circulation*, suddenly interposed a law to abolish, within a short and limited time, all notes below *five pounds*, which, at least, it was thought, would secure all the promised advantages of the bill of 1819, as far as regarded trade. Subsequent experience has proved how ineffective even that restriction on paper circulation has proved to secure the desired object and prevent convulsions of credit, which, on the contrary, have occurred so frequently, as to attract once more the further interference of the legislature by the bill of 1844; but we fear with no more chance of success to obtain the desired object than all the former abortive attempts, as its whole or chief object is to regulate currency, while it does little or nothing to improve the basis of credit.

All former regulations of the currency having failed, the minister has adopted a principle of further regulation, which has been gaining ground for many years past, and which has been advocated by the most leading and (numbers considered) by far the most influential and eminent politicians, political economists, and practical bankers of the day. It has, however, been opposed, by men individually as eminent as any by whom it has been supported, both by their published writings, and their evidence before parliamentary committees. Were we, however, to judge only by weight of authority (numbers considered), we would readily admit that Sir Robert Peel might fairly expect a happy result from his experiment. But when we look to the grave errors which, on former occasions, have been supported unhesitatingly by even a more unanimous approval of all living authority; and, when, on investigation, we find the principles in themselves totally at variance with what we conceive to be a just conception of the nature of currency, and when we find, on further investigation, that, even were it not so—were the fundamental assumptions, on which that act is grounded, all true—even then the anticipated effects would not result, we are compelled to fear only another serious failure and disappointment; and if the operation of the law be relied upon, as implicitly as the authority with which it has been introduced would fairly lead us to expect, we fear that derangements will occur under it in even an aggravated form.

SIR ROBERT PEEL'S BANK MEASURE.

At the conclusion of our last article, treating of *a mixed currency of bank notes and coin*, we stated that the fundamental objection which Sir Robert Peel entertained to the circulation, as existing previous to the introduction of his act of last year, was that convertibility into coin at the option of the holder was not alone a sufficient guarantee against over-issues and consequent depreciation; and that, "*unless the issuers of paper conform to certain other principles, there is a danger that the value of the paper will not correspond with the value of coin;*" and

that this check alone will not secure the same action and variation on a mixed currency of bank notes and coin in various states of the foreign exchanges, and during an efflux or influx of bullion, as would occur with a purely metallic circulation. Now, if these positions were true, we would at once conceive the necessity of some change, for we admit all these qualities to be essential to a perfect currency,—that is, we admit that all paper currency, to be perfect, or in any way admissible, should possess the most entire guarantee against depreciation, just as much as a man who contracts to deliver a quarter of wheat should not be able, by any trickery on his own part or that of the law, to get off by delivering *seven bushels;* and such perfect convertibility being at all times maintained by whatever means, it must follow, as a matter of course, that a mixed currency must then follow the same rules in its variations that a purely metallic currency would.

In order to secure these necessary and desirable objects, Sir Robert Peel asserts, that convertibility at pleasure is not enough. The advocates of his measure contend that, in order to prevent depreciation of bank paper, and to make it conform with the variations which would occur with a currency entirely metallic, it is further needful that the issuers should regulate the quantity of notes in circulation by the variations in the foreign exchanges—that with an *efflux* of bullion they should contract the circulation, and with an *influx* of bullion they should again expand it. They contend that a strict observance of these rules will regulate and restore the foreign exchanges, and, if not entirely prevent, yet will materially modify the severity of a crisis which would attend any such derangement —that it would only be doing by a fixed law, and at an early period of the derangement, what has always been done by no rule, but by the chance of pressure and necessity, and always so late that the evil has been greatly aggravated. They contend that if, at the commencement of a drain of bullion, bankers were to contract the amount of their notes in circulation, it would raise the value of the currency, lower the price of goods, check any further importation, encourage more extensive exportation, and thus correct the adverse exchange by an action on merchandise, and stay the drain of bullion :— that, during a favourable exchange, bankers should expand their circulation of the notes, lower the value of the currency, raise the price of goods, check further exportation, and encourage importation; and thus again, through this action on the price of goods, correct the exchange, and prevent a further influx of bullion. In order to accomplish these objects it is contended, that while the bank may safely issue, upon fixed securities, a quantity of notes, which shall not exceed the smallest amount of paper currency that can at any time, and under any circumstances, be required—such a quantity, in short, that, even were it inconvertible, would continue to circulate free from the risk of depreciation; yet that all above that sum must vary in amount exactly with the quantity of bullion in possession of the bank—that, as gold increases in the coffers of the bank, the circulation shall increase, and, as gold diminishes, the circulation shall correspondingly diminish; for such, it is contended, would be the action of a purely metallic currency.

In pursuance of these principles, Sir Robert Peel's bill provides that the bank shall circulate, on fixed securities, the sum of *fourteen millions,* as being the smallest sum that, under any ordinary circumstances, can be required, and that the issues beyond that amount shall vary precisely as the amount of bullion varies.

These principles, and the course pursued by Sir Robert Peel, necessarily involve the following

FIVE ASSUMPTIONS.

First, That bank notes though payable in coin, at the option of the holder, are still liable to be issued in excess, and are consequently subject to depreciation.

Second, That convertibility is not alone a sufficient guarantee that a mixed currency of bank notes and coin shall conform, in its variations, to the same laws that would regulate a purely metallic currency.

Third, That issuers of bank notes have power to increase or decrease the circulation at pleasure.

Fourth, That, by an expansion or contraction of the issues of bank notes at pleasure, the prices of commodities can be increased or diminished; and,

Fifth, That, by such increase or diminution of prices, the foreign exchanges will be corrected, and an undue influx or efflux of bullion, as the case may be, will be arrested.

We think it will be admitted that these five propositions fairly represent the principles involved in Sir Robert Peel's measure, and maintained by those who advocate and support it. In the face of such an array of personal weight and authority, including the most expert and practised politicians of all parties, and men the most accomplished in economical science, it has not been without the most careful and diligent process of investigation and reflection that we have arrived at a conclusion that these propositions, which at first sight startle any thinking mind as involving principles contradictory to those generally received as regulating ordinary mercantile pursuits, are not only *not true* and supportable by fact, but are, in every instance, nearly the *reverse of truth*. But we are not altogether without the support of high authority in our views; in all main and essential points they concur with those advocated for some time past by Mr. Tooke, whom, taken singly, we are bound to regard, whether viewed as a political economist, as a man of practical knowledge and experience, as a laborious, pains-taking, and candid writer, or as evincing in his works the most minute and extensive investigation, among the highest of all living authorities on such subjects; whose great works have been stamped with universal approbation, and have secured a permanent place in the commercial and economical literature of the country. Nor can we omit mention of the more recent work of Mr. Fullarton on the subject, which also in the main supports our views—a work which exhibits a more intimate and familiar knowledge of all the facts and reasonings on which these principles are based, and in which they are treated in a more popular manner, than any

other that has yet come under our notice, and which cannot fail to give to the author a permanent place among the most able writers on the question of money and currency.

In undertaking, which we shall now do, to show that each of these propositions is fallacious, and has no foundation whatever, either in true principle or experience, we would carefully guard ourselves from the most remote suspicion that our opposition to them has any sympathy with those who object to this measure on the ground of its rendering more stringent or secure the convertibility of paper at the option of the holder.

CONVERTIBLE PAPER AND DEPRECIATION.

ASSUMPTION, *First*.—That bank notes, though payable in coin, at the option of the holder, are still liable to be issued in excess, and are consequently subject to depreciation.

This proposition contains a *prima facie* contradiction of terms, that would appear to throw the whole onus on those who assert and maintain it, to prove it, and not on those who deny it to disprove it; for it is indeed difficult to conceive any state of circumstances which would induce the public to retain in their possession a lower representative of value, when the mere trouble of stepping to a bank and presenting it for payment would instantly put them in possession of a higher and more valuable instrument of exchange. When we think of the increasing pains and labour which men use to make the smallest profits by business, the supposition must be at once rejected as having no foundation in fact, that so simple and so easy a means would be neglected. For what in reality does excess of issue, and consequent depreciation, mean? If it means anything, it is that the paper in circulation will not command the full quantity of coin it represents, or exchange for the same quantity of other commodities as that coin would. But will any one believe that in this country, with such facility of intercourse, bank paper, in any part of it, could ever experience such a disparity with coin, when, on presentation, it can be exchanged for its full value? It may indeed be said

that, in distant parts of the country, a premium is sometimes paid for the exchange of a large note into sovereigns. True, but this is only in the character of a banker's charge, for a facility given to the party holding it—for keeping open an office to facilitate the business of the public. Suppose a party in London has to transmit 50*l.* to a party in a small market town in Cumberland; the cheapest way of doing so would be by a Bank of England note, which, however, when received, might cost the recipient a small commission to the banker in the town for changing it, if he could find no one requiring such a note. But such charge would only be in the light of the cost of transmission of money from one place to another, and in no way prove any depreciation in the instrument of exchange itself; for the very same day another party might go to the same banker and pay a premium for the same note to transmit as a payment to another part of the country, rather than incur the greater expense or risk of sending *fifty sovereigns*, or taking a bill at the par of exchange.

But some admit, "that while convertible paper cannot permanently be depreciated—that while it must at length become equivalent to the specie it represents, still, under certain circumstances, the adjustment may be long deferred."—(*Norman's Remarks on Currency and Banking.*) If Mr. Norman here refers to paper convertible at pleasure, and not at a distant day, then we can only say that it is beyond our comprehension how such depreciation could, under any circumstances, be deferred beyond the time requisite to exchange the instrument. Nor does Mr. Norman explain under what circumstances the depreciation he speaks of would take place. It is true, he and other writers constantly refer to the various proportions in which Bank of England notes and country bank notes have been in circulation at particular times; but that is no more an evidence of depreciation than were it attempted to prove that, at some particular time, half-sovereigns were depreciated, because they were found to occupy a larger share of the circulation in relation to sovereigns than at any other time. No one has yet shown that a convertible bank note

ever sold for less than its value in gold, or would command less wheat than such gold would.

But Sir Robert Peel stated some startling evidences of his proposition in his speech on the 6th of May, 1844—startling indeed, had they turned out to be true, or applicable to his case. He cited as evidences of the truth of his proposition: *First*, That shortly after the establishment of the Bank of England its notes were at a discount of 17 per cent. *Second*, That in Ireland, in 1804, the exchange was unfavourable, and that it required 118*l.* 10s. of the notes of the Bank of Ireland to purchase 100*l.* of the notes of the Bank of England; and, *Third*, That unfavourable states of exchange had existed between Scotland and England. And he assumed over-issue and depreciation, from the fact, that in all these cases the derangement had been corrected by a contraction of issues. Now, what were the facts? For these we are indebted to Mr. Fullarton's work (pages 169 to 179). *First*, In the case alluded to, of the Bank of England, Sir Robert Peel suppresses, or at least omits the fact, that at the period to which he alludes the Bank had actually suspended cash payments, and its notes were not convertible. It occurred in 1696, when silver was a legal tender for all sums. The coin, however, had then become so much injured by wear, that it was itself depreciated in relation to the market price of silver. In 1695-96, though an ounce of silver represented 5s. 2d. of coin, yet those coins had become so much worn that silver sold in the market for 6s. 4d. of such coins. At that time a re-coinage took place, and coin of full weight was put into circulation along with that of light weight. The consequence was, that parties carried their notes to the Bank and exchanged them for the new and heavy coin, which they melted down for the profit obtained by its difference. The Bank's treasure was exhausted, and it suspended payment, and the notes, being no longer convertible, were capable of depreciation to any extent to which they were issued, and capable of appreciation by a contraction of the quantity.

Second, In the case of Ireland, in 1804, Sir Robert Peel

again overlooks the all-important fact that the notes of that day were notoriously inconvertible. It was during the bank restriction act, when, for seven years, the Bank of England and the Bank of Ireland had been equally relieved from the payment of their notes in gold. The variation of the exchange was not, however, 18½ per cent., as Sir Robert Peel states it, but only about 10 per cent., as there was a difference of 8¾ per cent. in the intrinsic value of the Irish and English currency at a par of exchange. But no one ever denied that an *incon vertible* currency is capable of over-issue and depreciation to any extent that such over-issue takes place. And that, consequently, the currencies of two separate countries, being both inconvertible, will become depreciated in relation to each other, just in the proportion that over-issue may exist in the one or the other at the same moment. In 1804, the Irish inconvertible currency was depreciated by 10 per cent., in relation to Bank of England paper, which, in the same year, being also inconvertible, was depreciated by 2*l.* 13s. 2d. per cent., the price of gold being then 4*l.* an ounce. Either was then capable of greater or less depreciation by further expansion or contraction. Sir Robert Peel says that the Bank of Ireland reduced its circulation from 3,000,000*l.* to 2,410,000*l.*, which, "in conjunction with an increase of English circulation," restored the two (inconvertible) currencies to a par of exchange; or, in other words, the English circulation was a little more depreciated, while the Irish circulation was somewhat appreciated, until they settled at the same point.

Third, In the case of the unfavourable state of exchange between Scotland and England, the only instance which we know of was during a period just preceding 1766. At that time, before the establishment of branch banks in that country, a great number of inferior tradesmen issued notes for very small sums, not exceeding a few shillings, which were practically paid in the larger notes of the banks when required. But at that time the notes of the Scotch banks had the optional clause inserted in them, to which we referred in our last article, by which the banker could delay their payment

for *six* months after their presentation, by giving legal interest during that time. As we explained in our last article, an instrument of this kind, though ultimately, and at no distant day, convertible, is not free from the risk of depreciation, in the case of an adverse exchange, when coin is required immediately for transmission to other countries; but, as we also there explained, such depreciation, if the instrument be of undoubted credit, will be confined to that rate at which people will be willing to buy it as an investment for the sake of the interest, until it becomes due. Such is the case with exchequer bills.

Sir Robert Peel further alluded to the result in recent years of the system of banking in America. Here, again, however, the notes, though nominally convertible, were not so in reality. In the first place, they had no metallic standard, but all coins, of all metals, were legal tenders according to certain rates fixed by a tariff, and when bankers had their notes presented for payment, they availed themselves of the coin and the metal that was the cheapest; and Spanish dollars, their money in account, have been as high as 7½ per cent. premium. And, moreover, "for some time previous to the last suspension of cash payments in America the banks there had fallen into the habit of advancing to the merchants in post-notes at four, six, and eight months' date" (Fullarton, 179), which circulated as currency, and were exposed to the same evils of the optional note system of the old Scotch bankers; and which, not being payable on demand, became greatly depreciated when the banks which had issued them fell into discredit.

Here, then, is the evidence on which Sir Robert Peel founded his bill, not one tittle of which has the slightest relation or relevancy to the subject with which he was dealing. We cannot suppose Sir Robert Peel ignorant of the evident and essential difference between the present convertible currency of this country, of which he was treating, and of the inconvertible notes by which he illustrated his argument; nor can we suppose it possible that he was ignorant of the

fact that the cases he quoted—at least, of the more notorious and startling ones of the Bank of England and the Bank of Ireland, in which he asserted the depreciation to have been 17 per cent. and 18½ per cent. respectively—were of inconvertible, and not convertible, paper. And really, therefore, we cannot give the minister credit for much candour in securing a temporary apparent triumph in a speech, by the use of facts which, when stated fully, were not only irrelevant altogether, but which, fairly looked at, would have supported the opposite theory.

But the most subtle and truly curious argument is that used by Colonel Torrens. He admits that there is a difference between the liability to depreciation of an inconvertible and convertible paper, which he states thus :—

"The increase in the quantity of inconvertible paper is unlimited; the increase in the quanti'y of convertible paper is limited by the power of the holder to exchange it for gold, as soon as from the increase of its quantity its value in relation to gold begins to decline. If the increase in the quantity of convertible paper had no effect in lowering its value in relation to gold, the holder could have no motive in exchanging it for gold."

Now, really this is a special case of magnificent refinement. Every case of an optional exchange of equivalents must be considered an evidence of depreciation! It is certainly an evidence of some preference, or greater applicability for the purposes immediately required. But let us ask this ingenious reasoner—Two men go to the Bank counter on two successive days; one has received a remittance of a fifty pound note from the country, which is of no use to him till he has converted it into coin, and he presents it for payment; the other man has *fifty sovereigns*, but wishes to make a remittance to the country, and he receives a note in exchange for it. The one has a "motive" for exchanging the note for gold, the other for exchanging gold for the note; the one had a preference for gold sufficient to take him to the bank, the other had a preference for the note sufficient to take him there. Now, we ask, which was depreciated—the coin or the note? for in one case there was more coin in circulation, and less paper, than the convenience of the public required for circulation, and there existed, therefore, a "*motive*" to convert coin into paper; in the other case, there was more paper and less coin in circulation than the public convenience required, and there existed a "*motive*" to convert it into coin. But enough. We will grant Colonel Torrens that bank paper may be depreciated in relation to coin to the extent of supplying a "motive" to step to the bank and exchange it; but he, too, must grant that sovereigns also may be depreciated to the extent of supplying a similar motive to exchange them. But when all the ingenuity of this most ingenious writer on these subjects has been able to give no better evidence of the liability of convertible bank paper to depreciation, what are we to think of the minister who gravely affects to found a great bank measure on such a principle? The truth is, that different portions of the currency are used to perform different kinds of exchanges. Notes, and especially those of a high denomination, are used for making large payments, or transmitting money to a distance; while coin is used chiefly for small payments on the spot. But coin is also useful, in case of need, to transmit to other countries to make payments where our bank notes do not circulate; and, as long as these different instruments of currency can be exchanged for each other, at the option of the holder, it appears a perfect contradiction in terms to say that either one or other can remain in excess in proportion to each other, or be depreciated in reference to each other. The experience of every member of the community amply testifies the fact. And if we wanted any further argument for this truism, we would find it in the following passage of Sir Robert Peel's own subsequent speech on the 20th of May, extracted from the *Times* of the 21st :—

"I say there is a standard of value, and that standard of value is a definite quantity of gold, of certain fineness. He who issues paper promises to pay a certain amount of gold. The paper, then, ought to conform to the gold. I admit the operation of this measure may for a time affect a limitation of prices; but I say that all increase of prices, arising from an excess of paper, is an illegitimate increase; and that there is no advantage in any increase of prices that arises from an issue of paper beyond the value of the metal it represents. I bring the matter to this simple issue :—*Suppose you have depreciated your paper, and your paper still remains convertible into gold, do you think that every man who*

had a right to insist upon receiving five sovereigns for his 5l. note, would not immediately insist upon that right the moment he found that gold was more valuable than paper? Don't you suppose that, if the great dealer in exchanges in London, Mr. Rothschild, found that, by presenting 500,000l. of paper at the Bank of England he could get 500,000 sovereigns, and that they were more valuable than paper, he would avail himself of the power the law gave him, and demand gold? And don't you suppose that every other man, whose transactions were less extensive, but who had a right to receive five sovereigns for his 5l. note, would immediately demand it?"

There remains to be considered an opinion held equally by those who assert the liability to depreciation of paper in relation to gold, and some who deny such liability, that convertibility of paper is no guarantee against its being issued to such an extent as will depreciate the whole currency, bank notes and coin together, in relation to foreign currencies. This is an interesting point, and deserves some consideration.

There can be no doubt that, to whatever extent the use of gold is economised by the introduction of banking, by the use of bills of exchange for transmitting payments from one part of the country to another, by the use of cheques for making payments in the same place, or by the circulation of bank notes as part of the currency,—to whatever extent the use of gold is economised by these various means, to that extent a portion of that hitherto used as money will become applicable to other purposes, as much as if an addition to the whole stock of gold had taken place. Suppose, for example, that the whole of our currency was, at this moment, *seventy millions* of gold, instead of being about *thirty-five millions* of gold, and the same of bank paper; and while it was entirely gold, the present system was introduced. There can be no question that the introduction of such an amount of bank notes would release a similar amount of gold from the purposes of currency, would make gold as a commodity more abundant, and would lower its value in relation to commodities; and, were it possible to prevent the export of any portion of the gold so released from the uses of money, would depreciate our whole currency in relation to that of other conntries, supposing them to have been equal before. But as long as gold is freely

transmissible from one country to another, it will not be difficult to show that such depreciation could only exist for a very short time, and only at all to the extent of the small profit which constitutes a motive to send the precious metals from one country to another. If thirty-five millions of sovereigns were released from circulation, by the use of so many bank notes, the value of gold would fall in relation to its value on the continent. The bullion dealer would, as soon as a fall had taken place which would leave any profit, transmit a portion of it to other countries; and by this means the value would again become perfectly equalised, and the depreciation on our currency would not be measured by the proportion which the coin released from circulation bore to the stock of gold in this country alone, but to that of the general stock of gold in the markets of the world. And no possible issue of convertible paper could have a greater effect, or could suffer any depreciation for a longer period than was necessary to equalise the value of the metals by transmission from one country to another. For, though bank notes could not be so transmitted, if issued in a larger quantity, yet being convertible into their representative in coin, as long as it was profitable to transmit the latter, the former would be exchanged for gold for that purpose, and thus the principle of convertibility would effectually prevent any depreciation of longer duration than would suffice to transmit the bullion, or to a greater extent than would supply a motive for so doing, and for which the smallest appreciable profit would be sufficient.

CONFORMITY OF A MIXED CURRENCY WITH THE VARIATIONS OF A METALLIC CURRENCY.—A SERIOUS DISTURBANCE TO THE CURRENCY THEORY.*

ASSUMPTION, *Second.*—That convertibility is not alone a sufficient guarantee that a mixed currency of bank notes and coin shall conform, in its variations, to the same laws that would regulate a purely metallic currency.

* We are not aware of any reason for this appellation to the doctrines, but we use it as a well known distinction.

The first step in this inquiry is to ascertain how a purely metallic currency would vary when the prices of commodities were rising or falling, or in case of an efflux or influx of bullion arising from an adverse or favourable exchange. Among all the writers who have brought the charge against a mixed currency of want of conformity with the action of a metallic currency, we have met with no one who has very clearly attempted to explain their views as to the precise action of a metallic currency; nor with any instance where the reasons for the generally assumed action are even attempted to be given. We are, however, ready to admit most fully that whatever is the action on a purely metallic currency under such circumstances, the same precisely ought to be found to exist on a mixed currency of coin and convertible paper.

All writers who support the opinion acted upon by Sir Robert Peel, seem to take it for granted that a metallic currency would diminish with rising prices, and would increase with falling prices—would increase in the event of an influx of bullion, and diminish in the event of an efflux of bullion. It would have been very satisfactory had any one of the accomplished writers who have supported this view, taken the pains to explain the ground on which they rest it. Having, however, assumed this much, when they discover by the periodical returns of bank notes in circulation, that they, as part of a mixed currency, have followed a different rule, they have at once taken that as an evidence of a vice in the system, without any inquiry or suspicion as to the accuracy of the rule. Had these writers reflected for one moment, they would have seen that even were they correct in their assumed action of a metallic currency, the amount of evidence furnished by the returns of notes alone was not sufficient to prove the precise state of the circulation in the case of a mixed currency, the whole of which they could never ascertain without knowing what portion of coin was circulating at the time. For no one will pretend that, with a mixed currency of notes and coin, it is in any degree essential that the relative proportion of each need always be the same. We introduce this argument here, not for

the purpose of taking any advantage of a doubt it may create, as to whether the return of bank notes in circulation may be taken as a fair test of the whole amount of the currency in the hands of the public, in the case before us; but in order to show that in all the arguments which have been drawn from these returns, as to the amount of the circulation and its effects at any particular time, there is in the fact a great and may be essential disturbing cause, which has hitherto, as far as we know, entirely escaped the attention of every writer on the subject. The whole amount of the coin employed as circulation in this country is estimated at from 30,000,000*l.* to 40,000,000*l.*, say 35,000,000*l.*, a sum nearly equal to the whole amount of paper circulation. The returns, therefore, of bank notes at any time represent the state of only one-half of the circulation, while the other half, which does not necessarily bear any fixed or certain proportion to the notes, may have varied in a directly opposite way; and thus, when there is an indication of a change in the amount of the currency by these returns, there may in fact be none whatever, were the whole circulation known; or there really may have been a considerable difference, when none has appeared on the face of the note returns; or, again, the actual change which has taken place on the entire circulation at any given time may have been directly the opposite of that which such returns indicate. All the arguments of those who support what has been termed the *currency principle*, are derived from, and have reference to, the action of the whole circulation, paper and coin conjointly, whether they speak of the regulation of issues or the effect on prices; while, however, all the data on which they proceed to prove their theory, or to sustain charges against any other system, has reference only to one-half of the whole circulation, which is not necessarily any true indication of the other half, and which, as we shall have hereafter to prove will often have a directly opposite tendency.

But, to return to the consideration of the qeestion before us, we are quite willing to admit that a mixed currency of coin and convertible notes, does increase with a rise in prices, and

does diminish with a fall in prices—does increase in most cases at the early period of a drain of bullion, and does diminish in most cases in the early part of, and may continue for a long period during, an influx of bullion; but we do not admit, with one of the most eminent writers in favour of the currency theory, that this "*is the reverse of what would take place with a metallic circulation,*" on the contrary, we submit that a little investigation will prove that it is precisely the same.

We have already, in our second article (page 13), gone so minutely into the proof and reasonings why a purely metallic circulation must necessarily follow the variations now pointed out, that we shall not weary our readers by a repetition of them in this place, as they can be easily referred to; but we may state some general reasons to prove that, whatever is the action in the case of a metallic circulation must of necessity be the same with a mixed circulation of coin and convertible notes.

Mr. Jones Loyd says, "A metallic circulation could never be drained out. Because, as the drain went on, the decreased amount would produce a continually increasing value of the circulation; which, by its effect upon the rate of interest, upon the state of credit, and upon prices, would assuredly stop the drain at some stage of its progress." In this, and in all other allusions to a drain, it seems to be the opinion that, with a metallic currency, it would immediately act upon the *circulation;* and hence the reasoning that, with a mixed currency of coin and paper, a drain should also be made immediately to act upon the paper; but a little consideration will show how erroneous this supposition is. The actual currency of a country is so much of its capital, which it retains in its hands, or, in the case of paper, the representative of so much of its capital over which it keeps a constant order and control, bearing no interest, yielding no profit, but performing the simple function of exchange, and facilitating the employment of the remaining portion of the capital of the country. The smallest quantity with which this function can be performed will only be retained for the purposes of currency, because it yields no

interest, and every portion that at any time can be spared will be invested, as capital, in some security bearing interest, or some occupation giving profit. But it must be evident that the quantity of coin or notes required to conduct these exchanges must depend in great measure upon the quantity of exchanges to be performed, and the amount they represent in value. And that, therefore, a higher price, and a greater value of commodities, must require a larger currency. When a drain sets in, which merely means when it becomes profitable to export the commodity gold, such demand will act on the stocks of bullion, and on the coin in the reserves of bankers, but not directly on the coin constituting the actual circulation, at least until all those reserves were actually exhausted, and then a struggle would commence between those who required coin for circulation, and those who required it for export. To this point a drain never yet has proceeded with a convertible currency, nor can we conceive any circumstances under which it is likely to do so.

It may, indeed, occur that a portion of the identical coin in circulation is exported, or that a portion of paper is taken to the Bank in exchange for gold to be exported; but, in either case, the moment the circulation becomes deficient, the necessary quantity will be supplied from the deposits in the banks. If a drain proceed from any cause, which is accompanied by a high price of commodities at home, as in the case of a deficient harvest, there can be no doubt that, co-existing with such drain, the actual amount of currency required for internal circulation would, for a time at least, be greater, whether purely metallic or paper and coin. But the whole of the arguments which we applied in our *second article* (page 13) to a metallic currency, are equally applicable to one of paper and coin; for the paper, being convertible at pleasure, would be subject to every action that coin would be. In short, bank notes are merely so many orders to receive coin, and, therefore, any motive that could influence coin, command its course, or direct its variations in quantity or value, must apply equally to those paper instruments which, in reality, are simple orders

for gold. Can we, in practice, conceive any circumstance which would arise, when a man holding *one hundred sovereigns*, could be induced to dispose of them differently, than if he held a *one hundred pound bank note*, which he could, at option, and without delay, exchange for one hundred sovereigns? Whatever motive actuated the disposal of the coin would actuate an exchange of the note into coin, provided that were needful for the use to which he wished to apply it. In short, convertibility either means strict identity for every object, or it means nothing. The coin of a mixed currency, with this check alone, would stand as little risk of being drained out, as it would in the case of a metallic circulation, for, whatever effect a drain produced on a metallic currency, it would equally produce on the coin, and the notes for which coin could be had at pleasure, constituting a mixed currency.

We, therefore, hold it as an incontrovertible fact, that there can be no variation whatever in the quantities, values, or general action of a currency purely metallic, or of one composed of coin and convertible paper. And that the principle of convertibility alone is a perfect guarantee that, in all cases and in every respect, the one currency would strictly conform with the other.

In our next article, we will proceed to examine the remaining three assumptions on which Sir Robert Peel's measure rests; the four practical illustrations of the principles contended for, as given by Mr. Loyd; the experience of their operation, so far as embodied in the new bank bill; and their tendency and consequence in the case of an adverse exchange.

ARTICLE VI.

The Bank Act of 1844 continued:—The contraction and expansion of the currency at pleasure considered; first, under an adverse exchange; second, under a favourable exchange;—showing that no such power is possessed by the Bank.

FOLLOWING up a consideration of the five assumptions which are involved in Sir Robert Peel's measure of last year, we come next to that which infers the power of

CONTRACTION AND EXPANSION OF CURRENCY AT PLEASURE.

ASSUMPTION, *Third.*—That issuers of bank notes have power to increase or decrease the circulation at pleasure.

The important and essential principle by which Sir Robert Peel expects his new measure to operate in rectifying the foreign exchanges, is by an assumed action on the circulation by means of a regulation which imposes the duty on the bank to withdraw its notes as bullion flows out, and to increase their quantity as bullion flows in—on the supposition that in the former case the prices of commodities would be lowered, exports encouraged, and imports discouraged; and in the latter case, that the prices of commodities would be raised, exports would be discouraged, and imports encouraged; and in both that the derangement in the foreign exchanges would thus be corrected. The inference as to the effect of such an action on prices, were such possible, we shall have to consider by and bye. In the meantime we think it will not be difficult to show that no such power rests with the Bank, as this regulation infers; and that whatever efforts may be made to comply with this condition imposed by the bank bill, will be effectually counteracted by another action, over which the Bank will have no control, and which will materially aggravate the dangers and difficulties of an adverse exchange.

Let us, for one moment, recal to the mind of the reader the true nature of currency and the functions of a banker. The

currency originally metallic, was so much of the capital of the country put aside in the form of coin, for the purpose of facilitating exchanges. The instituting of banks was highly useful to the public, in as far as the facilities they afforded of depositing money, with the certainty of its return when required, rendered a smaller quantity of capital necessary to constitute a currency, and released the remainder for productive purposes. But the public, under no circumstances, will yield up to banks a larger portion of their money for deposit, than is consistent with the convenience and necessities of their trade. As far, therefore, as regards the amount of currency when purely metallic, the banker is obviously a mere passive agent, the circumstances which really do control its amount being such as the banker cannot in any way influence. If transactions increase in amount and in number, the instrument of exchange must also increase; if transactions diminish in amount and in number, the instrument of exchange will necessarily diminish, and a portion of the capital formerly held as currency, will be restored to productive uses.

But in all this, an expansion or a contraction of the currency is an EFFECT and not a CAUSE. In all such changes the banker is a PASSIVE AGENT, *acted* upon by the circumstances which determine the amount of currency required, and not an ACTIVE AGENT, *acting* upon the amount of the currency. A mistaken notion as to these relations, we believe to be the fundamental error of Sir Robert Peel's bill. Nor will the question, as we have now stated it, be in any way different, though other modes are adopted of economising the amount of capital in use as currency, by the introduction of cheques or bank notes, as long as these are convertible into coin at pleasure. For it must be quite evident, that, if the transactions of commerce do not require the amount of notes which are in circulation, they will be returned upon the issuers, or, if any attempt be made to curtail the currency by forcibly withholding bank notes from circulation, it will only oblige the public to withdraw from their deposits a larger quantity of coin. We will separately examine the practical effects, as they would

arise in the case of an adverse and favourable exchange, in order to illustrate our argument.

First, AN ADVERSE EXCHANGE.—We will suppose that the Bank of England is in the most satisfactory position as regards the amount of bullion and circulation, and that the occurrence of a bad harvest suddenly requires a large import of grain; that the exchanges are turned against us, and that a strong drain sets in on the precious metals in the hands of the Bank, under which two or three millions quickly disappear, and render it necessary, under the regulations of the new law, for the Bank to withdraw a quantity of its notes from circulation, either by withholding its usual discounts or by the sale of its securities. But in the meantime nothing has occurred in the trade of the country to render a smaller currency requisite. On the contrary, the higher price of provisions would require a larger amount of currency to circulate them, and, therefore, if the Bank attempted forcibly to withdraw a portion of its paper from circulation, the only effect would be to create a further drain on its treasure to supply the vacuum thus made in the circulation, by coin. This would be effected by an action on the deposits. It has been observed on all former occasions, when the policy of the bank dictated an arbitrary and forced withdrawal of notes, that their place was immediately occupied by the paper of country banks; nor does it follow that the banks in question, which have been much blamed for increasing their circulation on such an occasion, had any control over it. It does not follow that they might not, at the very moment be diminishing their credits, and acting on the most cautious principles; for, even in that case, their deposits were still exposed to be drawn upon to make up the requisite amount of currency. Under the new law, they will be effectually prevented from issuing more paper; and, therefore, when the bank curtails the amount of notes in circulation, the depositors in the country must be answered by coin. The securities held by country bankers will be sold, and deposits withdrawn from the bank in the shape of coin to answer the internal demand. And thus,

in spite of any attempt on the part of the Bank to curtail the circulation, all that it can accomplish will be to alter the proportion of notes and coin—to create an internal drain for bullion co-existent with, and in addition to, the external drain. Bankers may contract the portion of the circulation consisting of notes, but they cannot affect the whole amount of notes and coin conjointly. All they can at the most accomplish will be to alter the proportions. And thus, any action of the Bank on the currency of the country, by a withdrawal of its notes, which it has been asserted has hitherto been rendered nugatory by the increasing issues of country banks at such times, will still be rendered equally so by the place of the withdrawn notes being filled up with coin, and will only tend to aggravate the drain on the Bank. Unfortunately there is no means of ascertaining, in the case of an efflux of bullion from the Bank, what portion of it is actually transmitted abroad, and what portion goes to increase the internal currency. But there are many reasons for believing, that what is often regarded entirely as a foreign drain is in a considerable degree an internal drain. In 1839, under the unprecedented import of grain, the bullion in the Bank sank very rapidly. In September, 1838, the circulation of Bank of England notes amounted to 19,665,000*l.*, and the bullion in the Bank was 9,615,000*l.* From that month to May, 1839, more than 2,000,000 quarters of foreign wheat were imported; and, in the latter month, the circulation of the Bank had been reduced to 18,350,000*l.*, and the bullion to 6,023,000*l.* Under a sudden import of grain to such an extent, in eight months, and of which the greatest part (1,800,000 quarters) took place in the first six months, representing in all a value of at least 7,000,000*l.*, a reduction in the bullion of 3,500,000*l.* does not appear large, and especially in the face of a contraction of the circulation of the Bank during the same time of 1,300,000*l.* It appears, however, that during that period, as rapidly as the Bank withdrew its notes, those of the country banks were increased, and filled up the circulation. In September, 1838, the country circulation was 11,364,000*l.*, and in June, 1839,

12,275,000*l.* For this increase of circulation the country banks were much blamed; but, whatever opinions may be held regarding the course they pursued, we think there can be little doubt that, had they retained their quantity of notes the same as they were in September, the bullion in the Bank would have suffered a reduction during that period to fill with coin the vacuum created in the requisite amount of currency by the withdrawal of the bank notes. At this period of the drain, the Bank, conceiving that their plans for correcting the exchanges were frustrated by the expansion of the country circulation, took severe measures to check it, and even to throw it into discredit, by making it a rule of the Bank Parlour to refuse to discount any paper having the endorsement of a joint stock bank of issue. This act was accordingly succeeded by a sudden and violent attempt at contraction on the part of the country banks, so that, between June and September, their circulation of notes was reduced from 12,275,000*l.* to 11,084,000*l.*, making a reduction of the aggregate circulation of the Bank of England and the country banks, together, of 1,300,000*l.* in less than three months. But during this period the drain of bullion was more severe than at any time before or after. On the 1st of June, the bullion in the Bank was 5,119,000*l.*, and in September it had sunk to 2,816,000*l.*, notwithstanding the loan from the Bank of France of 2,500,000*l.*, leaving which out of the question, we agree with Mr. Loyd that we would be justified in saying that "the bullion of the Bank would have been completely exhausted." But we think there is every reason to believe, that the contraction thus forced on the country banks tended, during those three months, to aggravate the foreign drain of bullion, by withdrawing from the Bank the coin required to sustain the requisite amount of currency. In a few months the bullion sunk about 5,000,000*l.* (taking into account the credit upon Paris); but it is impossible to say what portion went to satisfy a foreign demand, and what portion to satisfy the internal demand created by the withdrawal of notes. At no period is there any reason to believe that people held more notes than

their daily transactions required, and at no period can it for a moment be conceived that, while there is a large aggregate amount of deposits in bankers' hands, over which the public have control, will they be inconvenienced by a want of a sufficient currency to perform the internal exchanges of the country; for, if particular individuals have not a command of money, owing to a difficulty in obtaining the usual banking facilities, there are always plenty of other people, their competitors in trade, ready to take their place. We think, therefore, that it cannot be denied, that while bankers may forcibly contract that part of the circulation which consists of bank notes, they cannot prevent the whole amount being preserved, by a withdrawal of deposits, and the substitution of coin for notes. We readily, however, admit, that, after the high price of corn and the adverse exchange had lasted sufficiently long to reduce the consumption of other commodities, to lessen the demand for manufactures, the amount of employment, and the sum required for the payment of wages, and consequently that applicable to the daily expenditure, the circulation would then of its own accord become contracted, both of coin and notes. This contraction follows, however, as the EFFECT of these combined circumstances, and not as the result of any option on the part of the Bank. We have dwelt longer on this part of the question, because many, who have denied the powers of the Bank to *increase* the circulation at pleasure, have yet contended that it could *diminish* it at pleasure; overlooking the fact that, under any circumstances, they had only power to withdraw the notes, but none to prevent a corresponding issue of coin.

Second, A FAVOURABLE EXCHANGE.—It will be less difficult to show that the Bank can exercise no option in extending the circulation at pleasure. We have already sufficiently considered the primary conditions on which any change takes place in the amount of currency. Now, there seldom can be any circumstances attendant upon the early part of an influx of bullion, caused by a favourable state of the foreign exchanges, which would require a larger currency to conduct the internal

exchanges of the country. The reason that leads to an influx of gold in payment of debts due to this country is, that it has become unprofitable to import commodities. In such a case gold is not imported as an article on which a merchant expects to derive a profit, but it is a means by which he brings home his capital from other countries with the least loss. In our second article (page 13) we have sufficiently entered into an examination of the causes which would operate at such a time to render any increase of currency uncalled for, but which, on the contrary, would rather tend to diminish the amount required. And this view is supported in a remarkable manner by the events which have occurred since 1841, when the exchanges first turned decidedly in our favour, and the late lengthened influx of bullion to the Bank commenced. From January, 1841, the amount of bullion increased from 3,965,000*l.* to 5,629,000*l.* in January, 1842, and to 11,054,000*l.* in January, 1843; during which period the aggregate circulation of the United Kingdom fell from 35,660,000*l.* in 1841, to 34,049,000*l.* in January, 1843, notwithstanding the great reduction which took place in the rate of interest during that period, and of every plan being resorted to by banks to employ their increased means. So far from bankers being able to extend their note circulation during that period, we think that there is much reason for believing that some considerable portion of the influx of bullion to the Bank was derived from the internal circulation of coin, which had been increased during the period of very high prices, and which suffered a contraction on the re-action of prices and depression of trade which occurred in 1841 and 1842. This opinion is supported by the fact, that during the latter year the inconvenience of the worn coinage first became very sensibly felt among the private banks in London. In that year and the succeeding there appeared a great tendency for coin to centre in the metropolis; and the inconvenience to which bankers were subjected by receiving so large a quantity, while the Bank refused to take any that was not full weight, was a subject of heavy complaint at the time, and ultimately led to an application to

the government to call in all the light gold coin. This inconvenience would not have been experienced as it was, unless there had been a very decided tendency to a contraction of the quantity of coin required for circulation; and if we are correct in this supposition, it affords another example of the imperfection of any data, with regard to the whole circulation, taken only from the part represented by notes.

But with respect to an expansion of the circulation at pleasure, a banker has no power either over the whole or even over that part made up of notes. The Bank may withhold its notes, and let the public take coin; and coin will, though not so conveniently, answer all the purposes to which notes are applied. But the Bank cannot force its notes and withhold coin when required; nor will notes, being of a large denomination, perform the functions to which coin is usually applied —the payment of wages and other small sums in retail transactions and private expenditure.

We have not as yet had any experience of an adverse exchange under the New Bank Bill, but we have had upwards of six months' experience of a favourable exchange; and that so far corroborates our views, that the bank is in all these changes a mere passive agent, without any power to act upon the circulation at pleasure. By a Bank return to the House of Commons, we find that, on the 7th of September, when the new law came into operation, the circulation of notes in the hands of the public amounted to 21,206,624*l.*, and the whole bullion to 15,209,060*l.* On the second of November the bullion had sunk to 14,038,751*l.*, and the circulation had increased to 21,871,806*l.* From that time until the 22nd of last month the bullion gradually increased until it reached 16,000,424*l.*, but the circulation had in the meantime diminished to 20,532,542*l.*, so that, while the bullion increased two millions from November to March, the circulation decreased more than one million, although, during the whole of the time, numerous and active means have been used to extend the circulation of bank notes. Nor can it be said that the Bank has been prevented from effecting its object by any

operations of the country banks, which have all this time been confined to a fixed amount of issue. And when it is considered that all the country banks have been, since the beginning of September, thus confined to a fixed amount of issue, and may, therefore, be supposed to require larger reserves of Bank of England notes, to meet any unusual demand, than formerly, when there was no fixed limit to their own issue; and, moreover, when it is further considered that several country banks have relinquished the issue of their own notes, and adopted those of the Bank, under the provisions of the Bank act, it is indeed a matter of surprise that a very considerable increase in the circulation has not occurred during the last six months.

We, therefore, think it abundantly plain that not only the first principles of circulation, but the facts to which we have referred, sufficiently prove the fallacy of the assumption that the bank has any power to contract or expand the currency at pleasure.

ARTICLE VII.

The Bank Act of 1844 continued:—Influence of Currency on Prices.—The Effect of the Discovery of the American Mines.—The Effect of an Expansion or Contraction of an Inconvertible Paper Currency on Prices.—The changes produced merely nominal.—The Impossibility of Increasing or Decreasing the Quantity of Paper in Circulation, when Convertible, so as to Act on Prices.

ASSUMPTION, *Fourth.*—That by an expansion or contraction of the issues of bank notes at pleasure, the prices of commodities can be increased or diminished.

This assumption exhibits a striking example of an opinion having gained such universal acceptance and admission as to have ceased, for many years, to be considered a question on which a doubt could be entertained; though it is probable that the fact was entirely overlooked, that the circumstances under which the opinion originally grew, and to which it might be applicable, were altogether different from those which have existed of late years.

It is not, however, difficult to trace the origin of the opinion, nor to show that whatever grounds there undoubtedly were for entertaining it under other circumstances, there are none now.

To render this part of the discussion more plain, it will be useful here to recal the reader's attention to a fact explained in our first article (page 1), that gold, although adopted as *the standard of value*, and coined into current money, has still only the same relationship to other commodities, in value, that it would continue to have had as an article of simple barter; the only difference being that all variations are expressed by the smaller or greater quantity of gold (money) that, at any given time, will exchange for a certain quantity of any other commodity.

The *immediate* exchangeable value of any commodity is determined by the proportion which the supply bears to the demand, but the *ultimate* value, by the quantity of labour

required to produce it; for, if the supply be so great in proportion to the demand, to secure only such a price as will not repay the cost of production, a portion of labour and capital will be removed to some more profitable article, until, the supply being diminished, the price rises to that rate which will afford the usual wages for labour and profit on capital; so, on the contrary, if the demand for an article be so great, in proportion to the supply, that it commands a higher price than yields the ordinary profit of capital and wages of labour, a larger portion of both will be directed to its production, the quantity will be increased, and the price diminished, till it yields only the usual profit.

These are the principles which determine the relative values of commodities in a simple state of barter, alike of gold, wheat, iron, timber, or any other article; and these are the same principles which still regulate the relative values of gold and all other commodities, though it be adopted a standard of value and coined into money. If, in a simple state of barter, a quarter of wheat becomes worth more gold, it can only be because wheat is more scarce, or gold more plentiful; or, if a quarter of wheat becomes worth less gold, it can only be because wheat is more plentiful, or gold more scarce, than they had previously been. So precisely the same when gold is coined into money and adopted as the standard of value. If wheat falls in price it can only be that it has become more plentiful, or that the commodity gold has become more scarce; or, if wheat rises in price, it can still only be that it has become more scarce, or gold more abundant. We are more particular in making these clear admissions, because some authors have considered that their undeniable truth amounted to a full proof of the assumption which we are now considering; and we shall now have to show wherein such opinions are utterly groundless.

The first great event which attracted the attention of the world to the rise in the price of commodities generally, consequent on an increase in the quantity of the precious metals, was the discovery of the American mines. The greater sup-

ply of the precious metals from this source had an effect throughout the civilised world of lowering their exchangeable value in relation to all other commodities; but the supply was not checked in consequence of that lower value, inasmuch as the labour necessary for their production had diminished in consequence of the richness of the mines. This decrease of the exchangeable value of the precious metals correspondingly lowered the value of all money, or circulating medium based on them as a standard of value, and consequently raised the money price of all other commodities. But, as long as the precious metals were allowed freely to flow into, and out of, each country, the effect must have been generally and equally felt in all. Very little time could elapse before the new value was communicated to the metals equally in every country, for a difference of *one or two per cent.* is quite a sufficient inducement for the transmission of bullion from one country to another. In this and all similar cases, therefore, when prices are raised by an increase of the precious metals, the effect is general and not local—the effect produced on commodities in one country is produced similarly on those of all others; the relative difference remains precisely the same, regulated by the cost of production and the laws governing commercial exchanges. There is nothing whatever in the new value of the metals which in any way influences the exchange of other commodities between different countries; it produces, in fact, only a nominal difference of price, and, though gold and silver were doubled in their quantity, and the nominal prices of commodities were also doubled, the exchanges between different countries would remain altogether uninfluenced by that event. Therefore, although such an increase or decrease in the quantity of the precious metals would unquestionably act on the price of other commodities, yet that action would be in no way such as could affect the exchanges between different countries. All things would remain *relatively* the same as before. This would be the case with a purely metallic currency.

The prices of commodities may also be acted upon by an

increase or decrease of currency—when it is of inconvertible paper, or, being metallic, if the coin is degraded below the standard; and this effect on prices, unlike that which we have just considered, will be local, and not general. The most remarkable case which history affords, of inconvertible paper money, is that of the French assignats issued in 1790. We have already, in a former article, shown that inconvertibility alone is not a sufficient reason for depreciation. As long as inconvertible paper is received by a government in payment of taxes, and passes current as money, and as long as the quantity does not exceed that required for the currency—as long as coin continues to circulate with such paper, no depreciation will take place. Thus, when the French assignats were first issued, and for many months afterwards, no increase in the prices of commodities took place. It was not, in fact, until the continuous stream of paper money, issued for the expenditure of the government, had displaced all the coin from circulation, that depreciation of the currency, and a corresponding increase in the prices of commodities, commenced; and, from this period, whatever addition was made to the circulation would unquestionably be attended with a further rise of prices; and, had any contraction of the circulation taken place by a redemption and withdrawal of a part of the paper, a corresponding fall in prices would immediately have followed. In short, in that state of the circulation, prices could be acted upon at pleasure in accordance with the assumption which we are now considering; and there is no doubt that the report of the Bullion Committee of 1810, and many of the early writings which appear to favour this assumption, in so doing, allude to the action of an inconvertible paper currency.

But nothing can be plainer to the commonest understanding, than that any change of price which takes place from a depreciation of the currency is only nominal, and not real, and in no way acts on the relative prices of other countries, which remain precisely the same as before. When the French assignats were depreciated by over-issue, and all commodities in France

had risen in price, *expressed in assignats*, that rise was compensated, in relation to all other countries, by a corresponding fall in the exchanges. If, before the depreciation commenced, the exchange between Paris and London showed that *twenty-five francs* were equal to *one pound*, as the depreciation proceeded, it would require a constantly increasing number of francs to purchase a bill on London of any given amount. Any rise of price, therefore, which took place in France, constituted no additional inducement to ship goods from this country, for, whatever was apparently gained by their sale in France, would be lost in the exchange in making the remittance to London; or, if other goods, of French produce, were imported as returns for our shipments, they would be purchased at a price relatively high. A precisely similar effect would be produced by degrading the coin. If, in place of coining only 3*l.* 17s. 10½d. from an ounce of gold, the wishes of some parties had been followed, and an ounce coined into 5*l.*, the nominal prices of all commodities in this country would no doubt have been raised, but their exchangeable value in other countries would have remained precisely as it is, and transactions would be adjusted by an alteration in the exchanges. We have thus pointed out two distinct ways in which an increase or decrease of the currency can correspondingly affect the prices of commodities—*First*, By an increased or diminished supply of the precious metals; *Second*, By an increase or decrease of depreciated inconvertible paper. In the first case the action on prices is general and equal in all countries having commercial intercourse, and, though altered, the *relative* price remains the same. In the second case action is local, and perfectly nominal, and is effectually compensated by a corresponding alteration in the exchanges. And in neither case is the action on prices such as can constitute any reason for either increasing or diminishing the imports to, or exports from, any other country, or that can in any way affect the balances due between different countries.

But although all this is abundantly evident, and will scarcely be denied by any one, yet there can be little doubt

that much of the prevailing opinion with respect to the action of the currency on prices, involved in the assumption now under consideration, owes its origin and general adoption to the effects produced under the very different circumstances which we have described.

In a very able paper, attributed to Mr. Horner, which appeared in the second number of the *Edinburgh Review* (1802), we find the following passage:—"If the quantity of circulating medium is permanently augmented, without a corresponding augmentation of internal trade, a rise will unavoidably take place in the price of exchangeable commodities. Indeed, this is a principle upon which all the writers on commerce, both practical and speculative, are agreed; they have thought it so undeniable as to require no particular illustration, and have assumed it as an obvious truth." Nor should we be disposed in any way to question the truth of the proposition as here stated. Mr. Horner was writing at a period when the currency was inconvertible, when paper was already at a depreciation of 7¼ per cent, and when much discussion prevailed as to the effect of the increasing paper issues on prices. Much, if not all, of that discussion turned on the question as to the possibility of *permanently* augmenting the circulating medium. Mr. Horner refers to Dr. Smith's refutation of Mr. Hume's notion that paper money raises prices, in which it is shown that an issue of paper cannot raise prices, because it only displaces so much of the coin, and does not increase the circulation beyond the wants of trade. Now, no doubt, this is so far true in all cases, but in the case of *inconvertible* paper, such as existed at that moment, Dr. Smith's argument only held good until all the coin was displaced, after which there can be no doubt that whatever further issue of inconvertible paper took place, the currency would be depreciated, and prices would correspondingly rise. But in the case of a convertible currency, Dr. Smith's argument would always be good; for though it would be quite possible for paper, if issued of the same denomination as the coin, to press the latter entirely out of circulation, as *one pound notes* have done in Scotland, yet the

check of convertibility must render it utterly impossible further to increase the amount of the paper in circulation. It is true the general principle, as stated by Adam Smith, is subject to a modification, which we have already in a former place noticed. To whatever extent the issue of paper money released gold from the currency, to that extent would there be an increased supply of that commodity on the general markets of the world, and its value would be correspondingly diminished as much as if a similar additional supply had been received from the mines; and to this extent would the substitution of a paper for a gold currency increase prices generally in all countries, while in each country they would remain *relatively* the same. But in these cases again the influence on prices is resolved either into a mere nominal rise from a depreciated currency, which is compensated by a fall in the exchanges, or a general rise caused by a lower value of the precious metals, but which does not affect the relative prices between different countries, nor in any way act on the exchanges, except so far as is necessary to effect a distribution of such additional supplies of the metals.

But in all these actions, which may be exercised on prices through the currency, there is nothing whatever in the least degree analogous to the action contemplated by the modern doctrine on which the New Bank Bill is founded, and involving the assumption, "that, by an expansion or contraction of the issues of bank notes at pleasure, the prices of commodities can be increased or diminished." The increase or decrease of prices here alluded to is not *nominal*, but real, and in relation to the prices of other countries; an increase or decrease which shall constitute new motives for importing or exporting commodities, as the case may be.

The assumption before us involves two questions—first, expansion and contraction of the currency at pleasure; and second, as the consequence, a corresponding action on prices. Many authors, in treating of the latter as a consequence, and even combating its truth, have laboured under great difficulties, by proceeding upon the admission of the former; but if the

former be admitted, we confess we cannot understand how the latter can be denied as the legitimate consequence. If, in the language of Mr. Horner, there be any means by which "the quantity of circulating medium (being convertible paper and coin) can be permanently augmented, without a corresponding augmentation of internal trade, a rise will unavoidably take place in the price of exchangeable commodities." Such means, as we have already seen, do exist in the case of an inconvertible currency; but the rise in price, in consequence, is only nominal in that case, being immediately compensated to other countries by a fall in the exchange. But with a convertible currency, *if such means exist at all*, the rise in price would not be nominal, but real, as it would be expressed either in coin or notes convertible into coin, and therefore would not, as in the other case, be compensated by any fall in the exchange. But this fact shows at once the impossibility of the "*augmentation*" alluded to in the premises, when the currency is *convertible*. A currency "augmented without any corresponding augmentation of internal trade," implies a quantity of notes retained in circulation, at the will of the issuers, which the public do not require. Now, the public do not receive notes from a banker without paying interest for their use; and, however low that may be, they will take no more than they absolutely require—nor do they retain notes in their possession beyond what the convenience of trade requires, and, therefore, if issued in excess of that quantity, and, if convertible, a portion would be instantly returned upon the issuers. Nor can we conceive any means whatever by which the circulation could be so augmented; and we have deeply to regret that, although such a power on the part of banks has been taken for granted by most of the writers during the last twelve years, no one has yet attempted to explain by what process it could be accomplished; and we are compelled to think that impressions, which gained ground many years since as applicable to an inconvertible currency, have been inadvertently associated also with a convertible currency.

The impossibility of increasing the quantity of paper in cir

culation (when convertible), except as the effect of a corresponding increase of an internal trade, or of any depreciation in its value taking place, will be more evident when it is considered by what process an inconvertible currency becomes depreciated. On all hands it is admitted that as long as inconvertible paper is not issued in excess, as long as coin continues freely to circulate with it, the paper will not become depreciated; but as soon as the paper is issued in excess, and the coin is pressed out of circulation, it becomes depreciated, and the prices of commodities rise in consequence; though it is only a nominal rise, which would be better expressed by depreciation of the circulation. Now, how does this depreciation and rise of price take place? During the early issue of the French assignats, no depreciation or rise in price of commodities took place until the coin was pressed out of circulation, because, as the paper was issued, the tendency to a redundant currency was constantly corrected by the withdrawal of silver, which, being a commodity having a general value in the markets of the world, could be exported or taken for the general uses of the cambist or the silversmith. But as soon as silver was exhausted from the circulation, the issue of assignats still continuing, and the same quantity of internal exchanges only remaining, the currency became redundant, there being no means of absorption except in the existing quantities of commodities. Paper in the first place would accumulate in the hands of individuals, and as the issues of assignats continued for commodities for the use of the government, or of those receiving pay from the government, the simple law of supply and demand would reduce the value of this paper and increase the price of commodities expressed in paper. But it will be observed that this increase of price is only in reference to paper assignats, and not to the coin which they originally represented; for the coin or bullion at this stage rose in the same proportion as other things. During the high prices in this country from 1810 to 1816, as far as they were caused by a depreciation of the currency, they were *high* only in relation to paper, and not to gold, which rose

equally, and at the same time, as other commodities from this cause. Well, then, seeing that redundancy and consequent depreciation of paper can only commence when no part of the currency consists of coin which can be exported or taken for manufacturing purposes (the paper having no intrinsic use at home, or exchangeable value abroad), it follows, as a simple corollary of those principles which have been admitted by all writers worthy of mention, that as long as paper is at pleasure convertible into gold, no such redundancy can take place, no such difference can arise between the value of gold and the value of paper, and no such general increase of prices of commodities can be experienced.

No doubt, if the internal transactions of the country increase, or if the prices of commodities rise, a larger amount of circulating medium, whether purely metallic, or mixed of paper and coin, will be required to conduct the exchanges; and thus, though an increased circulation could not be called into existence as a cause to produce higher prices, it would follow as the effect or consequence of higher prices. But in that case, "the circulation would not be augmented *without* a corresponding augmentation of trade." Mr. Tooke expresses this view of the case thus:—

"That the prices of commodities do not depend upon the quantity of money indicated by the amount of bank notes, nor upon the amount of the whole circulating medium; but that, on the contrary, the amount of the circulating medium is the consequence of prices."

To which Colonel Torrens replies—

"The logical accuracy of this conclusion may be tested by affirming the analogous proposition, that the prices of commodities in Europe, after the discovery of the mines of South America, did not depend upon the quantity of money indicated by the amount of coin, nor by the amount of the whole of the supply of gold and silver; but that, on the contrary, the mines of South America, and the increased amount of gold and silver obtained therefrom, were the consequence of the subsequent rise of prices."

That this ingenious and accomplished economist should have stated these as two "*analogous propositions*," is the most striking evidence with which we have yet met of the utter confusion which prevails in men's minds of the real nature of

currency and capital—of coin as a circulating medium, and of the precious metals as a commodity of commerce; a confusion which must be so apparent to those who have followed our arguments thus far, that we need not further refer to it.

But some have an idea that, in every case of an influx of bullion, a similar effect should be experienced locally that is produced generally by an increase of metals from the mines. The difference is very essential. In the case of an ordinary influx of gold into this country, caused by a favourable state of the exchanges, the general quantity of gold is not changed, nor its relation in value to other commodities; a new distribution of it is all that takes place. To those who received larger quantities of metal from South America in exchange for the commodities which they have shipped to that country, and in consequence of the increased productiveness of the mines, the additional quantity was in the first place so much increased profit, which not only enabled them to expend more money privately, but which also formed a powerful inducement to increase their purchases of goods and shipments to South America. Such additional demand, for shipment to that country, of woollens and cottons from England, of wine and silks from France, of flour and domestics from America, and the increased demand for articles of consumption, and for securities for investment by those who made the additional profits at first, would soon increase prices generally, in proportion to the new supplies of the metals.

But in case of an influx of bullion, owing to a favourable exchange, the case is widely different. The very fact that merchants have recourse to bullion to bring home their capital from those countries where it is not produced, is usually an evidence that other commodities cannot be imported but at a loss. In consequence of the lessened imports the exchanges turn in our favour, and at length bullion is resorted to as the least advantageous medium of transferring capital from one place to another. But this neither infers a power for an increased private expenditure, nor an inducement for a repetition of purchases for shipment; and hence we find that in

practice neither circulation nor prices increase under such circumstances, but that both diminish.

In Article II. (page 13) we fully considered the effect of an influx of bullion in consequence of a favourable exchange on a metallic currency, and the same precisely must take place with a mixed currency of coin and convertible notes.

From the beginning of 1841 to 1843 we had an uninterrupted favourable exchange; the bullion in the Bank rapidly increased all the time from 3,965,000*l.* to upwards of 11,000,000*l.*; every means were used, which properly could be, to increase the circulation; but it fell, during that time, from 35,660,000*l.* to 34,049,000*l.*, and during the whole period, the prices of commodities generally were sinking lower; and 1842, the year in which the largest import of gold took place, was the most depressed in prices, and the lowest in the circulation of any during the last thirty years. Nor were the stocks of commodities generally above an average, and the imports were much below an average; and, up to this time, though bullion has latterly increased to upwards of 16,000,000*l.*, all the recent efforts of the Bank to increase the circulation have proved unavailing, and the prices of all kinds of commodities, even in the absence of any unusual stocks, with some few exceptions, continue unprecedentedly low. The events of the last four years must go far to convince even those who will not exercise the patience to investigate and understand the theory, that a great error has existed in regard to the connection between bank circulation and prices of commodities.

ARTICLE VIII.

The Bank Act of 1844 continued:—The Theory of Regulating the Foreign Exchanges by an Action on Prices.—Great Disturbing Influences from other Causes Affecting Prices.—The Difference of the Causes which Influence the Import of Coin and other Commodities.—The Bill of 1844 Calculated to Aggravate a Drain of Gold by Discouraging Purchases of Goods, until the Exchanges have shown Evidences of being Corrected.

ASSUMPTION, *Fifth*.—That by such increase or diminution of prices the foreign exchanges will be corrected, and an undue influx or efflux of bullion, as the case may be, will be arrested.

The theory of regulating the foreign exchanges by an action on prices is simple and easily stated. As we have already explained, it is assumed that bankers can contract or expand the circulation at pleasure—that, with every such expansion, the prices of commodities, generally, will rise, and, with every such contraction, they will fall; and, therefore, it is contended that, if some general rule can be fixed, by which, when the exchange is favourable and gold flowing into the country, the circulation can be uniformly increased, the prices of commodities will rise, an import of the cheaper goods of other countries will be encouraged, the export of our goods discouraged, and the favourable exchange thus corrected; and by which, when the exchange is unfavourable, and gold is undergoing a drain, the circulation could be contracted, the prices of commodities lowered, imports from other countries discouraged, and exports of our cheaper goods encouraged, the adverse exchange would be corrected, and thus the drain of gold arrested.

The means proposed for accomplishing this object, by the bill of last session, are, that the Bank of England shall issue notes to the extent of 14,000,000*l.* on securities, and that beyond that sum the amount of notes issued shall fluctuate exactly as the bullion in the bank fluctuates. The principle is, that 14,000,000*l.* is assumed as the lowest amount of paper that, under any circumstances, would be required, and that

above that quantity every increase or decrease of bullion shall be accompanied by a corresponding increase or decrease of notes issued; that as an influx of gold, indicating a favourable exchange, will thus be accompanied by an expansion of the issues of notes, prices will correspondingly rise; that a rise of prices will encourage commodities to be imported, check our exports, correct the exchanges, and thus arrest the influx of gold; that, on the other hand, a drain of gold, indicating an unfavourable exchange, will be accompanied by a contraction of the issues of notes, corresponding with the drain, that the prices of commodities will fall until it shall be more profitable to export goods than gold, while the same cause will check imports, correct the exchanges, and arrest the drain of bullion. And this law is to be implicitly followed and relied upon to regulate the currency and correct the foreign exchanges. The state of the foreign exchanges is to be taken as an index for contraction or expansion of the currency; which, in their action on the prices of commodities, are, in their turn, expected to correct the foreign exchanges when deranged.

In considering the preceding four assumptions on which this bill is founded, we have brought under review the fundamental grounds upon which the theory is constructed, and we must leave it to others to decide how far we have succeeded in proving that it is based on grave and essential errors, which must result in a serious disappointment in its practical effects. It will be seen, however, that the whole theory resolves itself at last into the effect which a forced action on the prices of commodities would produce on the exchanges, and on an influx or efflux of bullion. Now, for one moment admitting that the theory and proposed machinery for affecting such action on prices were as efficient as we have endeavoured to show them to be otherwise; admitting, for a moment, the whole hypothesis on which Sir Robert Peel has built his scheme to be true, let us examine how far such action on prices could be relied upon to effect his object—of correcting the exchanges.

In the first place, it is not professed, by the most unhesitat-

ing advocates of the principle, that the Bank can influence prices at pleasure by a contraction or expansion of the currency, that there are not other very important elements which must also, and at all times, be in operation, connected with the various and intricate circumstances otherwise affecting supply and demand. This is so obvious that it would appear to require little illustration; for it is notorious that, at periods of the greatest pressure on the money market, even when discredit and panic prevail, there are some articles which, from circumstances connected with supply and demand at the moment, command very high prices; and that, on the other hand, when trade is exceedingly prosperous, capital seeking employment extremely abundant and cheap, and credit in a most perfect and undisturbed state, some great and leading articles have been at the lowest point of price. In fact, no one will pretend that, altogether independent of any influence of the currency, some articles are not constantly falling while others are rising in price; and that there is, therefore, no uniform action, which at any time or under any circumstances has been observable. It is, therefore, quite evident that, though all the principles sought to be established under this theory were true, we should have no guarantee whatever, that, while an effort was being made to reduce prices by means of a contraction of the currency, some other influences equally, or even more, powerful might not be in action having an opposite tendency. But it may perhaps be said that the circumstances which would *otherwise* affect prices would do so equally in all countries, and that all you wish to accomplish in relation to the exchanges is to affect them in this country *in relation* to the surrounding countries. With regard to some articles this no doubt is true. If cotton, foreign sugar, or any other article which has a common and natural value in this country, should rise or fall in price, the rise or fall will be general; but in respect to colonial sugar, or any other article of foreign produce, having by our fiscal laws a price in this country altogether independent of its general price in other countries, a rise or fall may take place in such commodity in this country

altogether irrespective of its value in the markets of the world. For example, suppose the Bank were attempting to contract the currency and to lower prices, while there was a strong tendency for colonial sugar and coffee to rise in consequence of a deficient supply, and that perhaps at a time when the similar articles of foreign growth were really falling in the markets of the world, there being no affinity between the price of these articles here and in other countries, they would not only rise in price *actually* but *relatively*. The same would be the case with our home produce protected by high duties against the competition of other countries, and with such of our manufactures as we produce so much more cheaply as to be uninfluenced immediately by similar articles produced elsewhere. But the most difficult case to which to apply the principle, and the most important one, because in nine cases out of every ten it would be found to attend an adverse exchange, would be a scarcity and high price of corn. The balance of exchanges can seldom, if ever, be turned against us to any inconvenient extent, except either from a foreign war or from the necessity of importing grain. In any other case where derangement in the balance of trade occurred, the correction would be early and easy. If at any time, from a spirit of speculation, a very unusual quantity of produce generally were imported—of silk, wool, flax, sugar, coffee, tea, and other articles, the high price which induced the import would have the effect of reducing the consumption; a reduced consumption, and such a greatly increased supply as turned the exchanges against us, would immediately lower prices, and the exchanges would be instantly, and at an early period, corrected by the re-exportation of commodities, which had fallen in consequence of over-supply, while further imports would be for a time suspended. Therefore, in all these ordinary articles of mercantile exchanges, the simple effect which supply and demand exert over price must constantly be tending to correct the exchanges in such a case.

But in the case of a bad harvest the difference of opinion is very important. The supply of a sufficient quantity of corn

is a necessity before which every other consideration sinks. At whatever cost, at whatever other sacrifice, it must be procured; nor does a high price for a long time act on the quantity consumed; indeed, it is a question whether the reduced condition of the masses of the people in the times of scarcity, which prevents them obtaining so much butcher's meat, or other more expensive articles of diet, does not really increase the consumption of bread when it is dear. During most cases of an adverse exchange corn is a great article of importation, and one of the chief articles of internal trade for which a circulating medium is used. In 1839, when we required an import of nearly four millions of quarters of wheat to eke out the consumption of the year, what amount of contraction of currency would have been able to reduce the price of this commodity, or would have arrested the importation? So far all this goes to prove that, if even all that is professed as to the power of the Bank over the currency and prices were true, there are other antagonist influences over prices which would render the action of the currency theory extremely uncertain, and, to say the least, not to be relied upon as the self-acting and safe principle which its advocates have represented it to be.

But there is a consideration in relation to this part of the question of the highest importance, which appears to have been entirely overlooked, and which we think, when fairly stated, will be admitted to involve consequences not only the reverse of those which are expected, but such as will prove highly dangerous and detrimental in the event of an adverse exchange. As this is a point from which an important practical evil is likely to arise in the working of the present law, we are more desirous of stating it in a clear and explicit way; and, in order to do so, we will assume that the whole theory of contraction and expansion of currency, and the consequent action on prices, contended for by Sir Robert Peel, to be true, and then we will show that even in that case the effect on the exchanges which he contemplates *could not* and *will not* be obtained, but that his relations will rather have a tendency to aggravate and protract the evil.

Sir Robert Peel has passed a law—the great and leading principle, as proclaimed to the world, of which is, that in the event of adverse exchange against this country, and an efflux of bullion, our system of currency has within it a self-acting principle of contraction, whereby the prices of commodities shall be reduced, in order that they may be exported in preference to gold. Now, let us—for an example of the practical effect of this regulation, and of this proclamation to the world—let us suppose we had a recurrence of such a harvest as that of 1838 or 1839. On the approach of the harvest the stocks of old wheat are exhausted; the harvest itself is later, and very defective; prices rapidly rise from 50s. to 60s., and from 60s. to 70s. the quarter, as in 1838; a violent speculation commences in foreign wheat; two millions of quarters are imported in a few months; the exchanges are rendered adverse; bullion flowing out; and every means is being used to contract the circulation of notes according to the prescribed rule. What will be the effect on the purchasers of British manufactures for shipment at such a time? Will a regulation, which has for its professed object the cheapening of goods, induce people to increase their orders, or to countermand those they have given? When every day that the adverse exchange continues, is expected, by the effect of these currency regulations, to reduce prices still lower, is any merchant going into the market this week to purchase what he expects will be cheaper next week? or will he purchase next week what a continuance of the same events, and a still more adverse exchange, lead him to expect to be cheaper the week after? No. The first symptom of an adverse exchange—of a drain of gold—will be taken as a notice for all foreign buyers to suspend their purchases, and to keep them down to the lowest possible point, from the expectation which is thus held out to them that as the drain proceeds in intensity, prices will become lower and lower. Meanwhile the manufacturers, from a similar anticipation of the action of an adverse exchange on the prices of their goods, will be as eager to sell as merchants will be to abstain from buying. Prices will thus be rapidly and ruin-

ously reducing, the evils will be greatly exaggerated, AND THE OBJECT WILL NOT BE ACCOMPLISHED. This regulation is the highest premium which could be offered to abstain from the purchase of commodities, instead of acting, as it is intended by its authors, as a sure guarantee that such purchases would increase, and arrest the drain of gold; for, let it be remembered that the principle is, that with an early contraction, and an early reduction of the price of goods, our exports will be increased and the exchanges corrected at such early period. Nor would the evil end with the merchants here; their advices to their constituents on the continent and elsewhere of the fall of prices, and of anticipated further falls, would induce parties abroad to retain the smallest possible stocks of goods.

Some part of the evidence of that distinguished banker, Mr. Lewis Loyd, before the committee of 1819, is extremely instructive and illustrative of the effect which we are now pressing. After stating, in his previous answers, that a further reduction in the amount of bank notes would be very ruinous to all classes, Mr. Loyd is asked—

"Will you explain how this reduction will operate? It would produce a further immediate stagnation in trade, a further reduction in the prices of all commodities, and, in consequence, would be the ruin of a great number of merchants and manufacturers, and the turning out of employment of an immense body of workmen. The way the scarcity of money operates at present is, that produce and manufactured goods can hardly be sold at any price. There is comparatively nothing doing. *All persons disposed to buy expect goods much lower, and therefore put off their purchases. As an instance, a merchant from Holland called upon me yesterday, with a sum of money, prepared to purchase manufactures in Lancashire and Yorkshire. He told me he would not buy at present, as he and all his connexions expected goods to be much lower.*"

It is not in a *falling* market that people increase their purchases; on the contrary, it is then they hold back, and it is not until the opinion becomes strong that prices have seen the lowest point, and there is a probability of a rise, that an inducement exists for increasing purchases. Now, in the case before us, this point cannot arrive as long as the exchange continues adverse, and bullion is undergoing diminution, nor until a turn in the exchanges would prove that the lowest

point was passed, and an expectation became general that an influx of bullion would shortly follow, and with it an expansion of the currency and a rise of prices; so that, instead of inducing more extensive purchases of goods at the early part of the drain, these regulations would have the effect of delaying them till the worst of the evil was past, and would thus tend, as we before said, not only to AGGRAVATE but to PROTRACT the drain.

It may, however, be thought that the lower prices alone would increase the consumption of our goods abroad, and increase their sale. That would, no doubt, be the ultimate effect, but it would not be experienced for a very considerable period, and would be even then, for a long time, more than compensated by the reduced stocks kept by dealers of all classes as long as the market was a falling one.

Under this action of the new currency bill we look forward with no small alarm to the increased and aggravated consequences which a failure in the harvest, and a continuance of high prices, must exercise over the manufacturing industry of the country—not, as it is pretended, subjecting it to an earlier but less intense depression, but, as we have shown, to an earlier, it is true, but also to a more intense and protracted suffering.

ARTICLE IX.

The Bank Act of 1844 continued:—Proposal of Sir Robert Peel to Assimilate the Scotch Banking to the system established by that Act.—No good ground for such an attempt.—Uniformity of System in the two Countries desirable.—The most Imperfect System should be Assimilated to themost Perfect, and not the Perfect to the Imperfect.—The Scotch System of Banking contrasted with the English System.—The application of the principle of the Act of 1844 to Scotland and Ireland calculated greatly to aggravate the difficulties of the Bank of England under a drain.

In addressing the House of Commons last year on the introduction of the bill to regulate the currency of England, Sir Robert Peel appealed to the general dissatisfaction felt in this country with the existing system as an evidence that at least some change was requisite. He said he held in his hand "proof of the evils flowing from the present state of the law," which would make it impossible to resist some change. These are the two most important points of which the Right Honourable Baronet's present case is utterly destitute; dissatisfaction with things as they are, or proofs of any evil arising from a system which has existed through all the civil and foreign wars, commercial and political convulsions of nearly two centuries. And it is surely no slight responsibility which a minister takes upon himself to commence, in however small a degree, an interference with a system which has worked so satisfactorily and so safely, and to attempt to make it approximate with another system of currency which, to say the least of it, is yet only an experiment, and which, with all the care of the State hitherto, has been so imperfect that dissatisfaction has never been separated from it—calling for fresh legislation and interference every few years; and to this day having gained the absolute confidence of no man. Sir Robert Peel took occasion to express his satisfaction with the measure of last session, so far as

it has gone. Now, if he considered the principle on which it was founded, we think he would have no cause for that satisfaction. The fundamental principle of that bill was, that the circulation should expand and contract with the bullion. During the whole year, nearly every fluctuation of bullion and circulation has marked a reverse action. And though no inconvenience could be expected from *any* bank bill while the exchanges were all in our favour, and bullion flowing in from all quarters, yet, if the principle be true at all, it ought to have acted as certainly under a favourable exchange as it is expected to do under an adverse exchange. All that has yet happened should have taught the minister to doubt and pause, instead of being confident and going on.

Nor does there exist the same reason for interference with the Scotch banks that there did last year with the country banks in England, even for the purpose of giving a fair trial to the experiment now making on the currency through the regulated action of the Bank of England. It was contended by Sir Robert Peel, as it had been before by the most eminent advocate of this system, that the Bank of England could never exercise perfect control over the circulation so long as numerous and competing issuers of notes existed in the country. It was asserted that when the policy of the Bank decreed contraction, and took steps to accomplish it, their efforts were counteracted by increased issues on the part of country banks, and that the notes of the former in such cases being withdrawn, only made room for more of those of the latter, and that thus the expected action on the whole circulation, on prices, and on the exchanges, was defeated. Now, with those who have faith in the doctrine on which Sir Robert Peel proceeded, this was a most reasonable objection. But no such objection can be taken to the Scotch circulation of notes, because by law they are prohibited from circulating in England at all, and therefore the action of the Bank of England on the circulation could not in any possible degree be affected by the issue of Scotch notes, any more than by those of the bank of France. Not one note withdrawn by the Bank of England

could by any possible scheme be supplied by the Scotch banks. Not one effort made by the Bank to act on the circulation in England could be counteracted by the Scotch banks. If the Scotch banks advanced money to houses in England, it could only be by drafts on their reserves in London, and paid in gold or bank notes. The experiment, therefore, of the New Bank Bill was perfect and complete, without any interference with the Scotch banks.

But it is said, why should Scotland have one system of banking and England another? To this there is no reply. There can be no earthly reason why the same system should not be applicable to both. There may be certain care and precaution needed in the assimilation. But then, if you are about to assimilate two systems, what do you do? Do you assimilate the perfect to the imperfect; or the imperfect to the perfect? That which gives universal satisfaction and affords no proofs of frailty, but has withstood the test of nearly two hundred years, with that which, after passing through centuries of tinkering and changing, without even approaching to a more satisfactory condition, is now only in the first year of the ninty-ninth experiment; or would you do the reverse? This is really the question to be determined by those who assert that the systems should be the same in both countries—that Scotland should possess no privilege that England does not.

In contrasting the experience of the two countries, it would be impossible in the whole history of commerce to find such striking examples of the beneficial effects of perfect freedom of action on the one hand, unaccompanied by any privileges or monopolies to any one party, but in which all are exposed equally to free and unrestricted competition, and the wholesome influence of public opinion; and, on the other hand, the evil effects of privileges and monopolies granted to favoured parties, and of the attempt to regulate by acts of parliament questions of commerce and currency. In the case of Scotland we have seen for nearly two centuries the effect of a perfectly free and uncontrolled competition. Not one act or law has been passed during the whole of that time to interfere with or

regulate the currency of that country. The effect of free competition has been to assimilate and mould the system of business to the wants of the age, and to the habits of commerce as they changed. Hence, competition and free action have maintained the Scotch banks exactly what the Scotch public and their necessities required; and hence the universal satisfaction which has all along marked the system. But does free competition produc unsound banks or unsound banking? On the contrary, the soundness of the Scotch banks is the necessary offspring of that free competition. The first essential in a bank is safety: the first thing, therefore, which a bank must study in competing for business, and to attract valuable customers, is the perfect confidence of the public; competition, therefore, directs immediately to the adoption of such safe and perfect principles as shall secure that great essential—confidence. There being no restriction as to number of partners, one of the oldest elements of security of Scotch banks was, that they always consisted of a large number of known and wealthy men, even before the introduction of the Joint Stock Banks. By *law*, there has never been any restriction against *any* one issuing notes in Scotland; but by *practice*, it has ever been impossible for any unsound or unsafe paper to obtain currency. The late Mr. Maberly, when in the height of his prosperity, notwithstanding all his influence, laboured for years in vain to establish a circulation of his notes, and public opinion, with free competition, was his only check.

What has been the case in England during the same time? We started by giving privileges to the Bank of England: these privileges alone were enough to prevent safe banking from ever gaining ground. We prescribed and limited the number of partners which could bring their joint security to the public in any one bank (a direct premium for insecurity). We prohibited the establishment of banks of issue within that circle, where alone strong and safe establishments would have been most likely to have taken root, and extended their influence upon safe principles throughout the country, as was the case from Edinburgh throughout Scotland. And we inter-

fered by numerous regulations to protect the privileges of the Bank of England, and effectually prevented all that wholesome action of public opinion and free competition which have proved so beneficial in Scotland. We have never rested for many years together without some new laws, some new regulations, dictated by the fancy and theory, fashionable at particular periods. And thus, by constant interference, we have prevented public opinion, and the experience of bankers themselves, adopting and moulding their business to the best and safest course, even under any given state of circumstances. It has been a system of constant interference and disturbance, accompanied only by disappointment—and doomed to disturbance again. But disappointment has produced no lack of confidence in legislators; and Sir Robert Peel proceeds to a new experiment in 1844, with as much confidence as if those of 1819-1826, and the subsequent acts, had all been as successful, as they have proved the contrary. And, what is more, disappointment in former numerous experiments seems to make him so confident in this new one, that he insists upon dragging with him the Scotch banks, who for a couple of centuries have neither disappointed themselves nor the public.

The principles of currency have certainly been rendered so abstract and intricate by these various and numerous theories, that few people will even venture an effort to understand them. Though in reality, if left alone, and released from the eternal interference of law makers, and from the baneful influence of monopolies, they are as simple and self-adjusting under free competition as the conducting of any other business whatever. The affectation of governments to protect and find prudence for the public in such matters, is proved by all experience to be a practical cheat and delusion, and which has always had its origin in an attempt to support and maintain some monopoly or privileged class.

But, if the people do not understand the theory, they can readily comprehend the result.

It would be a vain and laborious task were we to venture to ascertain the amount of loss which the public of England

has sustained from the failure of banks, even during the last ten years, to say nothing of 1825 and 1826, or of the period from 1814 to 1817, or of the numerous earlier periods of disturbance, panic, and convulsion. Without going many years back, it would be easy to count this loss in *millions of pounds*; but we will show, independent altogether of the direct loss, one of an indirect character, and of enormous amount, which the public has suffered during the last three years, arising, we are ready to contend, from the imperfection of our banking system, and from which Scotland has been entirely exempt. We allude to our loss by wear of our gold coin. The first coinage of our sovereigns took place in 1816. From that time to 1842 there were periods when an immense number of light sovereigns were cut and destroyed by the Bank. But we confine ourselves only to the period after the proclamation was issued in 1843. At that time an immense amount of light coin was purchased for the ordinary use of gold, by jewellers and others. We know of an instance where a maker of watch cases purchased many thousands of pounds from bankers. But let us take the Bank of England only as our test. The Bank purchased light gold to the value of—

From January to December 31st, 1843	£11,137,223
January to July 1st, 1844	2,905,194
	14,042,417

This was the net money value of the light coin, and the *number of coins* would, therefore, be more than is represented by that sum. The loss sustained by the public was, in many cases, as much as *one shilling* each sovereign; in most cases at least, sixpence, but at the smallest rate, fourpence; but, let us suppose that only *fourpence* on each was lost by the public, and taking the number only at 14,000,000*l.*, leaving out of the question altogether those used up for watch-cases and other purposes, at this very limited calculation, the loss to the community of England, on its gold circulation, amounted to no less than 233,333*l*—and, computing the real loss during the

period from 1816 to 1843, from light coin only, we cannot make it less than 300,000*l.*

What do we find has been the case in Scotland, which has had the same convulsions in commerce and in politics, and the more serious ones of civil wars to contend against. It appears in parliamentary evidence in 1826, that from the first establishment of banks in Scotland until that time—a period of nearly one hundred and fifty years—the whole loss which the public had sustained by Scotch banks and by the free and unlimited competition in the issues of notes, was 32,000*l.*, or little more than *one-tenth* of the loss in England by the wear of coin alone during the last twenty-seven years.

Contend as we may about theories, here are the staggering practical effects of the difference of system and management. And can it, then, be a matter of surprise if a whole nation should recoil from the idea of disturbing a system so perfect and so safe in practice; so convenient, and in every way so adapted to its wants and habits; and to adopt in its place, one which is but in its first year of experiment, and which is the remnant of others which have proved so disastrous.

But there is an idea that Scotland enjoys her privileges at the expense of England—that England has to keep a stock of gold to sustain the wants of Scotland. Nothing can possibly show the utter ignorance which prevails on these questions so much as the crude notions thus expressed. Shall we enable the Bank of England more easily to obtain a stock of bullion, because we also compel the Banks of Scotland to do the same? There is still only the same quantity of gold; and we seek to diffuse it into more channels and reservoirs. But then, Sir Robert Peel says, that at periods of pressure the Scotch banks are sustained by the resources of the Bank of England. Now the reverse is the fact. No period of pressure of late years has been accompanied by any discredit of the Scotch banks, or any necessity for them to draw gold into Scotland, to meet the demands of depositors, or for the payment of their notes. And does the minister really fancy, by the proposition which he has made, that he is to assist the Bank of England in a

time of pressure? A glance at this subject will show at once the huge aggravation of the evil of all periods of pressure and panic, which, if his proposal is carried, will be experienced, not only by the banks and community in Scotland, but chiefly and most seriously by the Bank of England itself.

Sir Robert Peel says, take the average of the last thirteen months—fix your circulation at that; if you exceed it, increase your bullion to the same extent. Now one great fallacy of the averages of circulation is, that the average of a week, taken at the close of business, is no criterion of the actual quantity of notes which must, during the week, be issued at particular times to represent exchanges, the greatest part of which return to the issuers before the amount in circulation is taken at the end of the week; but when notes are issued, it is always uncertain what precise portion will return within a given time. A banker dealing with his notes, therefore, keeps a reserve by him for such momentary purposes, and to sustain a circulation of 100,000*l.*, as shown by the returns, he will have 150,000*l.* or 200,000*l.* of notes, more or less, and occasionally in use. But under such restrictions as proposed, he will not be able to venture the issue of such notes, being uncertain as to their return, without holding bullion to avoid the penalty in the event they do not return. The system of averages is, therefore, extremely fallacious; and we cannot understand how it is to improve the condition of the Bank of England, if for the limited stock of gold in the world it is to have the fresh competition of all the Scotch and Irish banks, in order that they may hold uniformly larger quantities than they do. But this is the least of the evil.

Let us suppose a period of pressure. The bullion of the Bank is reduced to seven or eight millions (no very small amount compared with some periods), so that the circulation of notes is nearly equal to the securities of 14,000,000*l.* and the bullion together. What will take place in Scotland and Ireland under the new bill then? The Scotch banks have to protect 3,000,000*l.* of circulation and 30,000,000*l.* of deposits. Pressure is felt and is further expected. The Scotch

banks feel that it is necessary to increase their reserves; that their deposits may be required by their customers to assist their friends, to pay up railway calls, or any other purpose for which money becomes so much required at a time of pressure. They see they cannot move without increasing their amount of coin; they are the largest holders of securities and stock in London of any class of bankers; they order them to be sold in the market, draw bullion from the Bank, and increase the drain already rapidly going forward.

It does appear the most extraordinary idea for a Minister to entertain, that he can relieve the Bank at a period of pressure, by bringing a new, and powerful, and irresistible class of competitors into the market, in the sale of securities and in the struggle for bullion. If his object were to increase the intensity of such a crisis, he could not adopt a more certain plan.

But experience has shown that it is utterly impossible to anticipate all the evils of artificial interference in such cases. Experience has taught us the benefit of the free system in Scotland, the monstrous evils of the other in England. One interference, however small, will be but the beginning, the commencement, nay, the necessity for others, and the Scotch banks must either wholly and entirely resist the principle of interference, and repudiate the bribe of a monopoly as unworthy of them, or submit themselves to a course of constant experiments and changes, according to the fashions and theories of the day.

ARTICLE X.

The Bank Act of 1844 continued:—The Experience of the First Year of its Operation.—The Expected Effects Falsified by the Events.—Did not Prevent or Check Speculation.—Mr. Loyd's Defence of the Act Examined.

HAVING closely examined the various received and assumed principles on which the Bank measure of last year was founded, we are now induced, in consequence of the remarks made by Sir R. Peel, in bringing forward the plan for regulating the Scotch and Irish Banks, to make some observations on the experience, short as it has been, which we have already had, of the operation of the bill of last year. On that occasion the Minister said:—

"But I must say, as far as we may judge from experience, we have a perfect right to be satisfied with the measure we adopted (cheers); admitting the experience to be short, as far as it has gone, I must contend it has been decidedly in favour of the policy and justice of the measure sanctioned by the house in the course of last year."

On all hands it is admitted that the experience of that measure has been much too short to form any conclusive criterion of its entire effect, at all times, and especially at the more important period of pressure and crisis occasioned or accompanied by an adverse exchange. Yet so far as the general principles are concerned on which the bill is founded, as well as some of the objects which the Minister expected as the result of his imposed restrictions, we may draw some useful conclusions from that experience, short as it has been. In doing so, however, we cannot agree with Sir R. Peel that there is any ground for satisfaction with that measure, inasmuch as the experience of it, as far as it could be evinced under the peculiar circumstances of the last year, has in every respect been the contrary to that which the principles on which it was founded would have led us to expect.

The fundamental principle on which the system adopted by Sir Robert Peel mainly relies, and which his measure of last year chiefly aims at, is, that the circulation shall follow all the fluctuations of the bullion in the Bank; that the former shall increase and decrease as the latter increases or decreases, by an involuntary self-action. Now, we are ready to admit that the object which the bill had practically in view, as of most importance, was the decrease of the circulation with the decrease of the bullion in order to correct an adverse exchange, when such existed, and thus to arrest a drain of gold. But though this half of the action was that chiefly kept in view, yet the *principle* on which Parliament relied for the accomplishment of that object should prove itself equally efficacious in an opposite way under contrary circumstances, if it be true at all. If it be true that an adverse exchange can be corrected by this bill, by means of a self-acting contraction, it should be equally true that a favourable exchange should be corrected by means of a self-acting expansion. And the bill itself equally contemplates the one and the other. During the last year the exchanges have continued steadily and inconveniently in our favour, though some slight variations have taken place in the amount of bullion held by the Bank; but with little, if any, exception, the fluctuations in the circulation have been just the opposite of those of the bullion, though the two ought to have corresponded.

By a return of circulation of the Bank, and the bullion held in each week since the new law came into operation, presented to Parliament, we find that on the 7th of September the circulation was 21,206,624*l.*, and the bullion 15,209,060*l.* On the 2d of November the bullion had sunk to 14,038,757*l.*, but the circulation had increased to 21,871,806*l.* From that date until the 22d of March, the bullion gradually increased in quantity, until it reached 16,000,424*l.*; but the circulation, in place of exhibiting a corresponding increase, actually fell to 20,532,542*l.* Thus, while the circulation should have increased nearly two millions, it decreased upwards of one million; and this took place during a time when the Bank was

using the most active measures to increase its business in all possible ways. The returns from week to week exhibit in their variations the same difference from the principle implied by Sir Robert Peel's bill.

In the next place, as for the results of the restrictions placed on the circulation, as anticipated by Sir Robert Peel in his speech of the 6th of May last year, we cannot but consider that events have seriously falsified those anticipations. In concluding that speech he said:—"I rejoice on public grounds in the hope that the wisdom of Parliament will at length devise measures which shall inspire just confidence in the medium of exchange, *shall put a check on improvident speculation,* and shall ensure, as far as legislation can ensure, the just reward of industry, and the legitimate profit of commercial enterprise, conducted with integrity and controlled by provident calculation." Now, we think it will not be denied by many, that during the last nine months a more reckless and hazardous speculation has existed (whether we look at its enormous extent, or the serious and ruinous consequences which will some day, within the next very few years, ensue from it), than any other which has been known in modern times. We have known nothing equal to it in extent. We have known no instance in late years, when all the parties concerned speculated more daringly, or more beyond their *bona fide* intentions, or capability to invest the requisite capital, or from which so wide-spread a reaction and ruin must ensue. To repress these excessive speculations, the Bank bill of last year has been wholly inoperative. So far, therefore, as we have yet had an opportunity of judging, whether of its principles or its results, we are utterly at a loss to understand the self-satisfaction expressed by the Minister.

Nor, if we would reason upon circumstances of a different kind, under which the bill is expected to operate, can we expect a more favourable result. In the pamphlet published by Mr. Loyd last autumn, in support of the Bank bill, that accomplished writer adduces four distinct periods, of late years, as illustrations of the applicability of the principles contended

for. On carefully referring to the periods in question, and the facts connected with them, we cannot discover any reason whatever to believe that any of the anticipated advantages of the new bill would have been experienced had it been in operation at the several periods referred to.

Mr. Loyd refers to four distinct periods in our late history as illustrations of the practical benefit which can be relied upon as arising from the adoption of this principle—in three of which cases a large and continuous drain of gold resulted in severe commercial crisis; and in one of which such drain did not so result. Now, in looking to the New Bank bill the great object is to consider, in what way it would have operated had the currency been under its regulations at those periods; and we think, on attentive investigation, it will appear that nothing which did then occur would have been materially different under the operation of the New bill. The first period to which Mr. Loyd refers is from September, 1833, to March, 1837, in which latter year "commercial and monetary pressure occurred." Mr. Loyd furnishes the following table of the circulation and bullion during that period:—

	Bullion.	*Bank Circulation.*	*Aggregate Circulation.*	*Country Issues.*
1833.	L.	L.	L.	L.
September ..	11,078,000	19,780,000	29,932,000	10,152,000
1835.				
September ..	6,261,000	18,240,000	28,660,000	10,420,000
December ..	6,626,000	17,321,000	28,455,000	11,134,000
1836.				
March	7,701,000	17,739,000	29,186,000	11,447,000
June.....	7,362,000	17,899,000	30,101,000	12,202,300
September ..	5,719,000	13,147,000	29,880,000	11,733,000
December ..	4,545,000	18,361,000	29,372,000	12,011,000
1837.				
March	4,048,000	18,178,000	29,209,000	11,031,000

Referring to the uniform decrease of bullion during the above period, the comparative trivial diminution of the circulation of the bank, and the smaller diminution of the aggregate amount of the bank and country issues together, and of the great irregularity of the country issues, and their want of

uniformity with the fluctuations of those of the bank, Mr. Loyd observes:—

"Such are the facts.

"What are the inferences to be deduced from them?

"1. That there exists no efficient connection between the fluctuations of the country issues and those of the bank.

"2. That by the conflicting action of those two sources of issue, the aggregate circulation is maintained at a comparatively *uniform amount*, during a period when the long-continued and heavy drain of the bullion required a corresponding *contraction* of circulation.

"3. That consequently the aggregate circulation cannot be considered as subject to any management or regulation which has reference to the bullion.

"4. That in consequence of the absence of early and steady contraction of the circulation, the decrease of the bullion remains for a long time unchecked, and therefore goes to a greater extent than it otherwise would do. . . . .

"5. Had the aggregate circulation been steadily contracted in correspondence with the bullion, from the maximum period of both (in September, 1833), is there not the fairest and most reasonable ground to conclude that such timely and steady contraction would have been gradual and easy in its effects—that, commencing before any feeling of alarm had arisen, it would have worked more easily and not less effectually; and that, by putting an earlier restraint upon the efflux of bullion, it would have kept that action within smaller limits, and thus probably have obviated a large part of the pressure of 1837? Compare such supposed contraction of the aggregate circulation with what really took place.

	Bullion.	*Bank Circulation.*	*Aggregate Circulation.*	*Country Issues.*
1833.	L.	L.	L.	L.
September ..	11,078,000	19,780,000	29,932,000	10,152,000
1834.				
March	9,829,000	18,700,000	27,891,000	10,191,000
June.....	8,645,000	18,922,000	29,440,000	10,518,000
September ..	7,693,000	19,126,000	29,280,000	10,154,000
December ..	6,750,000	18,304,000	28,963,000	10,659,000
1835.				
March	6,536,000	18,311,000	28,731,000	10,420,000
June.....	6,150,000 ..	18,460,000	29,399,000	10,939,000

"Here is a period of two years, during which the bullion suffers a continuous and heavy drain, being diminished 4,928,000*l.* The bank circulation is diminished 1,320,000*l.*, being a decrease in proportion to that of the bullion of little more than twenty-five per cent.; and that decrease occurring very irregularly, not in the steady and uninterrupted manner in which the bullion decreases. The aggregate circulation is diminished only 533,000*l.*—or about eleven per cent. upon the decrease of the bullion; and this decrease again occurred very irregularly.

"The country issues increased 787,000*l.*, being an *increase* in the proportion of about one-sixth to the *decrease* of the bullion.

"This course of things terminated in the pressure and difficulties of 1837. What would have been the effect of a different course? Had the bank and country issues been both contracted, in such manner that the aggregate circulation should, in its fluctuations, have followed the bullion, the *certain and undeniable* effects would have been a contraction of circulation commencing early, proceeding gently and equably, acting during a period when there was no alarm or apprehension respecting the state of the bullion or of trade, and producing a gradual, moderate, but continuous restraint upon confidence, rate of interest, and speculation, before they reached the extent to which they were permitted to go."

Now, admitting this reasoning on these unquestionable facts to be true, we are led to inquire, what provisions are there in the new bill to have altered the results as stated? Mr. Loyd is of opinion that had the bank and country issues been both contracted in such a manner that the aggregate circulation should, in its fluctuations, have followed the bullion from September, 1833, the crisis of 1837 might have been averted; but this would not have taken place had the new law been the regulator of the currency. On the contrary, there is nothing in the new law which, as far as regards the circulation of the bank, would have made the slightest difference in the whole period, except a trivial reduction of circulation of 130,000*l.* at the very lowest point in March, 1837, or even as regards the aggregate circulation of the whole country until after June, 1836. The new law provides for a circulation of bank notes, to the extent of 14,000,000*l.*, in addition to the amount of bullion held at any particular period, and an uniform amount of country issues, which we may state at 9,000,000*l.* Now, during the whole period, from September, 1833, to June, 1836, the lowest point which the bullion ever reached, as shown by the above tables, was in June, 1835, when it amounted to 6,150,000*l.*; by the new law the circulation of the bank might then have been 20,150,000*l.*, whereas it was only 18,460,000*l.*; and in June, 1836, when the bank became alarmed, and began to use severe measures to contract, the amount of bullion was 7,362,000*l.*, when by the new law the circulation of the bank might have been 21,362,000*l.*, and the aggregate circulation of the country 30,362,000*l.*, whereas, in truth, the former was then only 17,899,000*l.*, and the latter 30,101,000*l.* Therefore, down to June, 1836, no disproportion occurred between the amount of bullion held by the bank and the amount of circulation of paper.

Mr. Loyd, at page forty, states—we think very accurately—the causes from which resulted the crisis of 1837:—

"The revulsion of 1837 was the consequence of a long preceding period of prosperity, which had generated excessive credit, over-trading, and over-banking.

"These effects were exhibited more particularly in excessive credits given to the United States, in the negotiation in this market of American, Dutch, and other foreign securities to a great amount, in the rapid and excessive expansion of joint-stock banking in this country, and excessive credits given by them."

We think we have shown that no provision of the new law would have altered the circumstances connected with the circulation down to June, 1836, at which period no one will deny that all the causes above enumerated, to which the crisis of 1837 is attributed, had occurred to the full extent which they reached, and that no policy on the part of the bank, *after that date*, could have prevented their effects on our monetorial and commercial interests. The long period of prosperity had been enjoyed—excessive credits, over-trading, and over-banking had taken place; the American, Dutch, and other foreign securities had been negotiated in our markets; the unusual amount of exports and credits to the United States had been given; and the enormous credits from the great leading American houses on China, Brazil, and other distant countries, had been issued in favour of houses in New York and Boston, in anticipation of the future shipments of American produce, the rapid expansion of the system of joint stock banks, and the undue competition among them for business, which led to unwise advances on illegitimate securities, had all taken place: —*unwise investments had been made at home, which could not then be recalled; extensive and imprudent engagements to other countries had been contracted in the form of mercantile credits, which must be provided for.* To meet these difficulties, in which the whole commercial community was less or more involved, the available means of the country were drawn upon to such an extent that no policy of the bank could then have averted.

The deposits of the bank, including the country branches, amounted in January, 1836, to 20,429,000*l.*, and were reduced on the 4th July, 1837, to 10,257,000*l.*; and there can be no doubt that, had the circulation been more suddenly contracted from June, 1836, from which time only the New Bill would have had any effect, and when it became utterly impossible to alter or change the causes of the drain of bullion, the first effect would have been to have caused a more sudden withdrawal of deposits from the Bank of England, as well as all other banks, to fill up the vacuum created in the inland circulation by the contraction of the paper; for people would not submit to a sacrifice in the price of their goods, until they had exhausted the deposits over which they had control. In this case, it is more than likely the bullion in the bank would have sunk even more rapidly than it did from June, 1836, to March, 1837, by the increased demand for internal circulation, to replace the notes withdrawn, and which would have been obtained by an action on the deposits. And it is evident that after the circulation of the bank became reduced to the minimum amount to which its bullion entitled it by the new law, any decrease of deposits must have been attended again with a corresponding contraction of notes, and a consequent demand for gold to replace their circulation, and thus both deposits and bullion would in all likelihood have become reduced even more rapidly, and to a greater extent than they were, before the effect of forced low prices of commodities induced a turn in the foreign exchanges.

It is also here worthy of remark, that although the three months from March to June, 1837, were attended, as Mr. Loyd observes, with "*a further decrease of bullion, and a large increase of bank circulation,*" which is quite the reverse course which they would have taken under the present law; yet with it the crisis suddenly ended in that month, the clouds cleared off, confidence was restored, and on the 29th of August the bullion had increased to 6,548,000*l.*, and a considerable advance had taken place in the price of commodities.

The next period to which Mr. Loyd refers, is from March,

1838, to September, 1839: and he furnishes the following table of the progress of the circulation during that time:—

	Bullion.	*Bank Circulation.*	*Aggregate Circulation.*	*Country Issues.*
1838.	L.	L.	L.	L.
March	10,015,000	18,600,000	29,526,000	10,926,000
June.....	9,772,000	19,047,000	30,792,000	11,745,000
September ..	9,615,000	19,665,000	31,029,000	11,364,000
December ..	9,362,000	18,469,000	30,694,000 ...	12,225,000
1839.				
March	8,106,000	18,298,000	30,557,000	12,259,000
June	4,344,000	18,101,000	30,376,000	12,275,000
September ..	2,816,000	17,960,000	29,044,000	11,084,000

"The bullion was at its *maximum* in March, 1838, and continued to *decrease* steadily from that time.

"The bank circulation and aggregate circulation continued to *increase* largely till September.

"The country issues continued to *increase* largely till June, 1839; and it is remarkable that they were at their *minimum* point when the bullion was at its *maximum* (March, 1838), and they *advanced* to their *maximum* point whilst the bullion was undergoing a *decrease of sixty per cent.* (June, 1839).

The cause of this drain Mr. Loyd states to have been—

"1. Large importation of foreign corn.

"2. Large importation of American securities.

"3. Large mercantile credits given to America.

"4. Peculiar state of credit in France and Belgium.

"5. Peculiar circumstances connected with the cotton speculation.

"'The importation of the raw cotton had been principally paid for by advances which the consignees on this side obtained upon it.'—*Tooke, p. 74.*

"Here, again, had the management of the circulation followed the indications of the bullion, the check to the importation of foreign securities, to the excessive mercantile credits, and to the advances made to the consignees of cotton, would have been applied *early in* 1838."

Now, if we examine this period by the same rule as we have that of 1833 to 1837, we will also find that there is nothing in the new law which could have accomplished what Mr. Loyd deems needful to have prevented or averted this crisis; there is no provision which could possibly have made the circulation follow the indications of bullion in the early part of 1838, nor indeed till long after March in 1839—for in that month the bullion held by the bank was 8,106,000*l.*, when the circulation of the bank would be, under the new law, 22,106,000*l.*,

and the aggregate circulation, 31,106,000*l.*; whereas the former was only 18,208,000*l.*, and the latter 30,557,000*l.*—both, therefore, were below what the new law would have given, even at that advanced period of the crisis. Now, at that time (March, 1839), all the reasons above enumerated for the crisis had already occurred. We had then already imported, in less than six months, upwards of two millions of quarters of wheat, and we had purchased above *one million* of quarters more, which arrived during the next four months; and, as circumstances afterwards proved, we were obliged to import another million of quarters, making in all four millions and a half of quarters of wheat from October, 1838, to October, 1839, inclusive. The importation of American securities, and the extension of American credits, had already taken place throughout 1838. The monetorial and commercial crisis in Paris and Belgium, and the stoppage of the Bank de Belge, had already occurred in November, December, and January, and these causes, therefore, could not have been acted upon, or prevented by any peculiar or different action of the Bank of England under the new law, as its effects on the circulation would not have been experienced till after March, 1839, at which time all these moving causes and necessities of the drain of bullion had occurred. There is every reason to believe that, with these necessities on the country, had the circulation been more rapidly contracted than it was from March forward, the same consequences would have occurred that we have already described as being more than probable, if not quite certain, to have occurred in 1837. As it was, the deposits of the Bank and its branches, which amounted in January, 1838, to 11,230,000*l.*, fell in July, 1839, to 7,489,000*l.*

Mr. Loyd next refers to the crisis of 1825, and gives the following table:—

	Bullion.	*Bank Circulation.*
1824.	L.	L.
February	13,810,000 ..	19,736,000
August	11,787,000 ..	20,132,000
1825.		
February	8,779,000 ..	20,753,000
August	3,634,000 ..	19,398,000

"Here, again, is a crisis preceded by a long continued *decrease* of bullion and a large *increase* of paper circulation. The panic of 1825 was the result of this course; but, had the circulation been contracted with the bullion from the beginning of 1824, can any person entertain a doubt that the revolution of credit in the latter part of 1825 would have been infinitely less sudden and less severely felt?"

But, again, there is nothing in the new law to have induced any contraction of the circulation from the beginning of 1824, nor indeed until some considerable period after February, 1825; for in that month the bullion amounted to 8,779,000*l.*, which would have entitled the bank to a circulation of 22,799,000*l.*, and the whole country to 31,779,000*l.*, whereas the former was then only 20,753,000*l.*, and the latter, taking Lord Liverpool's estimate of 8,000,000*l.* as the country circulation, in the absence of any published returns, was only 28,753,000*l.* So that it is quite clear that no action which the new law could have exerted on the circulation, had it then been in existence, could have in any way influenced the wild speculations which occurred chiefly in the last three months of 1824 and in the first three months of 1825. All the mischief had been done which afterwards induced the heavy drain between February and August of that year; the obligations had been undertaken, and the imperative necessities for their provision had arisen long before the new bill could have acted as any check. The deposits in the bank sunk from 10,168,000*l.*, in February, 1825, to 6,410,000*l.* in the following August.

As an example of a different kind, Mr. Loyd refers to the drain of bullion from August, 1830, to February, 1832, without being productive of any crisis, and gives the following tables:—

	Bullion.	*Bank Circulation.*
1830.	L.	L.
August	11,150,000 ..	21,464,000
1831.		
February	8,217,000 ..	19,600,000
August	6,439,000 ..	18,533,000
1832.		
February	5,293,000 ..	18,051,000

"On this occasion the drain upon the bullion does not, as in all the other cases, terminate in a crisis."

During this period the bullion was reduced nearly 6,000,000*l.*, while the circulation of the bank fell little more than 3,000,000*l.* There is no means of knowing how the country circulation then stood; but, even admitting that it may be true, as suggested by Mr. Loyd, that if we knew the fluctuations of the country circulation during that period, it is probable that the reduction of the aggregate circulation corresponded nearly with that of the bullion; yet it must be quite evident that there is nothing whatever in the new law to have accomplished this result; for, by its provisions, in August, 1831, when the bullion stood at 6,439,000*l.*, the issuing department would have then had out 20,439,000*l.*, instead of 18,533,000*l.*; and even at the lowest point of bullion in February, 1832, when it was 5,293,000*l.*, the bank issues under the new bill would have been 19,293,000*l.*, whereas the circulation was only 18,051,000*l.*; the New Bank Bill, therefore, could not have produced the effect had it then been in operation, though it would not have prevented it. The truth is, that during this period, and for some time previously, prices of commodities (except wheat) had been very low, and there had been a very long absence of any speculation whatever.

All this, however, suffices to show that, even admitting Mr. Loyd's principles to be true, the provisions of the new bank bill are by no means calculated to carry those principles into effect. For example, further—the bank at present has about 16,000,000*l.*, which will make its issues 30,000,000*l.*; which, with the country issues, will make an aggregate amount of 39,000,000*l.*; of which, however, not more than 30,000,000*l.* at the outside can be used. It is quite clear, therefore, that all kinds of speculations may be fostered, and an enormous amount of injudicious credits may exist, and a drain of bullion to the extent of 9,000,000*l.* may take place, before, under the new bill, any action whatever can be experienced on the present amount of the circulation; or the circulation might even increase to an aggregate amount of 34,000,000*l.*, while a drain of bullion might be going on to the extent of 5,000,000*l.*,

without any check whatever being experienced from the new law.

So will it be when the next seriously adverse exchange and commercial crisis occurs. At present it is impossible to foresee what may be the immediate predisposing cause of such derangement; but, suppose it to be the uncontrollable necessity of importing large quantities of grain, to make up the deficiency of a bad harvest, is it not sufficiently evident that all the other obligations for the future employment of capital, into which men are now so eagerly entering without limit, will then constitute liabilities and demands on the capital of the country, which no regulation of the currency under the new law, or any other law, can control? However adverse the exchange may be, engagements which are now being entered into to make railways abroad, when once begun and partially performed, must be completed, if by any means it is possible. However severe the crisis may be, and however scarce money may be, no man will voluntarily forfeit his interest in the half-completed railways at home by neglecting to pay up the calls, if by any means it be within his power to do so. The obligations which, in such an event, will constitute the uncontrollable necessities of the moment are being entered into now (as was the case in all former instances), while yet capital is abundant, and there is nothing to excite the slightest alarm.

Nor will there be anything in the action of the new bill in any way to ameliorate the symptoms hitherto experienced under similar circumstances; but, as we shall be able to show, it will have the tendency materially to aggravate them, and more especially when we extend to Scotland and Ireland the proposed provisions of Sir Robert Peel's new bill.

ARTICLE XI.

THE CRISIS.—THE MONEY MARKET.

Reasons for Special Attention to the Questions of Capital and Currency at this time.—Confusion of Terms.—What Really Constitutes Capital?—What Constitutes the Difference between Fixed and Floating Capital?—*January* 23, 1847.

THERE are certain questions of the highest importance to a clear understanding of the changes which are constantly taking place in what is popularly termed the "*money market*," of a character too difficult and abstruse to command, under ordinary circumstances, a sufficient attention from the active man of business, in order that they should be fully understood. The only time when we can hope usefully and entirely to arrest public attention to such questions, is when the current events of the day clothe them with more than usual interest, and when every man is disposed to give his whole attention and intellect to their consideration, in order the more safely to govern his own policy at a time of existing or expected difficulties. Such an opportunity is the present moment, for the arrival of which, we candidly admit, we have been for some time waiting. It is impossible to conceive that at the present moment, when just a sufficient amount of the predicted disturbances of the capital and finances of the country is disclosed to public observation, tending to create a general belief that much more serious developments of the same elements remain behind—that those who are deeply interested either in the commerce or the finances of the country will be unwilling to devote the whole of their powers of mind to a clear comprehension of passing events, and of the causes by which they are governed. Many have been deterred from a sufficient attention to these subjects from an exaggerated notion of their abstruseness and difficulty. We shall, therefore, in the remarks which we are about to make upon the great

elementary causes which regulate the "*money market*," and their influence upon the present passing events, use terms and language as popular and simple as possible.

The three first great primary points, without a clear understanding of which to start with, all attempts usefully to discuss the subjects of *Banking*, *Currency*, or the "*Money Market*," must be a mere waste of time, and a further bewilderment of bewildered notions, but with a clear understanding of which, the whole science of capital and money becomes comparatively simple to the commonest understanding, are—

Firstly—What really constitutes capital?

Secondly—What constitutes the difference between fixed and floating capital?

Thirdly—What constitutes the difference between capital and currency or circulation?

Without clearly understanding these three points, all attempts to draw correct deductions from passing events with respect to the "*Money Market*" will be entirely vain; with a familiar and clear understanding of them, it will be a comparatively easy and simple task. We propose, therefore, shortly to consider these three points in as popular a way as possible, before we pass to a consideration of the present state of the "*Money Market*," and the claims which exist upon the capital of the country. With respect to the first point of consideration—

WHAT REALLY CONSTITUTES CAPITAL?

there is a much more general and accurate notion than of the other two points. This question has been so often treated in a clear and distinct manner, that we do not propose to dwell much upon it. It is generally and clearly understood, that capital, in the broad sense, means labour accumulated in such a form as to facilitate future production. The savage who hunts and fishes just enough, with the simple means which Nature provides, in order to supply his wants, neither possesses nor accumulates capital. But the moment a savage spends

any portion of his time in constructing an implement which facilitates his hunting or his fishing, so as to enable him to procure more food with the same labour, that moment he is possessed of capital, consisting of such implement, the value of which is determined by the extent of the facility which it affords in acquiring food. This capital, consisting, for example, of a net, has two values; one which would be measured by the time and the skill expended in constructing it, which would determine the price which another person would be willing to pay for it by purchase, and another which would be determined by the profit or facility which its use would afford, and which would determine the price which a person would be willing to pay for the loan of it. The first value is the *selling price*, the second is *rent* or *interest*. If, in such an early stage of a community, only one person accumulated capital, that is, procured as much food as he himself consumed, and made nets besides, it is clear that he could not *sell* his nets, because no one else possessed more food than he actually consumed; but it would be quite possible at once for any one to *rent* such nets, and to pay a portion of the extra food which he was able to obtain by its *use*, for the *loan* of it. As soon, however, as the *use* of this net enabled the borrower of it to obtain as much food as was sufficient to support him, to pay the stipulated quantity for the *use* of the net, and to leave him sufficient leisure to make a net for himself, or to buy the net, he would become the *owner* of so much capital, in place of the *renter* of it. Thus, the capital of every individual would increase just in proportion as he produced more than he actually consumed, and the value of this accumulated labour would be proportioned to the facilities which it afforded for future production. If a man expended the labour of a year in the attempt to make a machine, which at length gave no new facility in production, he would add nothing to his capital; but if his labour was expended in improving the soil or making an implement, which would in future enable him, with the same quantity of labour, to produce more food or clothing, he would have added so much to his capital—which improved

land or implements he might either sell for a price, or lend at an annual rent. What is true with respect to an individual, is equally so with a whole community. In proportion as a country produces more than it consumes, and in proportion as the extra labour or income from rents or interest, which must be all paid out of labour, are invested in profitable means of future production, does its capital increase? From the most simple to the most complicated state of society, all capital, therefore, represents accumulated labour, and is valuable just in proportion as it has been invested in means calculated to facilitate future production. In the earliest stage of society, the net which represents the first saving or accumulation is valuable just in proportion as it is calculated to facilitate the natural and unassisted means of catching fish. In the most refined and complicated state of society, the machine, the railroad, or the ship, in which the accumulations of individuals are invested, add to the general amount of capital just in proportion as they facilitate and cheapen production or profitable exchanges, and that facility determines the price which people will pay for their purchase, or the rent which they will give for their use, as the case may be. It is, therefore, clear that capital consists of all improvements in the natural elements of production—of all implements which facilitate production—and of all commodities which, though produced for consumption, yet the value of which will be replaced to the producers, from the incomes of those who consume them. Thus, permanent improvements on land, by which larger crops are raised with the same labour; improvements in water-courses, rivers, or docks, the construction of canals, roads, or railways, which facilitate intercourse and the exchange of commodities; buildings, ships, machines, cattle; all implements for reproduction, and commodities of every description, such as cloth, wheat, sugar, gold, silver, iron, &c., which are produced for the purpose of sale, the price of which is to be replaced from the income of the consumers, while the profit only is to be consumed by the producers, constitute the capital of a nation. Whatever adds to the efficiency of any of these elements of

production increases the capital of a country, as, for example, the application of steam to ships, machinery, and railways, while anything which injures or destroys them, such as fires, shipwrecks, &c., abstracts so much from the capital of the country. The recent inundations in France have subtracted as much from the Capital of France, as it will require of labour to restore the mischief they have done. So with regard to the effect of seasons on the productions of wheat, cotton, or other articles, while, in an abundant year, more is produced than is sufficient for the consumption of the year, the surplus goes to accumulation, and constitutes so much capital, so, in a deficient year, when the produce is not enough for consumption, the accumulation of former years must be used to make up the deficiency, and thus the capital of the country is reduced.

The next point which we would consider is,—

WHAT CONSTITUTES THE DIFFERENCE BETWEEN FIXED AND FLOATING CAPITAL?

This is a point, with respect to which much greater obscurity exists than the one which we have already examined; it is one also on which though the most important practical questions and considerations arise, yet which we believe has not yet met with such a clear and explicit explanation as to enable men of business readily to distinguish between the one and the other in the numerous cases which are constantly arising in the application of capital, and where a clear understanding of the distinction is of the first consequence. A want of a clear understanding upon this point has, we have little doubt, had the effect of causing losses to the community of this country to the extent of many millions during the last two years, as a consequence of obligations which have been undertaken, which, had this distinction been clearly understood, would not have been entered upon.

We will endeavour to do something towards clearing up this important point. Every accumulation of capital furnishes a

certain command over labour, and can only be rendered productive by the employment of labour. This labour may, however, be used for the production of two distinct classes of commodities. It may be applied to the production of implements, the improvement of land, the building of houses, or the construction of roads, all for the purpose of facilitating further production, or it may be employed for the purpose of producing commodities for the immediate consumption of the community, to be repaid and replaced by the income of the country. In the first case, the labour is fixed, and the profit which is derived from it must be either in the form of an additional facility for future production, or in the form of a *rent*, which some one is willing to pay for the use of such facility. In this case the capital is not itself returned to the owner. In the latter case, the whole capital is returned to the producer along with his profit, paid from the fund constituting the general income of the country. For example, in the first case, a man builds a mill, and fills it with machinery; the mill and the machinery present to the owner a facility by which he can more easily produce cloth than hitherto, and this greater facility returns a profit upon the capital thus sunk, analogous to *rent;* or he may let it *on hire* to another person, who is willing to pay *rent* for such a facility thus given. All the profit derived from such capital must be in the character of *rent;* and in all such cases the *rent* or *interest* alone is repaid from the income of the country, included in the cost of the goods, the production of which it facilitates. In all cases, therefore, where the capital itself is not repaid from the income of the country, but only a *rent* or *interest* for its use, it must be classed as *fixed* capital. This applies to houses, improvements on land, navigation, roads, machinery, ships, and all classes of commodities which form only the means of producing articles of general consumption.

On the other hand, another man who *rents* or *employs* the mill and machinery in producing cloth, and uses his capital for that purpose, employs it in the purchase of wool, and in the payment of wages, and does so upon the faith of selling his

cloth at such a price as will replace the whole of his capital so expended, together with the *rent* or *interest* of the outlay of the mill, and with such a profit as will remunerate him for the use of his capital, and the labour in conducting his business. In this case, the whole capital, with the profit, is replaced from the general income of the country, and is again available for the performance of a similar operation, and for continuing the employment of a similar amount of labour. All such commodities constitute the *floating* capital of the country; including agricultural produce, manufactured goods, imported articles for consumption, and, in short, every thing which is fully and entirely out of the income. In all cases of *fixed* capital, the community only pay out of income a charge for the use of a facility analogous to *rent*. As, for example, the fares paid to a railway company by the community, out of the general annual income, are only a consideration for a facility, and in the form of *interest* or *rent*, including the cost of upholding, but do not replace the capital which it cost to construct the railway. On the other hand, the prices paid by the community, out of the general income, for cloth, grain, or sugar, &c., replaces the whole capital expended thereon, leaving the same fund undiminished for the further employment of similar labour, and the reproduction of similar commodities.

The distinction, then, which we make between fixed capital and floating capital is—that all commodities or improvements, for the use of which only the current income of the country is charged—or, in other words, for which the owners only receive rent or interest—constitute the *fixed* capital of the country; while all commodities, the entire cost of which is replaced out of current income, constitute the floating capital of the country. The former class of commodities are stationary, yielding only income; the latter class are constantly circulating, affording a constant means of new employment for their reproduction from the current income of the country.

The two most important distinctions between *fixed* capital and *floating* capital are, first, that the former consists of labour employed only for the purpose of affording greater facility for

the production of those commodities required for the daily use of mankind, while the latter consists of labour employed in the actual production of those commodities themselves; and second, that the use of the commodities representing fixed capital, returns no fund from which the same amount of labour can be continuously employed, whereas the use of the commodities representing floating capital returns an undiminished fund, by which the same amount of labour can be again employed. The occupation of a mill, or the use of well-drained land, may add to the income of the capitalist, but the fund employed in the building of the one, or the performance of the other, is absolutely withdrawn, except so far as the additional profit, rent, or produce which they yield is concerned, from the fund for the future employment of labour, while the fund employed in the immediate growth of wheat or the manufacture of cloth, is returned to the farmer or manufacturer entire, and is again available for the employment of labour to the same extent as before. It is, therefore, quite clear that no community can, without the greatest inconvenience and derangement, increase its *fixed* capital faster than it is able to spare labour from the production of those commodities on which the community relies for its daily subsistence. Under all circumstances it can only be the amount of labour which the savings of the country can command and sustain, that can be applied to the increase of its fixed capital. The time which the savage could spare in order to make his first net, must have been confined to that which was not absolutely required to procure his subsistence; and the fund which any country can set aside to the increase of its *fixed* capital must be limited by the commodities of general use which it produces over and above its consumption, or, in other words, by the savings of the country. This important point will be more plain if we consider, that in fact the wages paid for labour, though nominally in so much money, really consist of the distribution of the commodities used by the labourers in maintaining them during its performance. Whether wages are paid in money, or whether the labourer is, in return for his work, supplied with food and clothing, are one

and the same thing. Now, the whole labour employed in producing those articles of daily consumption, such as wheat or cloth, whether for consumption at home, or for export in exchange for sugar, coffee, tea, or other foreign commodities in common use, replaces in the hands of the employer the whole of the commodities used to sustain it, and leaves the funds for the future employment of labour undiminished. The labourers employed in manufacturing calicoes not only produce as much as they themselves consume of this particular article, but as much as will exchange for any other article which they do consume, besides replacing the capital of their employer. The produce of this labour in calicoes exchanges for the corn and the provision which they consume of home growth, as well as for the sugar and coffee which they consume of foreign growth. Suppose a manufacturer, for the sake of simplicity, to make *one thousand* pieces of calicoes, and that, instead of the payment of money-wages, he distributes amongst his work-people the proper quantity of bread, meat, sugar, tea, and clothing to support them,—his thousand pieces of calico are then distributed in exchange for wheat and provisions to the farmer, for clothing of different kinds to other manufacturers, for sugar and tea to the merchant, who in their turn distribute these calicoes, with other things, to the labourers employed in producing these various commodities; and thus the manufacturer, is again possessed of another stock of commodities, to repeat the same operation. By such a process all labour is re-producing the fund for its future support. The introduction of money and credit are merely means of affording additional facilities to this simple operation. This process will go on without any interruption as long as labour is employed in the production of the commodities thus consumed, because every day's consumption and expenditure will be replaced on the aggregate by a similar production; or, in other words, as long as the capital of the country is continued in this *floating* or *circulating* state. But the moment we begin to build houses, to make roads, or to improve navigation, however much they may add to the facilities of future reproduction, while there is

the same consumption of bread, meat, clothing, tea, sugar, &c., there is no immediate reproduction of these commodities, or of any thing that exchanges for them, however good or profitable an investment such works may be as far as the *interest* or *rent* is concerned which they yield. It is, therefore, clear that they cannot be undertaken, except with the surplus provisions, or capital which is left over and above the quantity required for regular reproduction, and that this quanity must always limit the power of a community to increase its *fixed* capital.

In short then, the *floating* capital of the country is that which is employed in the production of all those commodities which constitute the ordinary consumption of the country, or which exchange for such commodities so consumed which are produced abroad, and is at all times *represented* by such commodities in whatever shape they are found; and which is always replaced from the current incomes of the country, whether derived from labour, rents, interest, or profits; while *fixed* capital arises from that portion of labour, which, being over and above that which is required for the immediate production of commodities for current use, is withdrawn from such production, and invested in some way which will yield an annual interest or rent, by affording new facilities to ordinary production, and by thus imparting greater value to the floating capital and labour of the country.

It is, therefore, not difficult to see, that it becomes a most essential thing to the continued prosperity of a country, that its *floating* capital, on which the continued reproduction of commodities of every-day use depends, as well as the continuous employment of labour, should not be withdrawn from those necessary purposes, and converted into *fixed* capital, in a greater degree than the surplus accumulation of the country, after replacing the whole fund needful to continue the production of such commodities, whether of home or foreign growth, will admit. If the *floating* capital of the country is thus misdirected into *fixed* capital, it is quite plain that the ultimate result must be, that as the labour employed in the works re-

presenting the *fixed* capital does not reproduce the commodities which are consumed in supporting it, or any commodity which can be exchanged either with the home or foreign producers of such commodities, they must become scarce and dear, and ultimately the fund for the employment of labour must be diminished; and the individuals who withdraw their *floating* capital from its ordinary occupation, and convert it into *fixed* capital, must either to that extent reduce their ordinary business of production, or suffer the greatest embarrassment from the absence of their ordinary capital, however large may be the annual interest or profit derived from their investment.

It is quite true that, for a time, while the process of the conversion of *floating* into *fixed* capital was proceeding, there would be a momentary appearance of great prosperity. It would, in fact, in the first instance, be the same as if we were to expend in labour the *principal*, instead of the *interest*, of our capital, as far as the immediate effect upon the demand for labour, and commodities of daily consumption, was concerned. The production of commodities required for daily use being unequal to the consumption, they would continue to rise in price; increased importation would follow, as a matter of course; and, as no corresponding commodity had been produced to exchange for such imports, they must ultimately be paid from the existing fund of *floating capital*, in reduction of that fund, and before long a reaction must take place, deeply prejudicial to the general interests of the country, and especially to those of the labouring-classes, who will have been exhausting the food on which their future employment depended, without reproducing more. The ultimate effect of such a disturbance or misdirection of the *floating* capital of the country must be to create a great scarcity of it, which will be evinced by the high rate of interest, and ultimately a great diminution in the demand for labour, in consequence of the exhaustion of the fund on which it depends for continuous support.

Having thus worked out the important distinction between *fixed* and *floating* capital, we will proceed, in our next article,

to consider the third of the three propositions, — What constitutes the difference between Capital and Currency or Circulation?—and then practically to apply these great principles to the present condition of the country.

ARTICLE XII.

What constitutes the difference between Capital and Money, Currency or Circulation?—The state of Barter.—The Origin and Use of Money.—The Economy of Capital by the introduction of Paper Money.—Commodities the basis of Credit.—The effect of Banks upon Credit.—Bank Deposits, &c. &c.—*Feb.* 6, 1847.

HAVING, in the preceding article, disposed of the two important questions—First, What really constitutes capital? and, second, What constitutes the difference between fixed and floating capital?—we now come to the proposition,

WHAT CONSTITUTES THE DIFFERENCE BETWEEN CAPITAL AND MONEY, CURRENCY OR CIRCULATION?

There is probably no single point connected with monetorial questions which is so little understood as the distinction between capital and money, currency or circulation, and a confusion of which terms has been so productive of error both in legislation and in ordinary practice. We will first endeavour clearly to explain the difference, and then we will show in what way some of the most dangerous and popular opinions, both in legislation and in the present calculations and views of the public, are erroneous. We have already shown that all capital is accumulated labour, represented by, and consisting of, the commodities in which the labour has been expended; and that the distinction between *floating* and *fixed* capital is, that the first represents the fund (which itself consists of commodities for every-day consumption,) which is employed in producing food and other articles of consumption, the whole cost of which is returned to the producer from the annual income of the country, along with the profit, which constitutes the producers' income, and which fund, therefore, provided such producers spend no more than the profit, remains perfect and

without diminution, to repeat again similar processes of production, and to maintain a similar amount of labour; while the latter consists of that accumulation represented by such commodities or property, which are not repaid in whole from the income of the country, but for the use of which only an annual sum is paid, in the shape of *rents*, *dividends*, &c.; thus the *fund* or *capital* employed in growing wheat, in manufacturing flour, in feeding cattle, in making cloth, in importing sugar, in providing entertainments, &c., &c., is replaced in full from the income of the country, and is again ready to perform the same operations over and over again, and it is therefore on this fund that the continuous labour of the country is most dependent; while the *fund* or *capital* employed in building houses, making machinery, improving land, constructing railways, building ships, making docks, improving navigation, is not repaid from the *income* of the country, but yields only a *rent* or *dividend*, which is paid from the income of the country, in consideration of the *use* of the object on which that fund has been expended, and, therefore, becomes *fixed* capital, not being again available for a similar production in the following year, excepting so far as the rent or dividend goes; and, therefore, with this small exception, this fund is withdrawn from that on which the continuous employment of labour depends. Thus, if a man employs a capital of 20,000*l.* in making cloth, or importing sugar, the whole of his capital, *in addition to the profit*, which constitutes his income, is repaid from the annual income of the country, and is available at once to repeat similar operations, and to continue to give employment to the same amount of labour; while another man, who employs a capital of 20,000*l.* in the construction of a railway, even though his income from the latter may be as great as from the former, yet he receives no part of his capital back, with which he could repeat the same operation, or continue to employ the same quantity of labour, and, therefore, except to the extent of the *dividend* received, the fund is wholly withdrawn from active employment.

We shall afterwards find, as we proceed, that this distinc-

tion entirely forms the basis of what are, and what are not, proper banking securities.

From what we have already said, it is evident that capital existed long before any system of *money* was introduced. Before the introduction of the use of *money*, the capital of a country consisted, as it does now, of the portion of commodities which the community produced more than they consumed; and the exchange of those commodities between the different producers was accomplished altogether by *direct* barter, instead of, as it is now, by *indirect* barter, through the use of money. The introduction of *money* was, therefore, only a scheme for making the exchanges of commodities more convenient and easy. These commodities consisted of everything produced by labour, including food of all kinds, clothing of all kinds, implements of all kinds, gold, silver, iron, and, in short, everything to which a value had been given by labour; and the relative exchangeable value which attached to these different commodities was determined by the amount of labour it required to produce them. If it required as much labour to produce an *ounce of gold* as a *ton of iron*, these commodities would exchange with each other in this proportion; if it required as much labour to produce a *quarter of wheat* as an *ounce of gold*, these two commodities would exchange with each other in these proportions; and the ordinary demand for different articles would determine, on the broad scale, the portion of the labour of the country which should be occupied in each pursuit. The exchangeable value of commodities would, however, be subject to sudden and accidental fluctuations. Suppose a very abundant season, in which the ordinary quantity of wheat produced was doubled, the labour represented in a quarter of wheat would just be one-half; and by the self-acting principle of supply and demand, the producers of which, having double that quantity required under ordinary circumstances, would, by competition, be compelled to dispose of a *quarter* of wheat for *half* an ounce of gold, or for *half* a ton of iron. Or if, on the contrary, in consequence of a very bad season, the same quantity

or labour produced only *half* the usual quantity of wheat, double the quantity of labour would be represented in a quarter of wheat; and, again, by the self-acting principle of supply and demand, competition to obtain the wheat would make each quarter exchange for *two ounces* of gold, or *two tons* of iron. And so, in the same way, the quantities of every description of commodities which would exchange for others, would be continually fluctuating and varying, in proportion as, from natural or accidental circumstances—such as the state of the weather, the discovery of new mines, or other circumstances—the quantity of labour required to produce them varied; LABOUR being the sole regulator of value.

The inconveniences which must soon have arisen from this state of things—one of simple barter—is too obvious to require to be pointed out or dwelt upon; and long before a coinage of money was thought of, the force of the inconvenience of that state of things had induced the most advanced communities to adopt the precious metals as a standard of value and a medium of exchange. In the very early stages of society, we read of a given article being worth so many oxen or sheep; but, in a more advanced stage of those same communities, we always find the price or value of an article expressed in a certain weight of silver or gold. The precious metals seem to have been determined upon as a standard of value, and as a medium of exchange, not from any general reasoning as to their peculiar suitableness for those purposes, but, as has been the case with most of the permanent regulations of society, from their being found by experience to be best adapted for those purposes. And here experience or necessity, which first adopted these commodities, is found to correspond exactly with what the most perfect reasoning upon the subject would have suggested or pointed out. If one commodity were required to be used as a *standard*, in which the value of all other commodities was to be expressed, it is quite clear that we would adopt that which, by its nature and character, was least subject to fluctuations in its own intrinsic value; that approximated in itself the nearest to a determinate

and fixed quantity of value: or, in other words, in the labour required for its production. And if we required to fix upon a commodity which should not only serve as a *standard of value*, but as a *medium of exchange*, then we should look for that commodity which, in addition to steadiness of value, had the least tendency to be depreciated by wear, and was of the easiest transportable character, by representing the greatest quantity of value in a given bulk or weight. With all the knowledge which we now possess, reasoning upon these points would direct us to adopt, for these purposes, the commodities which experience and necessity induced society in its early stages to adopt. There are no commodities the production of which depend upon such even and unvarying elements, as gold and silver, and the intrinsic value of which, or, in other words, the quantity of labour which they represent, is so uniform, and, therefore, they are, above all other commodities, suited to be adopted as the *standard*, with respect to which the value of all other commodities can be expressed or measured, and thus constitute a more perfect *standard of value* than any other commodities. Again; there are no other commodities which are so little liable to depreciation by wear, or which are so convenient for transport, in consequence of representing in a given bulk and weight the greatest intrinsic value. As a *standard of value*, and as a medium of exchange, gold is the most perfect and convenient commodity, and next to gold is silver—tried by all these tests.

When first the precious metals were adopted as a standard by which the value of all other commodities was measured, and as a medium by which other commodities were exchanged, or, in other words, were bought and sold, the simple plan of weighing was used—an ox or a piece of land exchanged for so many *shekels of silver or gold;* but it was soon discovered that much time and inconvenience would be saved in weighing, subdividing, and testing the exact fineness of the simple metal, if it were subdivided into small pieces of a uniform weight and a uniform fineness, which would save the process

of weighing, subdividing, and assaying, and which would constitute mere counting of such pieces a perfect and easy mode of conducting exchanges. But the first thing that became obviously necessary, in order to accomplish this most desirable facility, was to adopt some system which should afford a guarantee to the public, that each of such pieces really did possess the stipulated quantity of a stipulated fineness of metal. In order to furnish this guarantee, the practice of coining was resorted to, and this necessity first brought the question of currency or money into immediate connexion with the state. The principle of coining was simply, that the pieces, or subdivisions of the metals, issued, should be known to contain a given quantity of metal of a given fineness, and it was considered that nothing short of the State stamp would afford a sufficiently satisfactory evidence to the public of these facts. Gold and silver, were, therefore, divided into pieces of uniform weight, the metal first having been made into the uniform standard quality by the State, with a stamp upon them, to indicate the guarantee of the State that each piece did contain the proper quantity and quality of the metal agreed upon. Thus originated the practice of coining metal into money, as a mere facility for the transactions of business.

It may be well here to remark that, throughout all these changes, the original principle of barter is never departed from. In a state of barter, the relative value of all commodities depends entirely upon the quantity of labour which each represented. When commodities come to be bought and sold by quantities of gold or silver, weighed and assayed for every transaction, the quantity of metals to be given for any particular commodity is still determined by the same principle—that is, by the quantity of intrinsic labour which each represents; and when the metals come to be coined into money, the sum of money for which any article would buy or sell is determined *alone* by the intrinsic value or quantity of labour represented by the article in question, compared with the intrinsic value as a commodity, of the metal of which the coin is composed. All the steps, therefore, which bring us down from simple barter

to the most perfect money system by means of coins, are all so many means adopted to simplify and facilitate the exchange of every man's produce with that of others, which was originally very imperfectly accomplished by direct barter.

But it will be borne in mind that as the precious metals have other uses besides forming a medium of exchange in the character of money, the quantity abstracted from the general stock for the purposes of a currency would be confined to that which was absolutely required for such a purpose. As a whole, the quantity of precious metals required for the currency of a country would be so much of its capital withdrawn from productive purposes in order to facilitate the greater production of the remainder. Suppose a country pursuing a course of barter were all at once to adopt a perfect system of gold currency. It is to be inferred that the stock of gold in the country was only sufficient to provide for the demand for it for usual purposes of ornaments, plate, &c., and it would become needful to export a quantity of commodities produced in such country in order to procure a sufficient quantity of gold to use as a currency. This gold, coined into money, would not be of itself re-productive capital, but would only afford a greater facility for the productiveness of the rest of the capital of the country; so that, in truth, the precious metals converted into coin are so much of the floating capital abstracted from immediate productive purposes, in order to afford greater productiveness to the remainder, by simplifying and facilitating exchanges. All persons, therefore, will hold as little of this unproductive capital as is just sufficient to conduct their business—that is, no one will keep in his possession more money than he requires to make his payments. As the whole interest of the coin in circulation is lost to the community, so each individual shares that loss just in proportion as he holds it in his possession. The rule, therefore, is, that no one holds more than he actually requires from time to time to conduct his transactions or make his payments; and the introduction of the system of banking enables each person to reduce that sum to the lowest possible amount, and thus enables the community to economise its capital by performing the greatest possible amount of business, in exchanging commodities with the least possible amount of money.

The next step in the consideration of the important subject before us, by which this capital necessary to constitute the currency has again been greatly economised, was the introduction of *notes* payable on demand, called "*paper money*," because they represented, and generally corresponded, with the *coin* or *metallic money* in general use. The nature and character of this *money* is simply a written obligation to pay on demand the coin it represents, or a means by which a claim is transferred from one person to another. A. has a credit with a banker; he has a payment to make to B., of 20*l.* A. would, in the earliest stages of banking, have withdrawn from his banker *twenty pounds* in coin, and paid them to B., who would either have retained it idle in his possession, or paid it away in another payment, or returned it to the banker. But in place of taking 20*l.* in coin, A. takes the amount in notes, which obliges the banker on demand to pay the coin; these he gives to B., and thus transfers his claim upon the banker to B., precisely the same as if he had given his check for the amount, only that the document bears the *obligation* of the banker *to pay*, instead of a *mere order* to pay; with these notes B. either makes other payments, and thus transfers the claim to a third party, or he returns them to the banker, either in payment of a debt due to the banker, or in deposit to his credit. Now, the very same principle which limits the use of coin to the smallest sum necessary to conduct the transactions of the country, must also limit the circulation of these notes to the smallest possible amount. A banker does not part with his notes, any more than his coin, without receiving what he believes to be full value for them. Every one who holds notes more than are actually required for his transactions, loses the interest of them, just as much as if they were coin. And, therefore, the sum which can be kept in circulation must be determined by that which it is absolutely needful for the uses of business, and not by the quantity which bankers may issue.

Bankers may issue in loans, by discounting bills, or in payment of deposits, as much paper as they please, but not one pound would remain out more than the country required —all the rest would instantly find their way back, either in exchange for the coin they obliged the banker to pay, or in payment of a debt due to the banker, or in deposit to the credit of the holder, on which again he could draw at pleasure. Notes, are, therefore, a mere means of transferring a claim for a given quantity of money, or, in other words, of gold, upon the issuer of the note, from one person to another; the present holder always being entitled to demand payment in gold for the amount the notes represent. As long, therefore, as *notes* are payable on demand, it is utterly impossible to keep more of them in circulation than the sum that would be required, were the circulation purely metallic; but there is the obvious advantage in notes being thus circulated in place of gold, as long as their convertibility is secured, that they economise the quantity of gold which is required to be abstracted from the re-productive capital of the country in order to perform the function of a currency; and they, moreover, economise the coin in the wear, besides being more convenient for transmission to a distance. But the note contains no intrinsic value in itself, it only represents the liability of the issuer to pay on demand so much gold, and, therefore, the whole value depends on the credit of the issuer. The issue of notes is a simple question of the credit of the issuer—of his ability to pay at all times, on demand, the coin which the notes purport to represent. So far, therefore, *notes* are precisely the same as bills of exchange, except that the former are payable at all times on demand, and, therefore, cannot be made a security for advancing money upon at interest, while the latter are payable only on a given distant day.

Whoever, therefore, holds a 20*l.* note, holds simply a power to demand from the issuer *twenty coins* of the same denomination; which twenty coins contain a certain specified quantity of gold, of a fixed fineness, and which gold represents so much labour, which latter determines the quantity of any other commodity, which it, and all its representatives, down to the paper *note*, will purchase.

Having thus traced the original and simple exchange of commodities, by direct barter, through every step, down to the present mode of buying and selling by the means of notes and money, or coin, we would now especially claim the whole attention of our readers while we proceed to show the real distinction which exists between capital and money; and, under the term money, we will include, according to the popular acceptation of the word, banker's notes, payable on demand, which, with the coin, constitute the *circulation* of the country. On this subject there is the greatest confusion in the public mind, without removing which it will be an utterly hopeless task to explain satisfactorily the singular phenomena which are presented in the money market at this moment, and which are likely to become still more remarkable as events become developed which at present are uncertain to happen.

The confusion which exists between *money, currency, and circulation*, which, for our present purpose, we shall consider as synonymous and convertible terms, and *capital*, has reference only to *floating capital*, which is continually circulating and re-producing itself. When people invest their *capital* in an undertaking, they see only the *money* by which the transfer is made of it from one to another; and because they see no diminution in the quantity of *money*, but see it only transferred from one hand to another, they contend that, as long as the capital is invested in the country, it makes no difference in its character or aggregate efficiency for future operations.

The floating capital of the country, we have already seen, consists of all those commodities of every day use, which have been accumulated by production exceeding consumption, and the employment of which in new acts of production, returns to the owner the whole amount with his profit, from the income of the country; while money, is only a small portion of one particular commodity, which has been fixed upon as a *standard of value*, and as a *medium of circulation*, for the purpose of facilitating the exchange of all these commodities constitut-

ing capital. The possession of capital is merely the command over commodities of various kinds. These commodities constitute the basis of all credit, whether made in money or in goods; they constitute the basis of all bank deposits, of government revenue, and of all debts due by one person to another; and money is merely an instrument used to pass the command of these commodities from one to another. If money had never been introduced at all, the present complex relations of creditor and debtor, of bank deposits and bank credits—and even of bank notes, and of government revenue, might have subsisted in reality, the same as now, commodities themselves being used in all the changes of property, instead of being represented simply by money. The payment of wages of all kinds is really giving so much of the various commodities which constitute the labourers' consumption. If paid in money, the labourer simply thereby obtains a command over so much of the various commodities which he requires for his consumption; but if the medium of money had never been introduced, he must have been paid in the commodities themselves. Suppose the system of money had never been introduced, and a farmer took a farm and borrowed the capital to conduct it. He would, in this case, borrow the commodities of various kinds requisite to support the labourers and cattle that he employed before his crop was ready for consumption; when his produce should replace the capital or commodities advanced during the year to the labourer, with an additional quantity to pay the original owner of those commodities for their use (the interest of money), and a further quantity as the profit of the farmer. What would be thus accomplished in a very awkward and inconvenient form, is in reality what is now accomplished by the interposition of money. Even banking, in a rude way, might exist without money. Suppose the system of direct barter had been persevered in. Capital would have accumulated in the same way that it has. There would have been a class of capitalists, whose capital would consist of the commodities themselves, instead of, as at present, a mere command over them; and these capitalists would be ready to lend

out their commodities at interest, as now they are their money The borrowers would obtain the commodities themselves in place of money, which now gives him a command over them as he requires them. Now, it is easy to conceive, in such a state of society, that, in order to facilitate such loans of commodities between the lender and borrower, an intermediate party, or banker, should have existed, who had a set of customers who were lenders, and another set who were borrowers; that the lenders would deposit their goods with this intermediate agent or banker, receiving a receipt entitling them to a return of a similar quantity, either on demand or at a given date, and with so much more in addition for the use in the meantime; while this agent or banker would let them out again to a class of borrowers, to be repaid within a given time, with so much more in addition for their use as would constitute his profit for the expense and trouble. The greater facility and safety which a person thus engaged, wholly as an agent between lenders and borrowers, would have in accommodating both parties at all times, and the certainty that the borrower would repose in the superior wealth or credit of the agent to recover back his commodity when he required it, compared with what he would feel in lending it to the person who required the loan for his own use, as well as the difficulty of occasional lenders judging of the safety of lending to occasional borrowers, would always afford such a profit between the rates at which such an agent or banker could borrow, and at which he could lend, as would constitute his profit. It is quite easy to suppose that such transactions might take place with wheat or other commodities; but there would certainly be an infinite amount of difficulty in determining the exact qualities of each article borrowed and to be repaid. The agent or banker dealing in such commodities, would always be obliged to keep a certain quantity of each article on hand, to answer the demands of his lenders or depositors. Now, this is just what in reality does take place with bankers at this present moment, only with the difference that the transfer of

these commodities is simplified and facilitated by all being reduced to a price in relation to the adopted standard of value, and by this means all the difficulty of diversity of qualities, and the inconvenience of moving commodities in bulk, or numerous subdivisions, to suit particular borrowers, are avoided.

Suppose A., a capitalist, possesses commodities to the value of 10,000*l.*, which he wishes to lend upon interest. He sells them, and receives money, which he immediately pays to his banker, in order that he may receive interest. The representative of the commodities thus passes into the banker's hands, at a definite sum. The banker lends the whole or a portion of this money to C., who only borrows it because he has to purchase or pay for other commodities; but C. does not borrow the money a day before he requires it, because he pays interest for the loan. Nor does C. borrow this sum without giving the banker some security. He discounts bills of exchange, which are themselves representatives of other commodities sold, on a credit. With the money which C. borrows from the bankers, he pays D. for the goods, for the purpose of which he borrowed the money; and D., with the same money, immediately discharges a debt to a similar amount, due by him for goods purchased, or perhaps pays it back to the bankers for a bill falling due. Now, though these transactions are performed on the mere personal credit of the parties connected with them, yet the whole basis on which they are built, and without which they could not be sound, is the various commodities which they represent. A bill is good, and is certain to be paid, because it is supposed to represent goods delivered to the acceptor; which goods, not being consumed, but used for the purposes of reproduction, will be repaid out of the current income of the community who purchase them from the dealers for consumption. The current income of the country is thus pledged in reality for the repayment of loans made on bills of exchange, representing commodities sold to the acceptor; and it is the certainty of being thus provided for from current income in the usual course of business, that bills of exchange constitute a sounder banking

security, though really only dependant on personal credit, than landed property, railway shares, or any other object of fixed capital, the interest of which is only paid out of income. A loan based upon the security of commodities, which are entirely replaced from the income of the country, presents a certainty of repayment at a stated time, that a loan based upon fixed property does not. The former is the best temporary investment, although contingent only on personal security; the latter would be the best security for a lengthened and permanent loan. The former is a fitting security for a banker who wants temporary employment for his deposits; and the latter is the most fitting security for the mortgagee who wants a permanent investment for his capital. The former securities represent floating capital, while investment in the latter converts floating into fixed capital, and is, therefore, wholly unsuitable for bankers.

When a banker receives deposits, he in reality receives a certain command over commodities, and when he discounts bills, he furnishes his customers with a command over commodities; and although, in both cases, the deposit and the loan are defined by reference to the standard of value, and expressed in money, yet money may, or may not, be used in order to effect the various transfers of the goods so represented. A deposit may be made in cheques; advances to a customer, by a banker, may be merely placed to his credit, and his cheques drawn against them, and commodities, or capital, transferred from one to another, without the interposition of money at all.

So that, in fact, capital is constituted of commodities which are transferred from hand to hand, and banking is the main medium by which those transfers are made; while money is the mere instrument for effecting the transfer of those commodities in certain cases, but bears a very small proportion to the whole value of the commodities which it is employed to transfer, by means of its repeated use. Thus, for example, by Parliamentary evidence, the deposits on the Scotch banks, all of which can be demanded at the will of the depositors, amount

to upwards of *thirty millions*, and this sum is constantly floating upon the fundamental security of commodities of various kinds, through the medium of private credit, but it only requires about *three millions* of money, or circulation, to perform all the functions of transferring this *thirty millions* of capital constantly floating, and represented by the growing crops in the fields, the raw materials in the progress of manufacture, the goods in the warehouses and shops of dealers, the foreign produce in the docks, and the manufactures of the country consigned to foreign countries,—the *thirty millions* of deposits in the hands of the bankers of Scotland, besides their own large capitals, leaving only a sufficient reserve at their immediate call to secure the ordinary demands upon them, being advanced upon bills drawn against all these classes of commodities, which must ultimately be repaid out of the income of the community as they are consumed, is really and truly represented by these various commodities, although through the medium of private credit only, but all being reduced to defined value in reference to the standard. Thus *thirty millions* of floating capital, deposited with the Scotch banks, and in addition thereto the capital of the banks themselves, is all managed, in its constant and daily transfers and changes, by about *three millions* of circulation, or money. And in England, where the system of banking is more perfect than in Scotland, in the particular respect of affording greater economy of currency in the performance of the same amount of business, in consequence of the general use of cheques, the proportion which the *floating capital* bears to the mere *money and notes* in circulation must be even much greater than in Scotland.

It is, therefore, clear, that when we speak of capital, we really mean the various commodities which constitute the stock in trade of the country; and that when floating capital is converted into fixed capital, by building a house or constructing a railway, we actually consume such portion of those commodities without reproducing them—while the mere money, coin, or notes, used to pass those commodities from one hand

to another as a simple instrument of exchange, remain unchanged in their amount, by merely passing from one hand to another. In another article we will proceed to consider a practical illustration of the principles we have now endeavoured to explain, and of the *modus operandi* by which the reduction of the floating capital in the construction of railways to an extravagant extent, while it adds, to a corresponding degree, to the fixed capital of the country, is certain to raise the rate of interest, to affect the foreign exchanges, and to derange the monetorial affairs of the country.

There is also a point of much importance arising out of these general principles, which we will discuss separately,—we mean, the effect which the obligation on all parties to pay these liabilities in the standard coin of the realm, has upon the functions and value of bullion different from the other general commodities.

ARTICLE XIII.

COMMERCE AND FINANCE.—OUR PRESENT STATE AND FUTURE PROSPECTS.

Extent of Railway Investments and Liabilities.—Effects of Railways on the Capital of the Country.—The Distinction between Floating and Fixed Capital.—Causes which have led to the present Crisis.—Great increase of Imports caused by Railway Expenditure.—Effect of Railways in Economising Capital.—Our Present Position and Future Prospects.—*April* 10, 1847.

On the 4th October, 1845, when the railway mania was at its height, we devoted eight columns of the *Economist* to a calm discussion of the circumstances attendant upon those speculations, and the effects which they were likely to produce upon the interests of the country, by so rapid and so extensive a conversion of *floating* into *fixed* capital. In that article we showed, that up to the end of 1844, the extent of railways completed in the whole world was 8,650 miles, of which 2,069 miles were in Great Britain, 3,688 miles in America, and the remainder in the different continental countries. The whole cost of those railways had been 113,589,160*l.*, of which those in Great Britain represented 64,238,600*l.*, those in America, 17,702,400*l.*, and the remainder was made up of smaller sums, expended by the European countries. Of the 64,238,600*l.* expended in Great Britain, the sum of about 60,000,000*l.* had been invested during the preceding *twelve* years, in constructing the chief lines completed up to that time, so that the extent of capital which, during that period, had been appropriated to railway undertakings, had been at the rate of *five millions* a-year. We further showed, that at that time there were railways under construction, or authorised by law, to the extent of 13,924 miles, of which 3,543 miles were in Great Britain, 2,410 in France, 2,347 in Germany, and 5,624 in America, representing a capital amounting in all to 164,269,000*l.*

Of this amount 74,407,000*l.* represented the lines to be made in Great Britain, under the acts granted in 1844 and in 1845; leaving nearly 90,000,000*l.* to be expended by other countries. The expenditure to which we were at that moment committed exceeded, therefore, the amount which we had been able, with the greatest straining and difficulty, to devote to railways during the preceding twelve years. But this was altogether independent of the immense flood of new undertakings proposed in 1845, and sanctioned by Parliament in 1846, which finally amounted to 110,000,000*l.*

In the article to which we have referred, we had in view the combating of what appeared to us two distinct and very dangerous fallacies, under which the bulk of men disguised from their minds the hazardous career into which the country had plunged. The first of these was the extent to which the savings of the country could be appropriated to any one object. We showed, by the most satisfactory process of which the problem was capable, that the annual accumulation of property could not be reckoned at less than 65,000,000*l.*; but, at the same time, we endeavoured to show the extreme absurdity of supposing, as was then commonly done, that, under any circumstances, any very unusual proportion of such accumulations could be diverted into the formation of railways. On the contrary, we endeavoured to show that any attempt to make railways to an extraordinary extent must rather have the tendency of leading to the absorption of capital in other ways more rapidly than usual, by stimulating the demand for all commodities of general consumption. The expenditure of so large a sum in a particular way, could not fail to stimulate consumption to an unusual extent. More commodities must be supplied—more must be imported and manufactured—more ships and more factories would be required to effect those objects,—and more dwellings, and in new localities, would be necessary for the accommodation of those whose means were thus added to by an extraordinary expenditure; and, moreover, more iron-works must be erected—more means used to supply timber—all involving an investment

of fixed capital to facilitate increased production. So that it was then obvious to us, that so far from the extraordinary extent of railways being rendered practicable of construction, simply by applying the chief portion of the annual accumulations thereto, the temporary stimulus which they would furnish would promote an absorption of capital in other ways to an unusual extent. Under an unusual demand, all articles were likely to rise in price, and an increasing price is a certain means of inducing to new efforts to increase the supply. Nor did we then, in our calculations, overlook the powerful influence which the railways already finished were likely to exert in economising and rendering more efficient the existing capital of the country, and, to some extent, liberating a considerable amount from other purposes to which it had hitherto been applied. On this point we then dealt at great length.

It was, therefore, very obvious to us at that time, that the extent of works to which the country was then committed—to say nothing of the enormous amount of new undertakings proposed—could only be accomplished by converting a large portion of the floating capital of the country, necessary to carry on the usual trade and reproduction of food and other commodities of ordinary use, into *fixed* capital. But it was equally obvious to us, that the first effect of this process would be to render capital scarce, and in proportion to raise the rate of interest; and that the next effect would be, by rendering commodities of common consumption scarce, to increase their demand, and to afford, thus, a stronger inducement to continue capital in its existing channel, than to divert it into a new one. The first operation, it was plain, would be to withdraw capital from other sources, and so materially to increase the rate of interest, until those other sources held out a stronger inducement than railways or the railway companies could offer. The next operation would be a struggle between various interests for the use of capital; and the last and inevitable result of that struggle, it was plain, would be, that a great majority of the railway schemes must be abandoned or indefinitely postponed.

The next fallacy which we then attempted to combat was,—that most superficial and transparent one—though almost universally indulged in, down to the present moment, even by a great bulk of the practical men of business and bankers in the country—viz.:—That it made little matter how much money was expended in railways as long as it was expended *in the country*; because, as it was contended, it was at most a mere transfer of money from one class of men to another; and, therefore, though one class might be pressed and inconvenienced in paying up their "calls," yet, that as the money went into the hands of others, so, as regards the nation at large, it could make no difference. Large amounts might be collected, it was contended, by directors from the public for "calls;" but as they were again distributed among labourers for wages, from whom they went to the grocer, the butcher, the baker, and so on, and from these to their bankers, or to the iron-master, or to the timber-merchant, and from them to *their* bankers, the whole transaction, to whatever amount it was carried on, was, after all, a mere transfer from one class of bankers to another, or perhaps only from one class of accounts with the same banker to another class.

There has been no fallacy entertained during the last two years, which has led to consequences so dangerous as this. And it was especially for the purpose of explaining and rendering clear this fallacy in connexion with others arising out of it, in order to render intelligible the present position of the money market and its prospects, that we published our articles on the 23rd of January, and the 6th and 13th of February, in which we attempted popularly to solve these three questions:—*First*—What is *Capital?* *Secondly*—What is the difference between *floating* and *fixed* Capital? And *Third*—What is the difference between *Capital* and *Currency*, or *Money*.

It is absolutely essential to a clear understanding of the effects which our railway undertakings have produced, and are still likely to produce, upon the capital of the country—and the same reasoning will apply to any other cause that affects the

supply and value of capital, whether it be defective harvests or any other cause—that we should bear in mind the definitions of capital, and the distinctions between *floating* and *fixed* capital, and between *capital* and *currency*, or *money* contained in those articles. We have seen that all capital consists of accumulated labour, represented by commodities—but floating capital consists of those commodities, or the command over them, which are used in the annual production of such commodities as are required for the consumption of the country, and which are replaced by such annual production (together with a profit to the owner), ready to perform a similar office for the following year,—that fixed capital consists of improvements of the soil, machinery, buildings, roads, railways, ships, and all other objects of investment which facilitate and render production more easy, but which are not reproduced to the owner, but who receives an annual income, in the shape of interest or dividends, for their use. The *floating* capital of the country is replaced *entire* to the owners along with their profits, from the expenditure of the annual income of the country. The *interest only* of the *fixed* capital of the country is returned to the owners, from the expenditure of the annual income of the country. The entire cost of manufacturing cloth, consisting of the wool, the food of various descriptions, the clothing and the house accommodation, the interest of the machinery employed, and all other charges, together with the manufacturer's profit, is returned entire from the income of the country, and is ready to repeat the same operation. The entire cost of growing wheat, including wages, rents, and the farmer's profit, is returned to the grower from the income of the country. The entire cost of producing sugar, tea, and all other similar imported articles, is replaced from the income of the country; thus, in all cases of *floating capital*, replacing the means for a continuance of a similar supply of such commodities, and, of course, for the continued employment of labour. While, on the other hand, investments in houses, machinery, railways, &c., are not replaced from the income of the country, but only an annual dividend is paid

for the use of them, and the funds once invested in the employment of labour, necessary to construct a railway, &c., except so far as the annual income derived from them is concerned, are lost for the purpose of employing labour in future. It is true, however, that, so far as such fixed investments of capital are for the purposes of facilitating production by cheaper processes, as machinery, or by quicker and more economical transport, as by railyays, they indirectly lead to the employment of more labour, by the more extensive consumption of the cheaper products. And, lastly, we have seen in the articles referred to, that while *capital* thus consists of commodities, *money* or *currency* consists only of the instrument by which, for the sake of convenience, those commodities are exchanged or passed from hand to hand, and that the precious metals—as the determined standard of value—are used only as such an instrument, or the commodity into which any other instrument, such as notes, so used, shall be convertible as a test of their true value. It is, therefore, quite clear that the great and essential object, in all the questions which have reference to the investment of capital, and to what is popularly termed "*the money market*," are most intimately connected with the distribution of commodities which represent capital, and the due apportionment of the use of such capital to *floating* or *fixed* employment.

CAUSES WHICH HAVE LED TO THE PRESENT CRISIS.

With these preliminary remarks, we will now proceed to consider the causes which have led to the present state of the "*money market*," and the effect which those causes are likely to produce in future. Since the 4th of October, 1845, when we published our views, at great length, as to the effect of the enormous railway expenditure which the schemes then proposed contemplated, we have frequently referred to the subject, and have traced their effect, from week to week, upon the state of the money market. For twelve years prior to 1845, we had, with much difficulty, been able to expend at the rate

of five millions a year, from the annual accumulations of the country, for the purpose of constructing railways. At the moment when we wrote in 1845, there had been passed in the two previous sessions, acts for the purpose of constructing railways to the extent of 75,000,000*l.*—the greatest part of which were then to be commenced. But besides this existing liability, the country was about to apply to Parliament for powers to construct all the new railways proposed in the sessions of 1846, which ultimately amounted to 110,000,000*l.* Up to this moment, it may be said that the only pressure upon the capital of the country has been to construct the schemes passed in 1844 and 1845—few of those of 1846 being yet begun, and, those that are, but little advanced. This postponement has, therefore, up to this period, mitigated the effects which a more rapid progress would infallibly have produced. On the other hand, however, other events, to which we will hereafter refer, have occurred to aggravate the inconvenience.

Let us now consider the exact operation of this enormously increased expenditure—of this rapid conversion of *floating* into *fixed* capital. When we talk of expending 75,000,000*l.* in making railways, we really mean that we will apply out of our usual stock of food and other commodities, such as timber, iron, &c., which in their turn can only be procured to a greater extent, by an increased consumption of food in the labour so employed, to that amount over and above our usual sources of consumption. If we thus expend only a sum equal to the savings of the country, or consume commodities produced, over and above those which are required to replace the full amount of the floating capital required for the future reproduction of such commodities, then no inconvenience will arise from such investments. But if, on the other hand, we apply the capital of the country—or, in other words, the commodities which we possess, to a greater extent than can thus be spared, to the construction of works which do not reproduce such necessary commodities, or other commodities in exchange for which they can be procured, then it is plain that

we must abstract from the capital of the country required for the direct production of those commodities, consumed at home, or exchanged for foreign commodities imported for consumption.

For example:—Suppose such an unusual expenditure to take place in the construction of a railway. Suppose *twenty-five millions* raised by the directors by "calls." The shareholders from their various sources transfer to the directors the command over so many commodities; and a new consumption to this extent is called suddenly into existence. The demand for labour is increased, wages rise in all branches connected with the operation in question, and a greatly increased consumption begins. The chief articles of which such increase in consumption takes place, are those of food. But while this increase of consumption takes place, there is rather a tendency for production to diminish, in consequence of the higher wages, and, in some places, the withdrawal of labour from field industry to railways. The consequence is, that, with such increased consumption, and the higher price which ensues, large importations are promoted, and make up the quantity required for such increased consumption; but for these importations there are no commodities called into existence to be exported in payment of them. On the contrary, at such a moment, in place of an increase of exports corresponding with the food imported, the tendency which all commodities have to rise in price in the home market, has rather the effect of checking and lessening the amount of our exports, when they require most to be increased. With respect, then, to articles of home produce, two distinct effects take place; first, a large portion of those commodities which were destined to support the labour employed in reproducing such commodities, is withdrawn to sustain labour in making railways; the effect of which is to raise the price upon the general consumers, to absorb thereby a much larger portion than usual of the whole income of the country, and thus to contract the demand for other articles of less pressing necessity; and thus ultimately an undue portion of the labour and commodi-

ties of the country being employed in such a way, has a tendency to injure other classes of producers: and secondly, this increased demand gives rise to an increased importation without creating any article which can be exported in payment thereof. There can be no doubt that, independent of the bad harvest of last year, a very large import of food has been promoted to meet the increased demand for various articles, created by our railway operations. In this way there has been a constant tendency for our imports to exceed our exports; for though there can be no doubt, if that demand for foreign produce were to continue and be permanent, a corresponding demand for our productions, either direct or indirect, would arise to meet such imports, yet such an operation is a question of time.

But there is another and more palpable way in which such an expenditure is calculated to promote imports, without providing exports to a corresponding extent. A large portion of the commodities consumed in the construction of railways are those of foreign production, such as sugar, coffee, tea, spirits, the raw material of clothing, &c. &c. Under ordinary circumstances, these articles are consumed only to such an extent as the demand for our manufactures places them within the reach of the consumers, and as far as the income of the country is enabled to pay for them. Sugar, tea, and coffee, consumed by the cotton or the woollen operative, are paid for by the export of those articles, in the production of which they are consumed, and thus indirectly reproduce themselves. But, with respect to the enormous consumption which is created by railways, a double effect is produced, by which our imports have a tendency to exceed our exports. First, the increased demand for such articles increases their price to all classes of the community; and, secondly, it increases the quantity imported to supply the new demand. But, while such effects take place, no commodity is created which can be exported in payment for them. The notion, therefore, that the construction of railways, while carried on at home, is a mere transfer of capital from one class of men to another

class, is a great error. It is true, as far as regards the mere *money* which is used to pay "calls"—and, after that, to pay for wages, materials, &c., it may be so;—but the money is the mere instrument by which a command over the commodities of various kinds is obtained for the object in question. "Calls" are paid to directors; directors distribute the money in wages, and for materials, which are again chiefly composed of wages; the labourers expend their wages in food, in sugar, tea, coffee, spirits, and clothes, and the money passes into the hands of the various tradesmen with whom they deal, who transmit it to London in payment of corn, provisions, sugar, tea, and other articles imported from abroad. No commodity has been, in the meantime, produced, which can be exported to meet these increased imports, and they must, therefore, be paid for ultimately by the transmission of bullion. So that, as far as regards the effect upon capital, the making of railways at home has a tendency as unquestionably to render it scarce and dear as if it were employed in the construction of railways abroad. By keeping the mind constantly fixed upon the commodities which are consumed in any undertaking—which, in reality, represent the capital—and not on the money, or the mere instrument by which these commodities are passed from one to another, we shall most easily get rid of the fallacy which, during the last two years, has deceived so many into a belief that no inconvenience would arise out of the railways constructed at home. The truth is, that every shilling used for the construction of railways, whether at home or abroad, beyond the capital derived from the actual current savings of the country, is so much abstracted from the fund at present applicable to other objects. If a man withdraws money from his banker to pay his "calls," the banker is left with less capital to employ for the usual purposes of business; or if a man sells consols, or any other security, to pay his "calls," some one else must take his place with other capital, withdrawn from some other use. As a rule, no capital is idle or unemployed. If not absolutely invested, it is in the hands of a banker or a bill broker, who, on their part, employ it to facilitate business.

in some way or other. So that, from whatever source "calls" are paid, they have a direct tendency to lessen the amount of capital in some channel or other. And these "calls," let it never be forgot, although they may for a time remain as deposits with the banker of the company, are all ultimately expended in food and provisions of various kinds, without either reproducing those commodities, or anything that will exchange for them. They may ultimately become very profitable undertakings, and yield a high dividend for the capital invested; but they, nevertheless, constitute an abstraction from the *floating* capital of the country, and an addition to the *fixed* capital, and this cannot possibly be accomplished to an extent greater than the annual savings of the country without producing the most serious derangement in all the ordinary channels of reproductive industry. We must never lose sight of the fact, that it is essential to the continued employment of labour, as well as to the reproduction of all the articles of ordinary consumption, that the *floating* capital shall not be reduced below the amount necessary to reproduce all the commodities required for ordinary use.

With these views, when it is considered that the railway schemes of 1844 and 1845 amounted to no less than 75,000,000*l.*, and those of 1846 to 110,000,000*l.*, it may be a matter of surprise that a greater inconvenience has not already arisen from this source. In the first place, however, a very large portion of the undertakings included in the 75,000,000*l.*, are not yet completed, while those embraced in the 110,000,000*l.* are only just commencing; and when to these considerations we add the fact, that there are schemes before Parliament in the present Session to the further amount of nearly 40,000,000*l.*, it is obvious that, up to this time, we have really experienced but a very small amount of the pressure to which such an extent of undertakings, to which the country is committed, must expose us. There has been, moreover, a cause in operation during the last six years, which has tended materially to mitigate the pressure which would otherwise have been felt. We allude to the great economy of

capital effected by the railways already finished and in operation, which took the country nearly twenty years to complete. To this element, as calculated to postpone the pressure, we fully alluded in our article on the 4th of October, 1845, and we have never since lost sight of it. The following letter, recently received, expresses the advantages thus obtained, in a clear and popular way:—

To the Editor of the "Economist."

"Sir,—I am a constant reader of your Journal, and generally agree with you; but I do not fully participate in the alarm you feel at the rapid conversion of floating into fixed capital, by the construction of railroads. I think causes have been, and are at work, rapidly to economise the amount of floating capital necessary for the trading transactions of the country, and that a considerable proportion of it has become applicable to fixed investments, without loss or inconvenience.

"Have you ever considered how great an amount of floating capital is, and will be, economised by the facilities of inter-communication by railroads and steam vessels? I know large districts, the valuable manufacturing products of which now reach London, Liverpool, and other points, where consumption takes place in nearly as few hours as they formerly required weeks, in waggons, sailing vessels, and canal boats. Consider the enormous amount of capital economised in this way, on goods in transit, as well as on stocks, from the certainty and celerity of replenishment; also, the large saving of floating capital made by bankers, merchants, and traders, by the shortening of the time occupied in the transmission of the post.

"Under the railway system, less money and less goods suffice to transact the same amount of business. What proportion of the floating capital of the country will be thus economised, can hardly be ascertained; but I firmly believe that, under the railway system, aided by steam vessels, one-third of it will be liberated and be applicable to fixed investments.

"Again, I see an instance recorded (and there must be many such), of an inland city, where the cost of coal was reduced ten shillings a ton by the opening of a railroad. The effect of this was equal to a gift of the whole house rent of the city to the inhabitants; and if they applied that amount annually to the construction of railways, I apprehend the state would be no poorer in floating capital.

"It is true, the saving is not available until a railway is opened, but in some part or other of the kingdom, railways are opened monthly; and every railway so opened liberates a large amount of floating capital, which, to that extent at least, may be expended in fixed investments, leaving the means to carry on trade as great as they were before.

"I may exaggerate the release of working capital in the way I have suggested; but I am convinced an enormous amount must be so economised: and it is a set off which you have not noticed, but which, I think, you should consider and allow for.

"My judgment may be in error, bu I have no large railroad investment to warp it.

"I am, Sir, your obedient servant,

"J. P. B.

Ystalyfeta, 8th February, 1847."

Now, there is no doubt that the railways which have been brought into operation during the last seven years, and especially the long trunk lines, have tended to release an immense amount of capital; and this fact is one of the explanations of the favourable state of the exchanges, and the enormous accumulation of bullion from 1842 down to the middle of 1846. By the opening up of railway communication, a great economy of capital took place, and here we again see the way in which capital and commodities are identical. When the railway, for example, between London and Manchester was completed, goods were conveyed in 24 hours, which, by canal, took five or six days. There was, therefore, constantly on the way, in transit between London and Manchester, a quantity of commodities, such as London supplied, equal to six days' consumption, besides the necessity which all dealers felt of keeping larger stocks, in order to provide for the greater risk of delay. Now, when it is considered that all the chief consuming districts of the country became connected with the chief ports, by railways, within a few years, it is easy to see how a very great economy was effected in the quantity of goods necessary to conduct the trade of the country. In the first instance, therefore, the opening of a railway was equivalent to an immediate addition to the general stock of commodities, which were saved by the facility of transport. It had the same effect as if such an additional importation had taken place, without any payment being required. Between London and Manchester, for example, as soon as the goods went by railway, a quantity equivalent to at least three days' consumption out of the five, which were always before in transit, was in reality and practically added to the stock of such commodities in the country. This practical addition to the stocks reduced the prices of all such commodities, and discouraged importation; so that we

did not import goods in the same proportion as even the consumption required for a considerable time. Our stocks accumulated in bond, and thus, while by cheap production, our exports rapidly increased, our imports did not increase in the same proportion, the exchanges became greatly in our favour, and a long and continuous influx of bullion took place from 1842 up to 1844 and 1845. By this release of so large a quantity of commodities, or, in other words, of floating capital—the latter became so abundant and cheap, that in April, 1844, the rate of discount for first-class paper was $1\frac{3}{4}$ per cent.; and, even so late as January, 1845, it was only 2 per cent. During the last two years, a considerable portion of railway works have been performed by means of the capital which had been accumulated in the way now described, which had found a temporary investment in foreign funds and in other foreign credits, but which have been gradually realised during the last two years. And so much has the capital which had thus become accumulated been absorbed during the interval, that the rate of discount for the same class of paper is from $4\frac{1}{2}$ to 5 per cent. While, therefore, there is no doubt that this economy of capital has had a great effect during the last five years, yet there is every reason to believe that we have already derived the chief advantage from this cause which we are likely to do for some time; for, though there can be no doubt that any new portion of a railway opened presents, to some extent, such an economy, yet there is not likely to be, for a long period, any great extent of new lines opened which can exert a very important effect in this way.

But while this cause has been operating, during the last two years particularly, to modify the effects which so rapid a conversion of *floating* into *fixed* capital, was calculated to produce, there has been, during the last six months particularly, another strongly counteracting cause calculated to diminish the floating capital still more. We allude to the deficient harvest, and to the large importation of food which has been required in consequence. Still bearing in mind the fact that capital and commodities are synonymous, it will be readily

seen that whatever loss the country suffers in consequence of a bad harvest is so much abstracted from its floating capital. The loss of the capital of the country, during the year, on this account, cannot be estimated much below 20,000,000*l.*, of course, including Ireland; not that that loss has fallen wholly, or even chiefly, upon the farmers, but upon the public, in the shape of an enhanced cost which they have paid for their food.

WHAT IS OUR PRESENT POSITION, AND WHAT ARE OUR FUTURE PROSPECTS?

But the great and essential consideration for all parties now is—What is our present position, and what are our future prospects? The state of the foreign exchanges, and the high interest now paid for the use of capital, and the comparatively small stocks of all the most important and essential articles of raw material, and of ordinary consumption—are sufficiently indicative of the fact that we have exhausted a large portion of the accumulation of *floating* capital which pressed so much upon the market two or three years ago—in a great degree by conversion into *fixed* capital, and in some important degree, by actual consumption of foreign produce, to replace the deficiency at home. We have, therefore, little to fall back upon in this way. In this position we find ourselves committed to a public expenditure in Ireland of *eight millions* during the remainder of the present year, which must be chiefly expended in importing foreign provisions, and which, as far as regards the floating capital of the country, will be absolutely, in the meantime, annihilated. Any portion of it, including the interest, that will ever be repaid, must be abstracted from the produce of future years; in the meantime, the capital of the country must be absolutely abridged to the extent of *eight millions* in a few months for this object. Then, independent of this large sum, a large amount will be required to import food to make up the consumption of other parts of the United Kingdom, from which so much has already been abstracted for

Ireland, and lost in the deficient potato crop of last year. We have taken a good deal of pains to ascertain the extent of the existing stocks of grain in the farmers' and dealers' hands: our inquiries have extended over the east and south-east, the north and the midland counties of England, and to some parts of the west—as well as to some of the southern parts of Ireland; and the opinion which we are obliged to form from those inquiries is, that the stocks of wheat are *much* below what they were at the same time last year. A very large import of provisions, including grain, must inevitably take place during the remainder of the year. The best hope which any can entertain is, that sufficient will be obtained to prevent any further important advance in price; but even that is a question which time only can decide. Still, whether there are large importations to cheapen the price, or whether the importations are so scanty as to prevent a further important rise, it is now impossible to escape the abstraction of a further extensive drain of capital on this score during the next few months. Then, again, with respect to all the leading articles of raw material, cotton, wool, hemp, flax, tallow, and most articles of colonial and foreign produce, the stocks are much below their usual amount, and in no article of any importance are they larger; and thus, notwithstanding the state of the money market, no material reduction has taken place in the price of any article, or is likely to do so, while of many the price is much higher now than it was when discounts were 2 per cent. The reduction of the stocks of many articles has been caused, in some measure, by the high rate of freights during the last nine months. Of wool, for example, the imports in the present year, from the 1st of January to the 1st of April, is 18,555 bags less than in the corresponding period of 1846, being 32,242 bags this year, against 50,797 bags last year. But of some others the falling off in our imports has arisen from a failure of the crop, as in the case of cotton, which has now failed for two years successively. Up to the 1st of April, the quantity imported in each of the last three years was—

	Bags.
1845,	438,624
1846,	296,160
1847,	259,450

And the stocks are now reduced to 522,000 bags against 895,000 bags at the same period last year. If, therefore, we look to our bonded warehouses, we find no unusual stock of commodities, such as we held at the end of 1825, which could be re-exported in payment of those commodities for which there is a pressing demand, or which will enable us to go on without our usual imports of those articles in addition to others. On the contrary, we cannot but look to considerable pressure upon our capital in payment for wool, flax, hemp, and tallow, which will be imported in large quantities to make up the deficient stocks as soon as the Russian and Baltic ports are opened. Then, again, for the article of cotton alone, we must calculate to pay at least *five millions* more than we did last year for the same quantity, the price being 50 per cent. higher; for though fully that advance has taken place, yet the quantity imported will be nearly as large as that of 1846, the great reduction being in reference to the imports of 1845, which left so large a stock on hand at the beginning of 1846, that no advance of importance took place until it was evident that the supply of 1847 would again be as deficient as that of 1846—one-third of the consumption of that year being taken out of the stock left on hand at its commencement.

But against these increased importations, what probability is there of any material increase of exports? Of foreign and colonial produce, our stocks do not admit of it. Of manufactured goods, the high price of the raw materials will operate materially against such an increase. But independent of this, the depressed state in which, from exactly similar causes, our largest customers, consisting of the populous countries in the west of Europe, France, Germany, Holland, Belgium, Spain, and Portugal, as well as the countries in the south of Europe bordering on the Mediterranean, except Russia, will also materially tend to lessen our exports. To the United States, the

West Indies, South America, and other Eastern markets, there will, we think, be some increase, but which will be much checked by the high price of cotton goods. On the whole, therefore, taking a careful survey of all our markets, the most favourable view that we can take of our export trade is, that the additional demand for some, may compensate for the falling off of others; and that the entire amount of our exports will, in 1847, be equal to those of 1846; we say this is the most favourable view we can take of the matter. But, when considering these operations in relation to the effect upon capital, we must not overlook the fact that, in the usual course of business, this country requires to supply the capital to conduct them. For our imports, bills are drawn upon us immediately on their shipment, and any increase of such imports requires therefore an immediate supply of capital; while a large bulk of our exports, and especially to those markets in which we have any right to look for an increase during the present year, are made on consignment with British capital, and for which returns are not received until a distant period. To meet, therefore, the pressure for capital in the present year, we cannot look with much hope to this source.

Thus far are our commercial prospects, as connected with the "money market." We have now to glance at the effects of our railway obligations. The undertakings to which the country is actually committed at this moment, and which are incompleted, cannot, at the lowest estimate, be stated at less than 130,000,000*l.*, independent of the schemes now before Parliament. Unquestionably useful and highly beneficial as these undertakings are when finished, there is, as we have shown, a limit to the extent to which we can avail ourselves of them; as there is a limit to the extent to which any mill-owner can increase or improve his machinery, or a landlord drain and improve his estates. That limit, as regards railway undertakings, we held to be far passed. The "calls" and money borrowed during 1846, expended in railways, cannot be estimated at less than 24,000,000*l.*; for the present year, including the current month, the "calls" and

money borrowed amount at least to 14,000,000*l.*; but the larger portion of the latter sum has yet to be expended, and will tend still further to induce to a large consumption of commodities, without aiding in any way in our means of increasing our exports. In the meantime, however, this extravagant expenditure of the capital has given the appearance of internal prosperity, by promoting an unusual consumption of articles of general use, and has given to the revenue a certain appearance of prosperity. Now, after the most careful reflection upon these subjects, and having closely watched their effect during the last three years, we are persuaded that, although the present monetarial crisis has been hastened by the failure of the crops of last year, yet that the main cause has been the execution of railway projects to an extent wholly disproportioned to our means. While the consumption, to which this unusual expenditure of capital, has given a great temporary activity to industry and demand for commodities, and has called into a dependence upon it, a large class of labourers, there can be no doubt that, in the changed state of the "money market," it will be impossible to continue these projects, and a serious reaction in trade and to the revenue must be looked for, when this extraordinary expenditure must cease, or, at all events, be materially abridged. A good harvest may have some effect in tempering the difficulties which we at present have before us, but it is impossible, with such an extent of obligations as the country is committed to, and in which a huge aggregate amount of capital has already been invested, which, if they are abandoned, must be entirely sacrificed, that greatly increased pressure on the "money market" can be avoided.

We regret that it is not in our power to give a more cheering prospect for the immediate future; but it is a state of matters which, ever since the 4th of October, 1845, we have urged upon our readers as certain to happen, sooner or later, from the railway undertakings; and it will now be most easily met, and its effects most mitigated, by clearly understanding the extent of the difficulty.

With respect to the whole commercial classes, they were never in a sounder state. In ordinary trade, there never was a period freer from speculation than during the last two years, the only instances of importance having been cotton and corn, and in both of which the greatly reduced stocks and small amount of production now render any severe losses impossible. The diminished stocks of goods of all kinds have reduced the obligations of commerce to the lowest ebb; and this has been aided by the enormous railway expenditure which, by the great consumption of the last year, has placed the means of immediate payment in the hands of dealers; and it may be safely said, that less credit has been taken during the last two years, by dealers of all classes, than at any former period. But this is only one of the effects of that process which has been going forward, of the country spending its capital instead of only its income. In this respect it resembles the extravagant expenditure of a war, in the immediate effect it produces upon trade and the price of commodities; though, of course, it is infinitely less prejudicial in its ultimate results.

We apprehend, therefore, no crisis in trade or great shock to credit. The great and immediate loss will fall upon the holders of railway stock, but especially of those undertakings which are only partially finished, and which will be unable to procure money to complete them, and those which are not yet begun, and which will necessarily be either relinquished altogether or indefinitely postponed. That the time will come when all those undertakings, which in themselves are good, will ultimately be finished, and become profitable, we have no doubt, but in the interim the stock must become unsaleable.

We have great confidence in the enormous energy which this country can display in such periods of difficulty as we are inevitably approaching; in the increased facilities and economy which such necessities introduce into production, and of the individual privations which our countrymen will suffer, and the efforts they will make in order to retrieve a misfortune; and it is to these, and these alone, that we now look for a mitigation of pending calamities and a restoration

to a condition of prosperity. There are some further considerations which we shall follow up in future papers.

ARTICLE XIV.

The Crisis not referable to Undue Speculations in Trade.—The Indirect Effects of Railway Expenditure upon Commerce.—Comparison between the Crisis of 1825 and 1847.—Excess of Speculation in Commodities in 1825.—Sudden Increase of Imports.—Great Fluctuations of Prices.—The different Characteristics of the Pressure of the Present Year.—*April* 17, 1847.

In our last article, we stated our conviction that, as the impending financial difficulties, through which the country *must* pass, could not be attributed to any undue speculations in trade—that as all obligations in relation to general commerce are reduced to the lowest ebb—and that as the stocks of commodities are so low as to admit of but little immediate or sudden reduction of price, under any circumstances, no great crisis in business, or shock to credit, is to be apprehended, notwithstanding the certainty that capital must continue to rise in value, and the rate of interest correspondingly to increase. We showed, by arguments which appeared to have been conclusive to the generality of our readers, that the present monetarial difficulties, under which the country labours, and with an aggravation of which we are further threatened, had their origin solely in an extravagant application of the *floating* capital of the country to the construction of railways—although, no doubt, the present difficulties have been hastened by the failure of the harvest of last year,—and that the source of our future apprehension is chiefly confined to the continued exhaustion to which the capital of the country must be exposed for a lengthened period to come, in the struggle to fulfil the engagements which these immense undertakings have entailed upon the country. It is quite true, as has been suggested to us, and, in fact, to which we have often referred, that so far as regards the portion of the expenditure of a railway paid for the land, it is a mere transfer of

capital from one party to another, provided the landowners re-invest the sums so received, and do not add them to their expenditure; which, however, there is too much reason to believe is frequently the case, from the fact that, in the great majority of cases, the amounts are not large. The sums expended in replacing other buildings, in lieu of those destroyed by the railway company, form so much absolutely expended capital. It is also true, that whatever *actual accumulations* or *savings* take place from the profit of those who are employed in constructing the railways, or supplying materials for them, may also, in a national account of the capital expended, be deducted from the whole sum. But the profits, as well as the wages derived from these undertakings, which form the incomes, and, as such, supply the current expenditure of those so engaged, are absolutely abstracted from the general fund of *floating* capital. These two items, therefore, to which some of our correspondents refer, as being subject to deduction from our railway liabilities, though, in the aggregate, showing a considerable sum, yet, in comparison to the entire amount of those liabilities, are as little deserving of being taken into account, as would the thickness of a man's shoes in calculating the probability of his being saved in twelve feet of water.

While, however, we have inferred from these undeniable considerations, that the great pressure will be confined to those interests immediately involved in railway liabilities, and by those whose interests depend chiefly on the continued progress of these works, such as the producers of iron, &c.; yet it is impossible not to foresee that general trade will suffer a very severe depression from the cessation of a greatly stimulated and artificial consumption, for the supply of which extensive arrangements have been made. The great amount of employment which has been promoted during the last two years, by the expenditure of the *capital* in place of the *income* of the country, has led to a greatly increased demand, especially for those articles which constitute the chief consumption of the working classes. This increased demand has necessarily led to the adoption of means and facilities for supplying

it. The impossibility of obtaining money to continue these undertakings, either as "*calls*" or as *loans*, must end in a general suspension of the works, such as took place in 1839 to 1842. A suspension of these works, which have so mainly contributed to the employment of the working classes, directly and indirectly, during the last six months particularly, while business in the manufacturing districts otherwise has been so dull, will deprive great numbers, throughout the whole country, of employment, and which will be followed by a considerable reduction in the demand for all articles of general consumption. This result will be gradually experienced during the present and the next year, and will, we fear, lead to a state of general depression in business, from which there is no probability of a very rapid recovery. During that period of depression, all the consequences of such a state of business must be expected. With diminished employment and consumption, we must expect a gradual reduction of prices, or at least of profits, and a material decline in the revenue. While, therefore, the classes whose operations have been confined strictly to trade, have not to look for any immediate panic, yet must they look forward to a gradually increasing depression in business. It is, therefore, a period when the greatest circumspection should be used in all arrangements which are now made with reference to the future; in the limits of prices which are now sent out to our distant markets for produce, which will arrive during the next year, and the result of which transactions must depend upon the extent of consumption then, and not upon what it is now: it may save individuals from large losses on the importations of next year, by sufficiently considering now the influence which such a depression as must arise from these causes will exercise on prices.

There is also another way in which general business must suffer for some time to come, and probably more so during 1848 than the remainder of the present year. It is to be feared that many parties throughout the country, engaged in business, will suffer severely from the depreciation of railway property; and these losses, in a variety of ways, will re-act, and

be felt upon their commercial engagements; and to a considerable extent, arising out of such connexions between railway liabilities and strictly commercial liabilities, discredit may be created.

One of the most important considerations, both in reference to the commercial and monetarial effects of this pressure, is its probable duration. This question can only be solved by a just consideration of the causes, in reference to the probability of their removal, and to the extent of the mischief which must be repaired. In order to consider those two important points, and to render our views most clear, we will institute a comparison between the circumstances under which the panic of 1825 occurred, and those under which the present pressure exists, which will lead us to some most important and deeply interesting considerations and conclusions.

COMPARISON BETWEEN 1825 AND 1847.

Every particular instance of commercial and monetary crisis is marked by special circumstances, either entirely, or in point of degree, peculiar to itself, and which determine the general character of the derangement, its duration, and the parties who more especially are the sufferers from it. In closely examining the circumstances which attended the pressure of 1819, of 1825, of 1830, of 1836-37, and of 1839-40, it is not difficult to trace the immediate causes, or to see that those causes gave a distinctive character to each period, so far peculiar to itself. At a moment like the present, it is, therefore, an inquiry of the first importance that we should clearly understand the peculiar causes which are in operation, and the peculiar character which they are likely to give to the present crisis—and especially as regards the parties on whom it will fall with the greatest loss—the intensity of the effects it will produce upon the money market, and the probable duration of the depression which must attend and follow upon it. It may, however, render our reasoning much clearer, if we carefully consider the peculiar events which brought about

the crisis of 1825, and the peculiar way in which they affected the commercial and monetary interests of the country, and compare with them the events which have led to the present pressure, by which we shall discover the distinction, and thereby will be enabled to infer the great difference of the immediate effects which may be looked for at the present time. We propose, therefore, to institute a careful comparison of the causes which led to the crisis of 1825—and the results of that crisis, as contingent upon, and referable to, those causes—and those which have led to the present pressure, and the results which may fairly be expected to arise from them.

In the course of 1824 two classes of circumstances tended to produce a speculative feeling. The great success which had attended all the foreign continental loans which had been made during the preceding five years, with one exception, and the high premiums to which the stock had risen, had created a great appetite for such speculations among our capitalists. Some circumstances also combined to place foreign mining speculations in a favourable light. But one of the most important facts, as ultimately bearing upon the panic of 1825, and as giving a distinctive character to it, was that the imports of commodities were generally small in 1824, and scarcely equal to the consumption, so that a considerable rise in prices took place, especially towards the close of the year. All these circumstances combined, at the close of 1824, to promote the speculative fever in the first months of 1825. These speculations may be divided into five heads—

First—Speculations in foreign loans.

Second—Speculations in foreign mining companies.

Third—Speculations in land and property at home, which suddenly ran up to a very high price, especially in the neighbourhood of large towns.

Fourth—Speculations in companies of various kinds, including mining, railway, steam-boat, insurance, and loan companies, &c., &c., in Great Britain.

And fifth—A speculation in commodities of all kinds.

In the *Economist*, October 18, 1845, we gave a detailed

statement, from a parliamentary inquiry, of the various speculations to which we have referred, with the amounts embarked, or rather proposed to be embarked, in each, of which the following is the result :—

Foreign loans, 34,278,000*l.*—contracted for at.....	£23,722,000
Foreign mining and other companies of all kinds, 24,467,000*l.*, on which a deposit of 10 per cent. was paid	2,446,000
Schemes at home, of all kinds, as enumerated in the *Economist*, October 18, 1845, 156,778,000*l.*, on which deposits were paid, varying from *nothing* to 10 per cent., taking an average of 5 per cent.,.....	7,838,000
	£34,006,000

Beyond these, were the immense speculations in property and land, and, above all, in commodities of all kinds, which, affecting as they did the whole property in the country, represented enormously increased personal liabilities among dealers of all kinds. It may be here well to observe, by way of distinguishing the effects of these various speculations in producing the crisis of 1825, that the foreign loans were only payable as the instalments became due, and that a very small proportion of the companies, foreign or British, ever went beyond receiving the first deposit; and as many of them were insurance offices, loan companies, &c., the deposits themselves remained for a considerable time with their bankers, and were not, therefore, actually abstracted from the "*money market.*" Though it is impossible not to attach considerable importance to an amount of foreign loans to such an extent in one year, yet we believe their effects have been much over-rated in the share they had in producing the crisis of 1825; for it must be remembered that, though loans were contracted, they were not generally for the purposes of expenditure—not for the disbursements of wars or public works—but chiefly for a more economical arrangement of the existing liabilities of foreign states; and, therefore, though the capital of the subscribers was thus absorbed, yet that of other parties was released, and a general demand was created for other public securities for

the investment of the capital so released; and, moreover, these stocks always formed an easy instrument of transmission for payment from London to the other capitals of Europe. Foreign loans are, therefore, far from being the absorption and lock-up of capital, which at first sight they appear to be, except when they are made to meet an immediate expenditure.

But the great and essential characteristic of the mania of 1825, and to which we wish to direct the immediate attention of our readers, was the speculation in produce of all kinds. We have already stated the grounds on which such speculations commenced in 1824. The story is very shortly told. In the latter part of that year a general impression prevailed that consumption had overtaken production, and that a permanently higher range of prices must ensue. An advance took place—the effect of the first advance, and the anticipation of further advances, induced to a greatly increased importation of goods of all kinds, and which was most generally felt upon those imported from near countries. During the early part of 1825, speculation was at the highest point. Imports of all kinds were flowing into the country in greatly increased quantities, and exports of foreign and colonial produce were rapidly diminishing. Before long the increased prices tended to limit the consumption, and before the autumn of 1825 a violent reaction took place. The stocks of dear goods were heavy in all hands, and increased importations to orders formerly sent, all at high prices, continued to arrive; so that by the end of the year, our warehouses were full of goods, all held at enormous prices, and the obligations of merchants and traders of all classes were proportionately great.

The following table, taken from Mr. Tooke's History of Prices, shows the prices of each article on the 1st of April, 1824—on the same day in 1825—and on the same day in 1826. It may, however, be well to observe that the rise apparent from 1824 to 1825, took place chiefly in the three last months of 1824, and in the three first months of 1825; and that the fall observable between 1825 and 1826, took place chiefly in the last six months of 1825:—

PRICES ON THE FIRST OF APRIL EACH YEAR.

	1824.		1825.		1826.	
	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
Ashes.....per cwt.	0 13 6	to 0 14 0	0 16 0	to 0 17 0	0 12 0	to 0 0 0
Coffee; St. Dom.....	3 2 0	3 4 0	3 16 0	3 19 0	2 18 0	2 14 0
Do. B.P.....	3 8 0	5 14 0	3 18 0	6 0 0	3 0 0	5 0 0
Do. Inferior.....	2 12 0	3 12 0	3 0 0	3 16 0	2 4 0	2 18 0
Cochineal.....per lb.	0 18 0	1 0 0	1 1 0	1 4 0	0 16 0	1 0 0
Cotton Wool — bowed						
Georgia.....per lb.	0 0 7½	0 0 9	0 0 11½	0 1 1	0 0 7	0 0 8½
Flax.....per ton	46 0 0	48 0 0	49 0 0	51 0 0	33 0 0	0 0 0
Hemp.....	37 0 0	0 0 0	41 0 0	42 0 0	41 0 0	0 0 0
Indigo:						
E. I. Sup.....per lb.	0 8 8	0 11 9	0 12 0	0 16 0	0 7 6	0 11 0
Rice, Carol.....per cwt.	1 8 0	1 12 0	1 19 0	2 0 0	1 10 0	1 15 0
Saltpetre.....per lb.	1 0 0	1 1 0	1 13 0	1 14 0	1 3 0	1 4 0
Silk:						
Bengal.....per lb.	0 14 3	0 19 6	1 0 7	1 11 0	0 13 1	0 19 1
China.....	0 13 10	1 0 4	0 18 0	1 7 10	0 13 0	0 19 0
Pepper, Black.....	0 0 5½	0 0 0	0 0 8	0 0 8½	0 0 5	0 0 5½
Sugar:						
E. I. White, in Bond, per cwt.....	1 9 0	1 15 0	1 15 0	2 6 0	1 10 0	1 16 0
Brown,.....	1 0 0	1 4 0	1 8 0	1 9 0	1 5 0	1 7 0
Havana, white,.....	1 14 0	2 2 0	2 7 0	2 12 0	2 2 0	2 6 0
Tallow.....	1 11 3	1 11 6	1 16 6	1 17 0	1 9 0	0 0 0
Wool:						
Leonesa.....per lb.	0 3 3	0 4 3	0 3 6	0 4 6	0 3 0	0 4 0
Ld. High. per 24 lbs..	0 6 6	0 0 0	0 12 0	0 0 0	0 6 6	0 0 0
White Highland.....	0 7 0	0 0 0	0 10 0	0 0 0	0 6 6	0 0 0
Cheviot.....	0 12 6	0 0 0	1 0 0	0 0 0	0 13 0	0 0 0
S. Down.....per pack	14 0 0	0 0 0	16 0 0	0 0 0	10 0 0	0 0 0
Long Keut.....	13 0 0	0 0 0	16 0 0	0 0 0	11 0 0	0 0 0

It is now a very essential part of our considerations to see how the increase of prices, caused by the speculations at the end of 1824 and beginning of 1825, increased the supplies of commodities generally. The following table, compiled from parliamentary returns, shows the quantity of each of the following articles imported in 1824, 1825, and 1826; by which it will be seen how sudden an increase took place in 1825, and how equally sudden was the decrease in 1826:—

	1824.	1825.	1826.
Bark.....cwt.	960,468	1,017,250	545,610
Bristles..... lb.	1,700,121	2,036,459	1,178,346
Coffee—Foreign..... —	9,926,043	23,008,393	11,664,925
Coffee—all kinds..... —	50,674,247	52,597,518	42,017,103
Cocoa—Foreign..... —	1,733,566	2,185,055	1,605,561
Cocoa—all sorts..... —	2,761,629	3,274,375	2,227,563
Cotton wool,..total lb.	141,038,743	202,546,869	162,889,012
Cochineal..... lb.	219,343	304,858	195,165
Logwood..... tons	19,105	22,016	10,246
Madder..... cwt.	63,174	90,487	40,172

Smalts..... lb.	399,308	544,408	215,699
Zaffres..... —	108,409	321,842	82,237
Flax and Tow.....cwt.	742,531	1,055,233	688,622
Hemp..... —	571,936	595,089	489,330
Butter..... —	160,355	279,067	196,086
Cheese..... —	158,435	220,474	176,148
Quicksilver.....lb.	550,886	1,901,548	191,420
Rags..... tons	8,887	10,385	6,420
Olive Oil..... gal.	880,673	1,581,074	724,719
Clover seed.....cwt.	107,140	145,942	68,141
Linseed.....bush.	2,195,093	2,888,247	2,153,077
Onion seed..... lb.	52,379	177,267	80,012
Cinnamon..... —	381,056	425,643	156,485
Tobacco..... —	22,155,550	40,061,185	25,828,945
Tallow..... cwt.	680,382	1,164,037	864,962
Wool..... lb.	22,564,485	43,816,966	15,989,112
Wine..... gal.	6,637,506	10,892,033	7,586,937
Silk—Italian..... lb.	1,821,343	2,080,965	678,654
— all kinds..... —	3,477,648	3,894,770	2,665,225

Parliamentary returns show that the following were the official values of foreign and colonial produce imported in each of the three years in question:—

Years.	£
1824, ...	37,559,935
1825, ...	44,137,482
1826, ...	37,686,113

This account shows an increase of nearly 7,000,000*l.* of imports in 1825; but when it is considered that the *official value* represents the goods at one uniform price, and that the average prices in 1825 cannot be called less than 25 per cent. above those of 1824, the following will more justly represent the real difference in the value of the imports of each year:—

	1824.	1825.
	£	£
Official value by quantity at same price,	37,559,935	44,137,482
Add 25 per cent. of increased price,....	—	11,034,370
	37,559,935	55,171,852

Thus showing that the imports of 1825 could not represent a less increase of value on those of 1824 than 18,000,000*l.*, and

that the liabilities of the mercantile community were increased by that sum; and they were even further increased by the smaller amount of foreign and colonial produce exported in that year. The following is an account of the official value of foreign and colonial produce exported in 1824, 1825, and 1826:—

	£
1824	10,204,785
1825	9,169,494
1826	10,076,285

So that, while our imports were so rapidly increasing, our exports were falling off in 1825, and which, by the end of the year, created so large a balance of trade against us, as to cause an adverse exchange and a rapid drain of bullion, which resulted in the extreme pressure of the winter of 1825 and the spring of 1826. The commercial pressure began in the autumn of 1825, as the prices of commodities began to fall, and the large mercantile liabilities became due. But the great crisis did not occur until December, when the unsound business which had been done by bankers, in making advances on improper securities, became fully apparent, which created the discredit and panic so well remembered.

The share in the losses and difficulties of that time, borne by the mercantile community, was necessarily very great, inasmuch as their liabilities, created by the enormous imports of the year, and speculative purchases, were extensive, and the losses to which, from a sudden fall of prices, they were subjected, were of the most serious character. The whole trading classes were, therefore, seriously and deeply implicated, not only in the discredit, but also in the losses, which attended that crisis. Produce for a time was wholly unsaleable, and extensive ruin was the consequence.

We thus very clearly see the reasons why the commercial classes were so deeply and so injuriously implicated in that crisis. It was shortly, that they themselves had been greatly the cause of it; and that a great extent of the overtrading,

and, consequently, the great weight of the liabilities, rested upon them.

But while we thus easily trace the direct causes which so deeply implicated the commercial classes in that monetary derangement, which will be found to be in such striking contrast with the facts at this moment, we must also claim the serious attention of all, to a great peculiarity at that time, and arising out of these facts, which, as far as regarded the facility with which the adverse exchanges, which immediately led to the monetary crisis, could then be righted, but which do not now apply. The payments which we were called upon to make to foreign countries, at the end of 1825, were for goods which had been imported, and which had been in great measure accumulated in our warehouses. They had not been consumed; and they, therefore, of themselves, furnished a means, to a great extent, of correcting the exchanges. The sudden fall in prices, though ruinous to our merchants, had two effects upon our foreign trade, both calculated to correct the exchanges. First, the lower prices suspended, or greatly diminished, further importations; and next, the same cause induced an increased exportation of those commodities. Thus we find, by the tables already given, that while the official value of our imports in 1825 was 44,137,482*l.*; but, taking into account the increased prices, compared with 1824 or 1826, to be calculated at least at 55,000,000*l.*, it fell down, in 1826, to 37,686,113*l.*,—so that the real value of our imports in the latter year must have been about 18,000,000*l.* less than in 1825; that is, the supplies of 1826 were partly made up by the excess of our imports in 1825. Then, again, our exports of produce, in 1826, amounted to 10,076,286*l.* against only 9,169,494*l.* in 1825; so that the large stocks of goods left on hand at December, 1825, which proved so ruinous to the mercantile community, supplied an important means of more quickly correcting the foreign exchanges.

The present crisis, or rather pressure, is marked by circumstances totally different in every respect, and the results will be as different. We have already, in a former article, care-

fully traced the causes which are now oppressing the money market, and which, for a long period, must continue to do so. In an article—"Retrospect and Comparison"—formerly referred to, published in the *Economist*, Oct. 18, 1845, in which we compared the liabilities of 1825 with those of 1845, we showed that there were in 1845 schemes proposed, implicating capital to the extent of 691,000,000*l.*, foreign and home, on which deposits required to be paid, amounting to 78,000,000*l.* We have since seen how much those schemes have been reduced, but still the portion which have struggled through Parliament, and are sanctioned to be undertaken, amount, as we showed in a former article, to a sum utterly beyond the means of the country to accomplish, except in a very lengthened period. It has proved a most fortunate circumstance, and we trust may be adduced as a striking evidence of the more prudent and wiser principles on which business is now conducted, that the fever of speculation which raged so much in 1845 never approached commercial commodities, but was confined nearly exclusively to railways. As far as the effect which those speculations were likely to produce on the country, it was also a most fortunate thing that none of these undertakings could be proceeded with, until they had obtained the sanction of Parliament. This fact necessarily delayed the absolute expenditure of capital, which otherwise would have been immediately begun in the commencement of works, &c. A large amount of deposits paid up, and placed in the hands of bankers, but not withdrawn from the money market, was the only immediate inconvenience felt, beyond the extensive losses which a re-action produced to those who had paid high premiums for the stock they held. The delay thus obtained has saved the country from many of the worst consequences which those headlong speculations would have entailed upon it; and it may be said that, even up to this moment, very little beyond parliamentary proceedings has been done to carry out the schemes of 1845.

In the meantime, however, a gradual, though rapid, absorption of capital has been taking place in executing the works

sanctioned in 1844 and 1845, and now the country is called upon to carry out those sanctioned in 1846. To the effects of this expenditure upon the capital of the country we have already sufficiently referred. As far as the mercantile community is concerned, (we mean, in their own pursuits,) the supply of commodities has not been greater during the period in question than the demand. In the present year there has been no speculation, (cotton and corn excepted—of both of which, however, the stocks are lower than for some years,) and, therefore, there are, at the present time, in place of large stocks and extensive liabilities, at high prices, on the contrary, very small stocks of most of the leading articles of ordinary consumption, held at moderate prices; and it may safely be said that, whatever may happen, the liabilities of merchants were never less than at this time, nor were there ever fewer reasons to excite distrust or discredit.

But this very fact, which places the commercial community in so safe a position, is calculated to prolong the period of pressure and of adverse exchanges. As we have such small stocks of foreign products, we shall be unable, as in 1826, to reduce our imports or to increase our exports; and, therefore, it will be longer before the exchanges can be corrected. We must increase our imports of food, and we must, at least, continue our other general imports on the usual scale; and, therefore, nothing can prevent capital still increasing in value. This difficulty can only be met by such an increased rate of interest as will induce foreign capital to find its way here for employment, and especially by the purchases of public securities, which must fall in price in proportion as the interest of money is raised.

We have thus endeavoured to explain the grounds upon which we have formed an opinion, that no commercial discredit or crisis is to be feared at this time, except so far as it may turn out, that railway obligations and losses are mixed up with other commercial undertakings; and even in those cases, the immediate difficulties will be greatly modified by the necessity which all companies will find to postpone their

undertakings, a suspension of which, however, must gradually produce a great depression in business for a long period to come, but it need not be attended with any severe crisis or shock to credit. Extreme prudence and caution in entering into distant engagements, and in giving limits for future imports, will well repay those who exercise them.

ARTICLE XV.

The Crisis.—Its Character.—The Present Condition of the Bank of England, and how it is affected by the present Crisis.—*May* 1, 1847.

GREAT as have been the advantages which the world has derived from the introduction of a system of money, in order to facilitate the exchange of commodities, it would not be easy to estimate how much those advantages have been reduced by the confusion which has, in consequence, arisen, as to the true principles which regulate all such exchanges, and which could not have existed had simple barter been adhered to. The introduction of the systems of credit and money, however admirable in themselves, and however needful in order to conduct commerce on its present scale, and with due regard to the convenience and necessities of civilised life, has, by withdrawing attention from fundamental rules on which all exchange of commodities must proceed, done much to complicate and confuse what would otherwise have been simple and plain.

The economy of human labour and time, accomplished by the introduction of those facilities for effecting the exchange of commodities, is greater than has probably been derived from any other invention whatever; but, strange to say, the science or principles which regulate these great facilities are, as yet, so little understood, that it is difficult to find two practical men of business who entertain the same views on questions of money and currency. And yet there is no science whatever which is based upon more invariable and tangible laws, and which, therefore, should, if proper attention were paid to it, be so exact or so well defined. Much, if not the whole, of the confusion and error which exists, is to be traced to the fact, that men habitually look upon money as an inde-

pendent element of wealth, and not as a mere representative of commodities; and therefore neglect to refer all the fluctuations in the abundance or scarcity of money to fluctuations in the quantities of commodities, over which bankers and others, who are supposed to regulate the monetarial affairs of the country, have no control whatever. So little attention is paid to these subjects, during periods of ease and leisure, that when times of pressure and difficulty arrive, men are seized with panic and terror, in a great measure, because the subject is so little understood, and so little acordance exists in public opinion as to the causes which have immediately led to such a state of things. We have before us a pile of letters, received during last week, bearing the marks of proceeding from men with strong powers of thinking, and many of them containing very valuable suggestions, but which exhibit such a variety of contradictory views, as to the causes of the present crisis, as show, in the strongest way, how unsettled and ill-defined public opinion is upon a subject so essential to the best interests of the country.

In consequence of this want of a clear and well-defined view of the real causes which influence the severe pressures, which from time to time are experienced in the commercial and monetarial affairs of the country, it is common to refer them rather to some of the symptoms by which they are immediately accompanied than to such true causes themselves; and the public are always too apt to try to shift the consequences of their own imprudence, or of mere misfortune, upon those who are simply the instruments through whom the inconvenience first became felt.

This is strikingly so at the present moment. A writer, whose only desire was to gain popularity, would have little difficulty in obtaining his object, by joining in the general complaints against the Bank bill of 1844, and against the management of the Bank directors, as having led to all the inconvenience and pressure which is now felt among commercial classes. Whatever may be our views with respect to the one or the other, which we have never hesitated freely to express,

we are bound to say, that we do not attribute any very important share of the present crisis, to either of those commonly assigned causes. That the immediate pressure and want of confidence have been aggravated by the Bank directors having too long delayed to use the proper means to contract their liabilities, in proportion as their reserve of capital (the bullion) diminished, and the severe measures to which they have necessarily had recourse of late, to recover their position, we think no one can deny, nor have we ever failed, during the last three months, week after week, to urge this point on their consideration. To this we shall have occasion hereafter again more specifically to allude.

It shall be our object, in this article, to confine ourselves as much as possible, to a consideration of the practical causes which have led to the present crisis, to the course which it is likely to take, and to the influence which the two commonly assigned reasons alluded to have exercised upon it. In doing so, we shall carefully avoid, as much as possible, any controverted points of principle, and apply ourselves, as exclusively as the subject will admit, to the practical bearings of the questions under consideration. Having already, in former articles, explained our views as to the main causes which have led to the present scarcity of capital, we propose now to consider, first, The character of the present crisis; and, second, The effect which the Bank Bill of 1844 and the management of the Bank of England have had in promoting it.

WHAT IS THE CHARACTER OF THE PRESENT CRISIS?

It is one of the most essential considerations, both for the public and the directors of the Bank, to form a just estimate of the precise character of the circumstances which have led to the present monetary difficulties of the country, and of the probability of their duration. In former articles, we have fully considered the effect which the extravagant expenditure in railways has produced upon the available floating capital of the country. In those articles, we have shown that we have

fixed in railways a large portion of capital, or, in other words, of commodities, in a way which have not reproduced themselves, or anything else which will exchange in foreign countries for commodities which we require; that, as a consequence of that process—while our home consumption of all the articles of ordinary use materially increased, the prices rose, and importations were larger—the exports from this country necessarily diminished, and the debts due to us abroad were gradually extinguished, or, at least, much reduced. These consequences were severely aggravated by the failure of the crops of last year, which rendered an extensive importation of food imperative. In 1846, and chiefly during the last six months, we imported no less than 3,814,666 quarters of grain, and 4,356,812 cwts. of flour and meal, and up to this time in the present year the importation of grain and flour has already amounted to about 1,500,000 quarters. At a moment when we had exhausted, or much diminished—by a long series of extended imports, to supply the consumption of the last two years, stimulated so much by the expenditure on railways—our command over the commodities of foreign countries, in the form of credits, as indicated by the state of exchanges, a sudden necessity arose to import for Ireland and for Great Britain the enormous quantities of grain referred to, as well as other provisions. While, however, our imports had been increasing, and exhausting our claims on foreign countries, we were accumulating no commodities in this country which we could, under any exigency whatever, export. We had fixed our capital in railways, except under the highly improbable supposition that English railway stock could be sold in foreign markets, and especially at such a moment, were utterly useless as a means of meeting the imperative importation of food which became needful. The real state of the country, during the last six months, has been, and still continues to be, this:—With unusually small stocks of all the ordinary commodities of commerce,—with a small amount of foreign debts due to this country, as indicated by the state of the exchanges more than six months ago,—with our capital

withdrawn from these sources, to an unusual extent, the sudden necessity arises of importing food to an extent altogether without precedent, and that at a moment when many of our nearest and most usual sources of supply are not only unable to afford us relief, but are even in a worse position than ourselves. Putting out of view altogether, in this place, any consideration of our monetary matters, the real source of all our difficulties is, that we have a sudden and imperative necessity of importing a large quantity of food, and have no sufficient stock of such other commodities as foreign countries require, to exchange for them, nor have we a sufficient amount of foreign debts due to us with which we can liquidate our purchases. It is, in reality, a question altogether of the exchange or barter of commodities; it is a question of an import of food, for which, as far as Ireland is concerned, the legislature of the country is committed, to a past and future expenditure within a year, to the extent of about eleven millions sterling, and to which the remainder of the United Kingdom is committed to an expenditure of their own means, to whatever extent may be requisite to procure sufficient supplies; the whole is a question which involves the supply of wants in themselves so imperative, that any sacrifice will be made in order to do so. Of course, the extent of the difficulty must depend altogether upon the extent to which those imperative necessities of importation exist. We know what we have already imported, which in the state of our resources as they have existed, has been productive of the inconvenience already experienced; and, if we are to judge by the inadequate power of our supplies hitherto to affect prices, we cannot entertain any hope that our wants are nearly satisfied. Of the Irish expenditure for food, upwards of six millions have yet to be provided; for the expenditure for the remainder of the kingdom, a very large sum must yet be necessary. If we are to judge by the reduced state of the stocks of grain in the hands of the growers at this moment, as compared with this time last year, which, after the most minute and careful examination, are unquestionably much less—if we are to take into consideration

the enormous stocks which, a year ago, existed in our bonded warehouses—and if we are to consider the backward character of the season, both in this country and especially on the continent, which at least precludes the possibility of an early harvest, no reasonable man can resist the conclusion that a larger quantity of food will be required for the United Kingdom during the next six months, than during any similar former period. At such a moment, when our means of procuring it are already so much exhausted, this, we confess, is an appalling fact. But it would be criminal, and the height of folly to shut our eyes to a danger because it is great. If it can be met—if it can be ameliorated (of which we are not without hopes)—it will only be by forming a just estimate of its extent. In all the views which we take of the present crisis, of its causes, its intensity, and its duration, we must never lose sight of those great necessities which are at the foundation of all, and over which neither Bank Bills nor Bank Directors have any very material control. These necessities will control our monetary affairs, in spite of any regulations or arrangements; while no regulations with respect to our currency will materially affect them. As, however, all commercial obligations are much affected by the course of our monetary affairs, it becomes a most essential consideration to examine how far the circumstances to which we have alluded will affect them. We will, therefore, proceed to consider:—

THE PRESENT STATE OF THE BANK OF ENGLAND, AND HOW IT IS AFFECTED BY THE BILL OF 1844.

The easiest and clearest way of arriving at a satisfactory conclusion upon this question, is, that we should place before our readers a simple explanation of the real character and state of the Bank of England, which will show that, though it is an establishment possessing an enormous capital, that it neither possesses the power to stem such difficulties as the country at present experiences, nor is it any part of its duty to do so. Our remarks, too, on this point, will tend also to

show how exaggerated have been the popular complaints which of late have been made against the bill of 1844, as having been the cause of the present pressure. The Bank of England possesses an independent capital, amounting in all to 17,950,077*l.*, which is thus made up:—

	£
Proprietors' Stock	14,553,000
Rest, or Reserve, being the accumulation of profits from time to time	3,397,077
Total independent capital	17,950,077

As bankers, beyond this capital, the Bank derives large means from two other resources, on account of its credit. The one is from its circulation of notes, which the public take and use to perform the same operations as coin, for a medium of exchange in carrying on the business of the country; and the other is the deposits which the public place in their hands for safe-keeping. These different items, according to the last Bank Return, stood thus:—

	£	£
Proprietors' Capital	14,553,000	
Rest	3,397,077	
Independent Means		17,950,077
Circulation of Notes, including Bank post-bills ..	21,152,853	
Deposits	13,015,731	
		34,168,584
Total means of the Bank		52,118,661

The entire means possessed by the Bank, according to the return of last week, amounted to 52,118,661*l.*—of which, 17,950,077*l.* was its own independent property (without calculating the value of the Bank buildings, which is always done in the assets of the Bank of France), and of which 34,168,584*l.* formed claims on the part of the public, payable on demand. As a trading establishment, the great and only consideration for the Bank of England is, how it can most profitably employ these large sums, so as always to be pre-

pared to meet any portion of the demand which may arise upon the sum of 34,168,584*l.*, held upon credit from the public.

It is clearly the first duty of the Bank of England, as it is of any other commercial establishment, to take every precaution to meet its liabilities to its creditors, and with the Bank of England this is peculiarly imperative. It is, therefore, obvious, that of the funds, amounting to 52,118,661*l.*, with which it has to deal, it is the duty of the Bank at all times to retain in its possession a reserve in bullion, equal to whatever portion of the 34,168,584*l.*—which it is liable to be called upon to pay at the option of the public—as is likely, under any ordinary circumstance, to be demanded; and, beyond this, to invest the remainder in public securities, bearing an interest, which can be sold, if necessary, and in discounting commercial bills of exchange. By the accounts of last week, the whole means of the Bank were thus distributed :—

	£
Debt due by the Government	11,015,100
Government securities of various kinds	14,662,719
Private securities, or commercial bills	17,111,001
Bullion	9,329,841
	£52,118,661

Therefore, to meet such part of the liabilities of the Bank, consisting of its deposits and circulation, as it is likely to be called upon to pay, it had in its possession a sum of 9,329,841*l.*

Now, it is quite clear that the amount of liabilities which the Bank owes to the public, consisting of the circulation of notes, and deposits, must be subject in their fluctuations not to the will of the Bank, but to the wants and means of the public. The Bank cannot keep more notes in circulation than are required for the internal exchanges of the country at any specific time, for the simple reason that, as a rule, no one keeps more money in his possession than is necessary for his wants; and, therefore, whatever advances the Bank may

make beyond that sum must immediately fall back upon it for payment, and thus all such advances are in reality advances of capital. Nor has the Bank any means of reducing the circulation of its notes at its own will, as long as it holds a large fund belonging to depositors, which can be withdrawn at pleasure; for if the Bank were to attempt to withdraw its notes from circulation, either by withholding discounts or by the sale of its securities, so as to reduce the circulation below the sum actually required to conduct the internal exchanges of the country, it is evident that the public would withdraw the notes so required from their deposits, through the medium of private bankers, to whom the private deposits in the Bank chiefly belong. So that, until the private deposits in the Bank of England are very much reduced, an effort on the part of the Bank to withhold the notes, absolutely needful for circulation, in the hands of the public, would be counteracted by withdrawing the deposits. It is thus that we frequently see, on the one hand, a very great increase in the amount of securities held by the Bank, indicating extensive advances, without any corresponding increase of the notes in circulation; and, on the other hand, a very extensive decrease of securities, indicating that those advances are much curtailed, without any corresponding decrease of notes in circulation. But we will always see, when such increased advances have been made as we allude to, that they have been accompanied by a decrease of the bullion, and when such decrease has taken place in the advances, that it has been accompanied by an increase of bullion; we mean, when the circulation has not been affected. It is, therefore, plain that the circulation and the deposits are acted upon by circumstances over which the Bank can exercise no immediate control; and, therefore, that the chief regulation of the reserve of bullion held by the Bank to meet its liabilities must necessarily be through its advances upon securities; and, therefore, that when a period of scarcity of capital arrives, and the reserve of bullion in the Bank is sinking, the only means which the Bank possesses of preserving a necessary amount of bullion to meet the demand

which will probably be made upon it, is by a reduction of its securities, either by the sale of stock or by diminishing its discounts.

The amount of the bullion held by the Bank, it is plain, should bear a certain proportion to the extent of its liabilities payable on demand; and should, therefore, be equal to any probable diminution which may take place in the deposits and circulation during a period of pressure. The extent to which the deposits and the circulation may be diminished at any particular time, must depend upon the causes which are at work, which are likely to withdraw capital from the country, and which are likely to increase our transactions abroad and limit them at home; and, therefore, it is impossible to furnish any precise rule which can govern the Bank at all times. But let us examine what the circumstances are at this moment which are likely to affect these two classes of claims upon the Bank. We have had a large demand for bullion to meet foreign payments for grain. At the commencement of that drain, the Bank held in its possession upwards of *sixteen millions of bullion*, a sum considerably larger than was considered necessary to hold as a reserve. As the demand for capital increased to pay for foreign grain, the first way in which it showed itself, was in a demand upon the Bank for increased advances on securities, which the Bank was then in a condition to grant. On the 23d of October, after the payment of the dividends, the Bank account stood thus:—

Bullion.	Private Securities, or Bills under Discount.
£	£
15,143,048	12,788,939

On the 22d of January, after the payment of the dividends, these items stood thus:—

Bullion.	Private Securities, or Bills under Discount.
£	£
13,948,681	14,450,711

On the 23d ult., after the payment of the dividends, these items stood thus:—

Bullion.	Private Securities, or Bills under Discount,
£	£
9,329,841	17,111,001

On the 23d of October, and on the 22d of April, the deposits and the circulation of the Bank were as follows:—

		Deposits.		Circulation.
		£		£
1846	October 23.....	14,440,534	.....	22,314,213
1847	April 22	13,015,731	.....	21,152,853

During this period, the amount of bullion taken from the Bank amounted to 5,813,207*l.*, of which it will be seen that no less than 4,322,062*l.* was furnished by increasing the amount of discounts. During the same time, the deposits diminished only 1,424,803*l.*, and the circulation, 1,151,360*l.*, the only aid which the Bank has had resort to, being the sale of Government stock to the extent of 1,130,300*l.* during the whole time. It is, therefore, quite clear, that the great source from which the corn hitherto imported has been paid, has been the reserve of bullion held by the Bank in October last; and, if the Bank has committed any error at all—and we think it has—it has been in permitting so great a decrease of bullion to take place, without reducing its liabilities to a greater extent, which could have been done by raising the rate of interest sooner and more rapidly; so that, if bullion was withdrawn, it should be in exchange for its deposits.

The first item which is affected in the Bank accounts, during every drain of bullion, is the reserve, which the Bank is willing to advance on securities. This has been done, on the present occasion, to too great an extent already. The next source which is applied to, when advances are withheld, is the deposits constituting the reserves or balances of the private banks, and the last source is the circulation of notes. The first source, we must consider, is now exhausted as far as

it can be, and the private securities in the Bank must rather be diminished than increased. To provide for the payment of further imports, the pressure will next be upon the private deposits, as the balances in the hands of the bankers throughout the country diminish; and the last pressure on the Bank will be felt in the reduction of the circulation of notes, which will be carried in for bullion. The last process will occur thus:—The high price of provisions will materially, as it has already done, curtail the demand for all other commodities; the internal exchanges, and the quantity of money required to conduct them, will be lessened; and the portion of the capital of the country thus freed from circulation will be used to pay for foreign grain. This is precisely the process which would occur under a purely metallic currency, and which must occur under one of a mixed character, when the paper is convertible at pleasure. In 1839, under the drain which then took place, a similar course followed. The first drain acted upon the bullion which the Bank was willing to part with, in advances upon securities; it next acted through the deposits; and, lastly, through a decrease of the circulation. In 1839, the bullion, deposits, and circulation, stood as follows:—

1839.	Bullion. £	Deposits. £	Circulation. £
April 5	7,073,000	8,998,000	18,035,000
July 1	4,344,000	7,567,000	17,620,000
September 19	2,816,000	7,781,000	16,899,000
December 12	2,887,000	5,952,000	15,817,000

In considering, therefore, the sources on which we must depend to meet the further demand for bullion, to pay for the import of grain, it is quite evident that the Bank must prepare, first, for a considerable reduction in its private deposits, and, during the year, as the trade of the country becomes contracted, for the redemption of a large amount of its notes. To what extent the private deposits may fall, and to what extent the trade of the country may become contracted, so as to liberate the notes at present in circulation, it is impossible to

say. In 1839, the whole deposits, including government and private, fell to 5,952,000*l.*, and the circulation, exclusive of Bank post bills, to 15,032,000*l.* With a certainty that very large imports of grain will still be required both for Ireland and Great Britain, besides large supplies of raw materials essential to our manufacturing industry, the stocks of which are all extremely low—and looking to the small stocks which we possess of other commodities, which can be used as a medium of payment to corn-growing countries—we cannot deny the necessity which must exist for a further and very considerable drain of bullion; and as such, of a strong action, first, upon the private deposits of the Bank, and next, for the redemption of a portion of the circulation. And, therefore, we do not believe that, under the present circumstances, the Bank would be in any degree safe to permit its bullion to sink below its present amount, except in order, first, to liquidate its deposits as they are required, and next, to redeem its notes as they are presented.

It is common to talk of the low state of the bullion in 1839, when it was reduced to 3,000,000*l.*, and to compare the present amount held with that period; but those who make such a comparison entirely overlook the fact that in 1839, when the bullion was reduced to the point mentioned, the deposits had already been satisfied, down to a point of 5,952,000*l.*, and the circulation, including bank post bills, had been reduced to 15,817,000*l.*; whereas, at this moment, these two great liabilities are yet to be met. The comparison is thus:—

	Dec., 1839 £	April, 1847. £
Deposits	5,952,000	13,015,731
Circulation	15,817,000	21,152,853
Bullion	2,887,000	9,329,841

Our remarks have been hitherto made without any reference to the arrangements under the Bank Bill of 1844, because, in reality, the same general reasoning refers to the general state of the Bank assets and liabilities in either case, the whole difference effected by that bill, and by the separation of the two

departments, being one simply of account, and which could be, and in fact is, done merely by different modes of stating the account. The only practical difference in the management of the Bank is, that the reserve of bullion is divided into two parts: one as applicable to the payment of the deposits, and the other as applicable to the redemption of the notes. That law assumes that the lowest state to which the circulation could be reduced would be to 14,000,000*l.*, and therefore it provides that the Bank shall always keep a reserve of bullion equal to the notes it circulates over and above that sum, and which shall not be applicable to any other liability of the Bank. To effect this object, 14,000,000*l.* of securities are placed in the issue department, and all the bullion of the Bank, over and above a sufficient supply of coin for the banking department, for the full amount, notes are given to the banking department, from which the circulation of the country is supplied, and a reserve kept to provide for the deposits as they may be required. This reserve of notes is the only command which the banking department has over the bullion, which, were they entirely converted into gold, it is plain that a sum would still be left in the issue department, equal to the whole of the notes in circulation, over and above the 14,000,000*l.* of securities. The old and new plans are substantially the same, as regards the entire liabilities of the Bank; but, by the new bill, the reserve of bullion is practically separated and apportioned to the circulation and the deposits. The following statement, made from the last returns, will show exactly what the difference is, and by which it will be seen to be merely a matter of form. Under the old law, the accounts of the Bank would have stood thus:—

	£
Circulation of notes	20,242,785
Deposits	13,015,731
Total liabilities to the public	33,258,516

Against which would have been held a reserve of 9,329,841*l.*,

in bullion. Under the new forms, the two departments stand thus: —

ISSUE DEPARTMENT.

	£
Notes to the banking department, for public circulation, and for the reserve, against the deposits ..	22,801,100

Against which notes, bullion is held to the amount of 8,801,100*l.*, being the excess above 14,000,000*l.* of securities.

In the banking department the liability is—

	£
For deposits	13,015,731

Against which are held—

	£
Notes which can be exchanged for bullion from the issue department	2,558,315
Coin	528,741
	3,087,056

Suppose the banking department were to convert all the notes into bullion, which it has the power to do, then the bullion would be held thus:—

	£
Issue department	6,242,785
Banking department	3,087,056
Total bullion	9,329,841

The practical effect, therefore, of the new bill is, to assign absolutely a reserve of bullion against the real circulation in the hands of the public, equal to whatever sum it exceeds 14,000,000*l.*, which cannot be touched by the Bank, or used for any other purpose; the remainder being assigned, whatever it may be, to the payment of the deposits, whereas, under the old bill, the whole bullion was held equally against all the liabilities. By the old bill the bullion, amounting to 9,329,841*l.*, held last week by the Bank, was held equally

against the circulation and the deposits, amounting together to 33,258,516*l.*, while, under the new bill, 6,242,785*l.* is practically held against the circulation alone, and 3,087,056*l.* against the deposits alone.

If the new bill be more stringent than the old bill, it can only be because the amount of 6,242,785*l.* of bullion, which it compels the directors to hold, is larger than is necessary, in ordinary prudence, to place as a reserve upon a circulation of 20,242,785*l.*; or that, if the Bank directors were conducting their business under the old bill, they might with prudence reduce their reserve below 9,329,841*l.*, to meet claims payable on demand amounting to 33,258,516*l.* From the action which, in former times, we have seen take place upon the deposits, and the circulation under a continued drain for the import of grain, and looking to the many reasons which we have already given why that drain may be expected to be continued for some months to come (though there may be a temporary suspension), we are clearly of opinion that no prudent body of directors would allow their bullion to sink below that sum; and we have never refrained from expressing our opinion, during the last three months, that the directors should have taken measures at a much earlier period to prevent it sinking even so low, excepting in reduction of its liabilities.

Whether the new bill has been more stringent than the old bill, prudently managed, depends entirely, therefore, upon a question of opinion, as to whether the Bank directors could prudently have suffered their bullion to go below 9,329,841*l.*, as a guard against any large probable import of grain, upon deposits and circulation to the extent of 33,258,516*l.*; we have no hesitation in expressing the opinion, that after the experience of 1839-40, no body of directors could have been rash enough to have done so.

But while we cannot trace any part of the present pressure to the conduct of the Bank directors, or to the operation of the new Bank Bill, but simply to the uncontrollable and imperative necessity of importing large quantities of food at a time when we have no other means to pay for it, but by drawing upon our reserve of banking capital, we would not thereby be understood to approve of the course the directors have pursued. Our object is not to vindicate the Bank directors, but to keep public attention directed to the sole and great cause of the derangement. If the Bank directors have erred at all, of which we entertain no doubt, it has been that they have increased the private securities, by discounts of commercial bills too freely, considering how rapidly their reserve has declined, that they did not sufficiently early, or to a sufficient extent, increase the rate of discounts, which would have checked the demand upon them, and induced an importation of capital (if we may use the term), for investment in this country. We think we need only to place before our readers the following statement of the bills under discount in each week, since the beginning of this year, and compare those amounts with the reserve and the bullion, (the former representing the portion of the latter at the command of the banking department,) to show that the public cannot, at least, complain that the Bank directors have withheld accommodation; but to every prudent man, familiar with banking, this statement will rather show that the directors have increased their securities, in the face of a rapid diminution of bullion, in a way which but few bankers would consider safe. The following is the table, extracted from the Bank returns of each week:—

		Private Securities.	Reserve.	Bullion.	Rate of Discount.
Jan.	1	14,654,905	9,437,736	15,066,691	3 per cent.
—	8	15,071,820	8,920,397	14,951,572	3 —
—	15	14,464,948	7,471,177	14,308,022	3½ —
—	22	14,460,711	7,269,311	13,948,681	4 —
—	29	14,489,657	6,843,790	13,442,880	4 —
Feb.	5	14,106,072	6,432,343	12,901,658	4 —
—	12	14,019,936	6,674,267	12,287,737	4 —
—	19	15,071,256	6,575,174	12,299,109	4 —
—	26	15,039,339	6,732,821	12,214,761	4 —
Mar.	5	15,819,148	6,711,809	12,044,934	4 —
—	12	16,905,705	6,316,390	11,595,535	4 —
—	19	17,358,712	6,217,261	11,449,461	4 —
—	26	17,650,874	6,162,440	11,231,630	4 —
April	2	17,824,355	5,571,258	11,015,583	4 —
—	9	18,627,116	4,391,470	10,246,410	5 —
—	16	18,136,377	3,463,628	9,867,053	5 —
—	23	17,111,001	3,087,056	9,329,841	

Thus we see, while the bullion has sunk from 15,066,691*l.* to 9,329,841*l.*, and the banking reserve from 9,437,736*l.* to 3,087,056*l.*, the bills under discount have increased from 14,654,995*l.* to 17,111,001*l.*; and it will be seen that, from the 22d of Jan., the bills under discount rose from 14,450,711*l.* to 18,627,116*l.*, on the 9th of April, in the face of a decline of bullion from 13,948,681*l.* to 10,246,410*l.*, and without the slightest effort being used to increase the value of money, by raising the rate of discount. In the face of that demand, the rate remained at *four per cent.* during the whole period. These facts are a sufficient justification for those who have, during the whole of that time, been calling upon the Bank to increase the rate of discount; and we are satisfied, if they had done so at an early period, and sufficiently much, the sudden shock which has affected confidence so much during the last fortnight, might have been avoided, and so the pressure, though not averted, might have been mitigated.

We entertain a strong opinion that it would be highly injudicious, under the present circumstances of the country, for the directors of the Bank to allow the bullion to sink below its present amount, except by a corresponding reduction of deposits, or by a redemption of its notes in the event of the trade of the country leading to a contraction of the circulation; and we are the more decided in that opinion, on account of the large imports of grain which will be required during the remainder of the year. To whatever extent more bullion is exported, it must be obtained, not by the Bank adding further to its discounts, but by the public falling back upon their own capital.

It is probable that, from a variety of circumstances, the pressure will be partially mitigated for a short period, but it is impossible that any circumstances can occur which can avert the consequences which must arise from a deficient supply of food, and the necessity in which we are placed of making any sacrifice in order to obtain it; and it would, therefore, only be deceiving ourselves to imagine any permanent relief, except through the means of strict economy and increased

production. We look forward to the future condition of the commerce of the country, and that of the labouring population, with much greater alarm than to the mere money market; for past experience has proved that the condition of capitalists may be rendered easy, and the exchanges corrected, while the trade of the country continues to suffer severely for a long period afterwards.

It is our intention, in next article, to lay before the country, for its serious consideration, an extensive plan, by which the pressure may be in a very great degree mitigated, and by which the trade and industry of the country may be saved during the next two years, from an extent of suffering and depression of which it is appalling to think. It will be remembered that the full effects of the crisis of 1839 and 1840, were not experienced to the full extent before 1841, and even 1842, long after the original causes had passed away. We have no faith whatever in temporary palliatives; they may give momentary ease, but they invariably prolong, and often aggravate the evil. We pledge ourselves to propose nothing that shall not be in the strictest accordance with the most approved principles, sustained by experience, and that shall not be as advantageous as a permanent measure, as it shall be efficacious as a cure for the disasters with which the country is threatened during the next two years, from a singular and unparalleled complication of causes.

Meantime, we crave the careful attention of our readers to this article, and to the fact, that the evil we are labouring under is an exhaustion of capital—a scarcity of commodities, which nothing but economy or increased productiveness can cure.

ARTICLE XVI.

The Crisis.—Its Character and Remedy.—The Nature of Capital and Functions of Money.—The Operation of a Purely Metallic Currency.—How can the Currency be Economised?—The Currency of Hamburgh.—The Currency of France.—The Currency of Russia, and its curious effects on the recent transactions of the Russian Government.—The Scotch System of Banking.—The State of the Currency in England.—The Proposed Remedy for the Present Scarcity of Capital.—The Substitution of Convertible One-pound Notes for a Gold Circulation.—*May* 8, 1847.

THE awful predicament in which the country is now placed, and the still more awful predicament into which it is fast hurrying, from causes over which human power can now exercise little or no direct control, renders it the imperative duty of all to exert every effort of mind in order to avert, or, at least, to ameliorate, if possible, the disasters which impend over us. But, above all, it is our duty, while suffering under the severity of a great pressure, to be careful that we do not yield to mere empirical palliatives, which, while they may afford some immediate ease, must terminate in increased disorder and the aggravation of the evil. At the same time, while this caution is necessary, it is our duty, as intelligent beings, to discard every prejudice which former abuses have created, and to bring all our intellect and experience, uncrippled by preconceived notions, to our aid. In fulfilment of our promise in last article, we now propose to lay before the country an exposition of the only safe plan which can now be adopted in order to meet the extraordinary difficulties with which we are beset—in which we pledge ourselves to propose nothing that is not in the strictest accordance with the most rigid principles of safe finance, and supported by ample experience. And if, in the course of our exposition, there should occur some propositions which jar with the present notions or prejudices of the public, we must beg that they will suspend their judgment until they have carefully gone through it, and seriously considered it as a whole. If our views upon these subjects are entitled to any confidence on the part of the country—if our writings for the last four years entitle our opinions to any weight—then, on these grounds, we claim from all a careful and patient consideration of our proposals, before they permit themselves to be prejudiced by any pre-existing opinions, formed under different circumstances. If we have any reputation for economical science or commercial knowledge, we stake the whole of it for the perfect safety of every part of the plan we shall now venture to propose.

There was probably never a period, at least, in modern times, when such a combination of causes existed, all tending to produce the most serious and the most complicated difficulties, as at this moment. First, we have, during the last three years, been engaged in expending our capital, at a rate infinitely exceeding our available means, in the construction of railways, which, however useful and beneficial of themselves as great and new machines for economising time and labour, and facilitating the transport of goods, have absorbed the floating capital of the country to an extent beyond all proportion to our means, consistent with the demand upon it for reproducing or obtaining the ordinary commodities necessary for the consumption of the country. During the last three years, the formation of railways, and other similar internal works, has been sanctioned by Parliament to the extent of TWO HUNDRED MILLIONS STERLING, and schemes amounting to about FORTY MILLIONS more are seeking for its sanction in the present session. Out of the TWO HUNDRED MILLIONS already sanctioned, as nearly as we can estimate, not more than SEVENTY OR EIGHTY MILLIONS have yet been expended. However men may complicate that expenditure in their ideas, by the intervention of the money, used merely as the instrument for transferring commodities, or a command over them, from one to another—the simple fact is, that we have consumed commodities in the shape of food, clothing, lodging, &c., to the extent of eighty millions in railways, which, though they

may facilitate the future production of commodities, do not, at this moment, replace them for present consumption; nor do they furnish a means of exchange, by which we can obtain them from foreign countries. In order to look at this subject fairly, and to understand it distinctly, we must put *money* out of the question altogether (and it is a mere instrument of exchange), and confine our views entirely to it as a question of commodities.

At a moment when we were indulging in this extravagant course of exhausting our floating capital—if our harvest had been unusually productive, by which a great abundance of cheap commodities had been placed within our reach—had the supplies of the raw materials of our industry been abundant and cheap, whereby we could have employed our population and mills in producing cheap goods to exchange with foreign countries for other commodities which we require to import, such an increase of wealth would have enabled us to go on with that extravagant expenditure much longer. But the very opposite is the case. The harvest of 1845, and especially the potato crop, not only in this country, but in the whole of Western Europe, was deficient, so that all the old stocks of grain and provisions were consumed in ekeing out the consumption up to the harvest of 1846, which unfortunately proved even much more deficient than the preceding one. The effects which these two bad harvests, in succession, have produced in this and the neighbouring countries, during the past six months, are too well known to require any special allusion in this place. The influence which they have had in producing the present crisis has already been so fully discussed in our columns, and is so fully appreciated, that we shall not now lose time by further considering them. In about eight months, we have lost nearly *seven millions* of bullion, in order to satisfy an adverse exchange, arising immediately from the causes referred to, and that, while the liabilities of the Bank, payable on demand, have diminished but very little in proportion. In addition to the total destruction of the potato crop, and the failure of the other crops in Ireland, estimated

at 16,000,000*l.*, and the extensive failure—in many places the entire destruction—of the potato crop, and the deficiency of the barley and oat crops in England and Scotland, we find that the greater portion of Europe was similarly circumstanced. Never, probably, at any former time, has the destruction of crops been so general and so complete. All are familiar with these great prominent causes, which have led to the present difficulties, and which press so severely on commerce at this moment.

But much must always depend upon how far the causes of adversity have exhausted themselves. It is, therefore, of the first importance that we should form an accurate estimate of the present state of those causes which are so obviously in operation against us. First, it would appear that the most alarming estimates of the deficiency of food in Europe have not been exaggerated, but have rather fallen short of the truth: that notwithstanding the enormous and entirely unprecedented supplies which have arrived from the United States, and from Russia (especially from Odessa), during the last eight months, they have not only been totally inadequate to satisfy the deficiency in this and the neighbouring countries, but are insufficient to prevent a still further and serious advance upon even the recent extravagant prices. Everywhere throughout all the neighbouring countries, the advancing state of the markets—in France, Belgium, Holland, and Germany—proclaim the most intense scarcity. And what is our condition at home? Ireland we put out of the question as a settled point, requiring to the full the whole public expenditure, to which the Government is committed, and which must be derived from the future instalments of the *eight millions* loan, abstracted from the general capital of the country, exhausted as it now is; but besides which a further enormous sum must be contributed by all the classes in Ireland, who are not partakers of the Government bounty, for their share of the imported grain and provisions. But what is the condition of this country otherwise? With our bullion reduced to a point, below which it cannot safely be permitted to fall,

there is no evidence whatever that our imports of grain, great as they have been, are sufficient to make up the deficiency of our own stocks. On the contrary, there is everywhere at this moment throughout England a stronger evidence of short and deficient stocks of grain, including British and Foreign, than at the same period for many years past. The best and largest wheat-growing districts are drawing supplies from the sea-ports for their own millers, who appear at Mark-lane and Liverpool for that purpose. Our short stocks have been recently much aggravated by the exportation of British wheat, this having been a cheaper market than any of those in the immediate vicinity. During the four weeks ending the first of May, no less that 88,000 quarters of English-grown wheat, and 50,000 quarters of foreign wheat, were shipped from this country to France, Belgium, and Holland. Except Russia, Egypt, and the United States, there are no countries in the world able to spare any quantity of grain worthy of mention; and for the surplus of those quarters, there are nearly *one hundred millions* of people now waiting, in this and the adjacent countries. One of two things must now occur. Either the prices here must rise much above their present rate, or the foreign supplies must be very large. Of course, in proportion to the advance of price will the effort be made to send foreign supplies; and just in proportion as foreign supplies arrive must the exchanges be rendered adverse, and the demand for bullion or other commodities become greater. Another circumstance which will aggravate the scarcity of grain, will be the absence of our usual extensive supplies of provisions from Ireland, which do not there exist in any form, and which must be made up by increased importations from the United States, again tending to aggravate the adverse state of the exchanges. In this serious predicament, our prospects are rendered still worse, by the fact that the season is extremely late, and that, be the weather henceforth what it may, we must have a late harvest, a serious fact in two respects:—first, it imposes upon our insufficient resources for this season the necessity of supplying the consumption of all Europe—for

all are alike late—for a month or six weeks longer than if we had had an early harvest; and, secondly, because a late crop is exposed to danger. In the south of France, the failure of the rye crop is already considered almost a certainty. In this position, we must see that supplies are yet required for nearly five months' consumption. Up to this time, the supplies from the United States, though upon a scale without any former precedent, have had no effect in preventing a rapid advance; and if they are for the next four months sufficient to prevent a material further advance, it will be most fortunate for the country, at whatever sacrifice they may be obtained. As regards the general wealth of the country, and our ability to pay for imported corn, the loss of the crop in Ireland has been further aggravated by the almost total suspension of productive labour in that country.

If, in this state of matters, we had a large stock of other commodities required for consumption, such as *sugar*, *tallow*, *&c.*, and of the raw materials required to sustain our industry, such as *cotton*, *wool*, *flax*, *&c.*, so that we could, for some time, suspend any further import of them, and so throw the purchasing power of our exports more exclusively upon corn, it would be some ease. But here again we meet with an evidence of a reduced capital, by a small stock of these commodities, of which we *must* import even more freely than we have done for some time past. The failure of the cotton crop in America is a misfortune scarcely second to that of the corn crop; for, being the material on which the largest portion of our labour is employed in producing articles of export, a large portion of our people are rendered unproductive at a moment when their labour, or, in other words, *its* produce, is most required to pay for the food they consume; and thus another great difficulty arises in making our foreign payments. But even here this peculiar difficulty with regard to the short crop of cotton does not end. The cotton which will be imported this year may be nearly the same in quantity as last year (one-third of the consumption of last year having been taken from stock on hand at the beginning of the year), but

at a price at least *fifty per cent.* higher. Thus, compared with 1846, we must pay to America from *four* to *five millions sterling* more for our cotton in 1847 than in 1846.

So far, then, our difficulties arise entirely from a scarcity of the commodities which we require for consumption, or of those which would be exchanged for them. But there are some considerations of a purely financial kind, of great importance, which it may be well here to refer to, as likely to have a serious effect upon our condition, in the present low state of the bullion and the reserve in the Bank of England.

First.—During the next five months, the whole of the remainder of the eight millions loan for Ireland will be abstracted from the capital of the country, and being chiefly, if not wholly, destined for the purchase of provisions, will in reality be sent out of the country to meet our foreign payments. The money, it is true, goes to Ireland first, where it is expended for provisions, chiefly imported from abroad, and from the dealers; but it finds its way back to England, to pay the bills drawn against those shipments of foreign grain from abroad, and is transmitted to the United States, to pay the balance of trade created by the imports of food. The greatest part of the *eight millions* loan will, therefore, be an abstraction of the capital of the country to meet foreign payments.

Second.—At the conclusion of the session of Parliament, the railway bills now before Parliament will be either passed or withdrawn, and the deposits at present lying with the Bank of England, amounting, we believe, to about *three millions*, will be withdrawn, and the present deposits of the bank reduced by that amount. Another portion of those companies, who have invested their deposits in securities, amounting, we believe, to about one million, will probably then require to dispose of them, so that funds to the amount of *four millions* will have to be dealt with. It is true that, so far, this is a mere transfer of capital, in the first instance, from the Bank of England to the private bankers of the various companies; but it is capital, which, being now locked up, though used by

the Bank, will then be liberated, and either expended by the companies or divided among the shareholders, in either of which cases some considerable portion of it will be applied to foreign payments, and if not immediately, yet ultimately, it will be in effect the Bank repaying a large portion of these deposits in bullion.

Third.—The most important difficulty which immediately impends over the money market, and which cannot fail to create great uneasiness until it is disposed of, is—that, on the 21st instant, Exchequer bills to no less an amount than 9,000,000*l.* fall due. Now it is certain that, at the present rate of interest, no portion of that sum can be kept out, and that the whole will be sent in for payment unless the rate of interest be very much raised. At the present moment, there are buyers of these securities only at *ten shillings* discount. For some time past it has been evident that the amount of Exchequer bills upon the market has been greater than has been required for the select purposes for which those securities are usually held, and the most economical plan for the Chancellor to have pursued would have been to have funded a portion of them at the time he raised the interest, by which means the remainder might have been kept at the present, or at a further small advance in the rate of interest. As it is, the holders of the 9,000,000*l.*, due on the 21st inst., will require a very large increase of interest to induce them to accept new bills in place of cash. There are three courses open to the Chancellor of the Exchequer. Either he may offer such a rate of interest as will induce the holders to retain the bills, which will be fully *one per cent.* above the rate at which the Government is lending their money—or he may fund an amount equal to the bills now falling due, which could only be done on very disadvantageous terms, and which would cause a considerable fall in consols—or he must be prepared to pay them off. The latter is impossible in the present state of the public accounts.

But with this increasing expenditure, what are our prospects as to income? It only requires that we should reflect

upon the present condition of trade, and the rapid increase in the number of unemployed artisans in the manufacturing districts, to understand to what extent a reduction may be looked for in the customs and excise duties, probably not immediately, but towards the close of the year; for, as we have seen on all former similar occasions, as the duties are in the first place advanced by the importers and dealers, it is some time before a reduction of consumption tells upon the revenue. Under the present high price of food, with a certainty of its continuance for a long period to come—with a scarcity and high price of the chief raw material of our manufacturing industry, forming, as cottons do, about one-half of our entire exports, with the monetarial derangement which exists, and which must sooner or later, if it continues, lead to such a depreciation of property, and, more especially, in railway stock, as will tend to shake individual credit, — looking at all the circumstances influencing our present and prospective position—it is impossible not to feel the most intense anxiety as to the ultimate results.

Such, then, are our difficulties. By what measures shall they be met? Temporary expedients would not infuse confidence, would not even give immediate relief, but might ultimately seriously aggravate the mischief. All proposals for an increase of *currency* are mere illusions. It is not a question of deficient *currency*, it *is* a question *only* of deficient *capital*, or, in other words, of commodities; and anything that does not increase the quantity of commodities can be of no use whatever. It must either be, therefore, by increased economy of the commodities within our reach, or by the creation of new commodities, that any relief can be afforded. The common talk is, that there is too little *currency*—that there are too few *bank notes*. The error thus committed will be best shown by examining the course of the Bank accounts during the last eight months, during which period the Bank has increased its advances on bills discounted by upwards of *six millions*, while the circulation of notes has not increased at all. On the 18th of September, the amount of bills under discount by the Bank

was 12,321,816*l.*, and the amount of notes in circulation was 20,922,232*l.* From that period there has been a gradually increasing demand for money, and applications for advances and discounts have been pressing upon the Bank; so that, on the 5th of April, the amount of bills under discount had increased to no less than 18,627,116*l.*, but the amount of notes in circulation, notwithstanding this increased amount of accommodation, was only 20,815,234*l.*; so that, in reality, while the Bank had increased its advances to the public by 6,306,000*l.*, the bank notes in circulation had rather diminished. What the public required, during all the period referred to, was *capital*, and not *circulation;* and, therefore, when they obtained discounts from the Bank, although paid in bank notes, yet those notes were soon returned to the Bank in exchange for bullion, which is a portion of the absolute capital of the Bank. So that when the Bank discounts bills, although it issues paper in the first place, it must look upon such transactions precisely the same as if coin were given for them. If it would not be convenient to give coin, it cannot be prudent to advance notes, convertible into coin. If the Bank were to discount *two millions* extra to-morrow, it would not sensibly add to the circulation, or the quantity of notes, but it would be found immediately to act in a reduction of the bullion. The Bank may increase or diminish its advances of *capital* at pleasure, but it cannot increase the *circulation of notes* at will, nor can it diminish them until the deposits, which can be acted upon at pleasure, are reduced to the lowest point. This is a point well deserving of attention; for, from this confusion of *capital* and *currency*, a great portion of the popular errors on these subjects is founded. The facts alluded to are so instructive, that we will place them in comparison:—

	Bills under Discount.	Bank notes in Circulation.
	£	£
Sept. 18, 1846	12,321,816	20,922,232
April 5, 1847	18,627,116	20,815,234

The truth is, that we labour under the disadvantage of a great scarcity of commodities, which can be procured only in exchange for other commodities, and *as such* by bullion. But we have parted already with as much bullion as we have to spare; and of other commodities, owing to their scarcity, the prices are generally not low enough to enable us to export them to a foreign market. Our capital is inconveniently diminished. It behoves us, then, to see if there is any part of it which is at present idle and unproductive, and which could be called into active service. This is a moment when economy on all hands must be studied, and especially is it incumbent upon us to see that none of our exchangeable commodities are unproductive and useless.

There are various modes by which we have already done much to economise capital. By the system of banks of deposit, all the spare capital, from day to day, is collected from the public, and forms in the hands of bankers a large fund, with which they make advances to those who are willing to pay for them, by discounts and otherwise. Without this system, all this fund would be scattered through the country in small sums, locked up in chests or cash boxes, and remain absolutely idle. The economy so accomplished is just the same as if so much additional wealth were added to the country. Another source of economy has been the substitution of paper for coin, the former being convertible into the latter at pleasure, a sufficient qaantity of which being always kept on hand, in order to secure such convertibility. Whatever amount of capital has been saved by these means, has been so much actual addition to the commodities of the country, and has increased to that extent our power over the commodities of other countries by means of exchange. In order to see if there is any further important economy which we can safely avail ourselves of, let us shortly institute an examination into the nature of capital and the functions of currency.

NATURE OF CAPITAL AND FUNCTIONS OF MONEY.

That we may be able the more clearly to discover whether we possess any *safe* means of further economising the capital of the country, or rendering it more effective, let us shortly examine the various steps by which wealth advances, and the laws by which commodities constituting that wealth are distributed.

Capital consists only of those commodities which each man saves from his annual production: until such accumulation takes place, there is no capital. The first step, therefore, in the formation of capital is, that a man does not consume all he produces. The next step which experience has taught the world is, that division of labour, more than any thing else, aids and facilitates the power of accumulation. That a man occupying his whole time at any one employment, will produce more, and that more perfectly, than if he was producing a variety of articles. But the adoption of this practice necessarily led to the necessity of an exchange of commodities between the different producers. Each member of a community finds that he can procure any particular article at less cost of labour, by exchanging the article that he himself makes with what he requires, than by making it himself. Hence, each man labours at one class of production, and exchanges with others the surplus of his produce for so much of the surplus articles of each of his neighbours as he requires for his own use. A division of labour, therefore, immediately led to the system of barter.

The difficulty and trouble of always ascertaining the *relative value* of various commodities, which of course was always changing in proportion to their supply and demand, led to great loss of time and inconvenience. A cwt. of sugar might be worth a quarter of wheat at one time, and by sugar becoming scarcer, or by wheat becoming more abundant, it might at another time be worth a quarter and a half. Just in proportion as articles were subject to sudden and great in-

crease of supply or of demand, it is obvious would their exchangeable value with other articles fluctuate. It became, therefore, evident, that if any one commodity could be found that neither fluctuated in its supply or demand, and, therefore, retained one uniform and unchanging value, it would be an enormous economy of time and labour, to adopt that commodity as a *standard* in which the value of every other article should be expressed. No such article, however, did in reality exist; but the closest approximation to it was found in the precious metals—gold and silver—which have been respectively adopted as *standards* by which the value of every other article is expressed or measured. The intrinsic value of gold and silver, like all other commodities, is regulated solely by the labour expended in procuring it. After the *standard of value* was agreed upon, no more diffiulty could arise as to the relative value of other commodities, even though the system of barter had been adhered to. If a man had two quarters of wheat to exchange for sugar, he knew how much gold his wheat was worth, and he would receive as much sugar as was worth the same quantity of gold. But it was soon found that the exchange of commodities would be further greatly facilitated by the introduction of a general medium of exchange, as well as the adoption of a standard of value. The same commodity which had been adopted as a standard of value, offered, on many accounts, the best medium of exchange; the qualities of which must be, that it always conforms in value with the standard, that it presents in itself the greatest value in the smallest bulk, and is, therefore, more easy of transport, and that it is less than any other article subject to decay in the use. But the whole object of the adoption both of a standard of value and of a medium of exchange, is to facilitate the exchange of commodities: they are simply instruments to that end, and no other. But it is plain that the quantity of the *circulating medium* necessary for a country will not depend upon the quantity of commodities which it possesses at any time, but by the rapidity with which they are exchanged. A *circulating medium*, therefore, never can alter or control the

intrinsic value of commodities, but being an instrument only for their exchange, must be controlled in its quantity by the commodities, the exchange of which it represents.

When gold had thus been adopted, first, as a standard of value, and next, as a circulating medium, another step soon suggested itself, by which a still further facility could be obtained in conducting the exchange of commodities. A great deal of time was consumed in weighing and assaying the gold presented in payment, and in calculating any difference which its quality bore to the standard quality. In order to get rid of this difficulty, the system of money was invented, by which the metals were coined in pieces of a certain weight, and of certain fineness, bearing the stamp of the mint as a guarantee for the weight and fineness; so that, in all ordinary transactions, the simple operation of counting relieved the public of all the trouble of weighing and assaying. We have thus seen that the steps in the creation of capital, and the establishment of a currency, are these:—

First.—All capital is the saving or accumulation of labour.

Second.—To facilitate this accumulation, a subdivision of labour, by which each man adheres to one employment, was adopted.

Third.—That this led to the neeessity of barter.

Fourth.—That, in order to facilitate barter, one commodity was fixed upon as a standard, in which the value of all others should be expressed.

Fifth.—That, further to facilitate the exchange of commodities, the standard of value was adopted as the medium of exchange.

Sixth.—As a further facility, the commodity used as a medium of exchange was coined into pieces, of a given uniform weight and fineness, guaranteed by the stamp of the mint, called Money.

Now, here we would claim the special attention of the reader to a fact which has been much overlooked, even by those to whom all the above propositions are perfectly plain and familiar. In a state of barter, commodities will be supplied to

a community just in proportion as they are required for ordinary uses; gold and silver will be imported in exchange for the produce of the country just in proportion as they are required for the ordinary uses of plate, ornaments, &c. But when a country is so far advanced that it determines to adopt gold as a standard of value, and as a circulating medium, it must be prepared to give up and devote to that purpose a certain portion of its capital or accumulations. The money circulating in a country is a certain portion of the capital of the country, absolutely withdrawn from productive purposes, in order to facilitate or increase the productiveness of the remainder. A certain amount of wealth is, therefore, as necessary, in order to adopt gold as a circulating medium, as it is to make a machine in order to facilitate any other production. The process is this:—Suppose in a country a system of barter existed. The commodities produced over and above the consumption of the country, would be sent abroad and exchanged for foreign products, to the extent and in the proportion as each commodity was used in the exporting country. Among the articles so imported would be gold and silver; but only to the extent to which the community required them for general use, for plate, ornaments, &c. In such a state, let a country determine upon adopting gold money as a circulating medium. It is quite clear, if the country does not produce gold, a sufficient quantity must be imported for that purpose; and in order to do this, a correspondingly larger quantity of the commodities produced at home must be exported, in order to obtain the requisite quantity of gold, which is to be used as an instrument for the exchange of commodities in general. The commodities, therefore, which are thus exported for such gold are so much absolutely abstracted from the general capital of the country, in order to facilitate the exchanges of the remainder, and the expense of supporting such a currency is borne by the community, just in proportion as they use it, in the following way:—The whole of the money in use is scattered over the community, but no one receives any interest for what he holds. If he borrows, he pays interest, but for any portion

which he holds in his possession he receives none. If it is his own money, received in exchange for his own labour or produce, as long as he keeps it in his possession he receives no interest. Thus the money actually in circulation at any time is totally unproductive; and it is an expense which the community go to, in order to render the remainder of their capital more productive, by facilitating exchanges. On this account, the smallest quantity of money consistent with the convenience of business will, as a rule, be kept in circulation. Adam Smith describes money as bearing a resemblance to machines or instruments for facilitating production, thus :—

First, as those machines and instruments of trade, &c., require a certain expense, first to erect them, and afterwards to support them, both which expenses, though they make a part of the gross, are deductions from the neat revenue of the society; so the stock of money which circulates in any country must require a certain expense, first to collect it, and afterwards to support it; both which expenses, though they make part of the gross, are, in the same manner, deductions from the neat revenue of the society. A certain quantity of very valuable materials, gold and silver, and of very curious labour, instead of augmenting the stock reserved for immediate consumption, the subsistence, conveniences, and amusements of individuals, is employed in supporting that great but expansive instrument of commerce, by means of which every individual in the society has his subsistence, conveniences, and amusements, regularly distributed to him in their proper proportions.

Secondly, as the machines and instruments of trade, &c., which compose the fixed capital either of an individual or of a society, make no part either of the gross or of the neat revenue of either; so money, by means of which the whole revenue of the society is regularly distributed among all its different members, makes itself no part of that revenue. The great wheel of circulation is altogether different from the goods which are circulated by means of it. The revenue of the society consists altogether in those goods, and not in the wheel which circulates them. In computing either the gross or the neat revenue of any society, we must always, from their whole annual circulation of money and goods, deduct the whole value of the money, of which not a single farthing can ever make any part of either.

Money, therefore, the great wheel of circulation, the great instrument of commerce, like all other instruments of trade, though it makes a part, and a very valuable part, of the capital, makes no part of the revenue of the society to which it belongs; and though the metal pieces of which it is composed, in the course of their annual circulation, distribute to every man the revenue which properly b longs to him, they make themselves no part of that revenue.

Thirdly, and lastly, the machines and instruments of trade, &c., which compose the fixed capital, bear this further resemblance to that part of the circulating capital which consists in money; that as every saving in the expense of erecting and

supporting those machines, which does not diminish the productive powers of labour, is an improvement of the neat revenue of the society; so every saving in the expense of collecting and supporting that part of the circulating capital which consists in money, is an improvement of exactly the same kind.

We thus see that, in maintaining a gold currency, the country absolutely loses not only the whole interest of so much capital, but also a sum equal to the wear and tear of the coin. Any means, therefore, by which the currency can be economised, by which the same facilities can be with equal *certainty* and *safety* performed without the use of coin, offers means of absolutely adding to the available and productive capital of the country. Without the adoption of such economical facilities, the wealth of a country would be enormously retarded. Suppose that, for every transaction in business, coin were actually used as the medium of payment, the amount of capital or commodities that it would be necessary to part with, in order to import a sufficient quantity of that metal (even were it possible to get it), would be enormous; and by such an addition to the coin, the country would be correspondingly impoverished, or, in other words, deprived of the ordinary quantity of the other commodities of general consumption, which would have been imported had not the gold been required. Bills of exchange, when used to pass goods from hand to hand, and the use of cheques upon bankers, by which the command over money is transferred from one to another, are the chief and most extensive means used by merchants themselves to economise the use of money. But the most important and most perfect means for effecting such economy, has been the substitution of bank notes, payable on demand.

But it is perfectly plain that no substitute for coin can be perfect or safe, that does not in every respect perform exactly the same operations, that does not follow the same laws in the fluctuations of its quantity, and that does not in every respect conform to the coin itself. Admitting this principle in the most unqualified way, in order to enable us to test the qualities which any substitute should possess, let us shortly examine

what are really the offices performed, and the character of the fluctuations which take place, under a purely metallic currency.

THE OPERATION OF A PURELY METALLIC CURRENCY.

If we used only a metallic currency, the business of the Bank of England would be precisely the same as that which is now conducted in the banking department. The issuing of paper constitutes no necessary part of the business of the Bank of England or any other Bank. The business of all banks in such case, which would be the same as many banks at this moment, would be to receive deposits of money from the public, for its safe keeping, and, as their agents, to make whatever payments they ordered. But, as a banker must incur a great expense for the convenience of his customers, he is allowed to use such portion of his deposits in discounting bills, or in holding interest-bearing securities, as he can, with safety to himself, considering his liability to pay these deposits on demand. By this means the banker acquires a fund, in addition to his own capital, by which he can advance money to such of his customers who require to borrow it, taking what he considers good security for its repayment; and the profit which he thus derives enables him to perform the business of his customers without any charge. It is, however, evident that the first consideration for a banker must be, that he at all times should keep such a quantity of his money unemployed as will meet any probable demand upon him—that this quantity must have a reference, first, to the entire amount of deposits which he holds, and next, to the circumstances which at any particular period renders it likely that his customers will require more than usual of their money.

With a purely metallic circulation, the Bank of England would have its own capital and the deposits of its customers only to deal with. The deposits would be made in coin only (or in bullion, by an arrangement for that purpose, by which the Bank would receive bullion at a small reduction from

its value in coin, to pay for the trouble and loss of time in sending it to the mint to be coined, as at present). In addition to its own capital, the Bank uses such portion of its deposits as experience proves to be safe and prudent, in public securities and in discounting bills of exchange. The deposits of the Bank in this case would vary as they do now, just in proportion as the unemployed money of the community increased or diminished. Gold is a commodity which is imported, like other commodities, only when it offers to the merchants the greatest inducements. As long as wool, or silk, or tallow, or any other commodity is scarce at home, and offers a profit to import, no merchant will buy bullion; but when the stocks of all other commodities are so full, that the prices at home are such that it will not answer the purpose of the merchant to import them, then he has recourse to bullion as the most profitable return. So that bullion is never imported except when the stocks of other commodities are large, and their relative prices in this country and others such as will not remunerate the importer. Then bullion is taken as the best mode of balancing the exchanges. The merchant, importing gold, places it in the Bank of England, as the merchant importing wool places it in the London Docks. But the use which the Bank may make of the gold while they hold it, enables them to do so without any charge for rent or risk; while the Dock company, having no use of the goods placed in their hands, charge a rent. The process, therefore, of an increase of deposits in the Bank, would always infer a great increase of the stock of other commodities beforehand; that is, in short, a general abundance of capital. A decrease of the deposits of the Bank would infer exactly the opposite state of things. If we required to import commodities from abroad, we should first send such other commodities as bore a profit, the price of which, from their abundance here, was less than the price abroad; and it would not be until our general stocks of other commodities were so much reduced, and the prices were so high, that no profit would be derived from their export, that gold would be sent to make a foreign

payment. So that, as an influx of gold implies a great abundance and low price of all other commodities, so an export of gold implies a great scarcity and high price of all other commodities. As a commodity, the price of gold is so uniform in all places, and at all times, that it is seldom used as an article of commerce between nations, except under the peculiar circumstances described; or, in other words, to balance the exchanges of other commodities. When, therefore, the deposits in the Bank were increasing, it would be an evidence of a great abundance of those commodities which constitute the floating capital of the country, and when they were decreasing, it would be an evidence of the great scarcity of such commodities.

The deposits held by the Bank would be a fund altogether different from the coin in circulation, over which the Bank could exercise no *immediate* control. Suppose a community required a circulation of twenty millions to perform its internal operations of business, and that that quantity of coin was in circulation; there would be no possibility, on the part of the Bank, of increasing that amount of circulation, as long as only the same amount of transactions was performed, for no one would take money from the bank, and pay interest for it, to keep it idle in his possession. If, under those circumstances, the Bank were able to increase the amount of their advances, by discounting more bills than were sufficient always to return into the channels of circulation, the same amount as flowed in from day to day, either as payments of former advances falling due, or as deposits on private accounts, or in payment of the revenue of the State, always supposing that the circulation had been exactly sufficient for all internal exchanges before; then such further advances made by the Bank could only be, either for the purpose of transmitting the bullion abroad, or for the purpose of using it as an article of manufacture, for plate or ornaments. Such advances, therefore, would not add to the circulation, but would be a reduction from the capital of the Bank, until replaced, when the security on which the advances had been made became due. And as the Bank cannot add to the circulation by merely increas-

ing its usual advances, so neither could it diminish the circulation by withholding such usual advances, as long as so many persons held deposits with their bankers, upon which they could draw at pleasure. Any attempt on the part of bankers to contract the circulation below the required amount would immediately lead to a reduction of the deposits; and, until such deposits were reduced to the lowest point, would prove unavailing. We are all along referring to what would take place with a purely metallic currency. But there are means by which a larger circulation may be induced in the one case, and a smaller one in the other case. At a period of great plenty and abundance, we have already seen that the deposits in the Bank would increase, in consequence of an import of bullion. The difficulty to employ the deposits to the extent to which the Bank would judge it safe to do so, would induce it to lower the rate of discounts; and this at a moment, too, when the cheapness and abundance of commodities would be tending to create an increased demand for the manufactures of the country, owing to their cheapness; the two causes combining —a greater demand for cheaper commodities, and a lower charge for the use of money—would lead to a more extensive trade, and fuller employment; and thus the quantity of circulation required would be greater; but all that the Bank can contribute towards such a result, is by reducing the rates of interest, which is of itself one of the component parts of the calculation of every commercial operation.

To the way in which a contraction of the circulation, were it purely metallic, would take place, we claim especial attention, as being very important to our considerations hereafter. We have already shown that an export of gold occurs when we have such a diminution in the stock of commodities generally, that it becomes unprofitable to export them to a sufficient extent to pay for our imports. From whatever cause this scarcity of commodities at home proceeds—whether from a very undue investment of the floating capital of the country in public works, which had stimulated an enormous consumption of everything, without reproducing the same commodities, or anything that would exchange for them—or whether from a great deficiency of our own crops at home—or whether from a great deficiency of the crops, and, consequently, the scarcity and high price of those raw materials, by which our manufacturing industry is kept employed—or whether from all these causes combined—it is the most certain evidence of a diminished floating capital. At the commencement of such a period, let us suppose that the Bank accounts stood thus :—

Capital	14,500,000	Government Securities	10,000,000
Rest	3,500,000	Bills of Exchange	12,000,000
Deposits	12,000,000	Bullion or Coin	8,000,000
	30,000,000		30,000,000

This would have been nearly the state of the Bank six months ago, leaving out of consideration its issues of notes altogether, and supposing a purely metallic currency. The Bank would have advanced 22,000,000*l.* of coin on Government securities and bills of exchange, retaining 8,000,000*l.* unemployed as a reserve. But as their only liability would have been that of 12,000,000*l.* to depositors, the reserve of 8,000,000*l.* would be considered much too large, and a low rate of interest would be charged to try to employ more of it, probably *three per cent.* In this state of things, a period of scarcity has set in—our imports are increasing, and a demand for capital exists to pay for them. The Bank is willing to discount at *three per cent.* The first fund the merchants apply to, therefore, is the reserve of the Bank, which generally sinks, while the bills under discount are increasing. The Bank, finding the demand upon it increasing, raises the rate of discount; and goes on until it has reduced the reserve of coin to as low a point as it is prudent to preserve against the liability of deposits—say to 4,000,000*l.*; while bills under discount have risen to 16,000,000*l.*—the sum of 4,000,000*l.* having been exported for corn. At this time the Bank accounts would stand thus :—

Capital	£14,500,000	Public securities	£10,000,000
Rest	3,500,000	Bills discounted	16,000,000
Deposits	12,000,000	Bullion or coin	4,000,000
	30,000,000		30,000,000

The demand is unsatisfied. Corn continues to rise, and more is imported and must be paid for. The Bank is unable, with safety to its own solvency, and looking to the claim of 12,000,000*l.* due to depositors payable at call, to allow any further reduction in its reserve fund. By a high rate of interest or by limiting discounts, a pressure is thrown upon the deposits, which consist chiefly of the reserve balances of various bankers and private persons, and as they are reduced to pay for the imports of grain, the bullion sinks in proportion. But it must be plain, that when the deposits had sunk to 9,000,000*l.*, the whole reserve coin, except 1,000,000*l.*, would be exhausted; and therefore, in order to prevent this great reduction, the Bank would be obliged, during this operation, to limit its discounts daily to a sum much less than the amount falling due, so that, while its deposits diminished, the advances on bills should diminish likewise; or the Bank would sell a portion of the public securities, but as they are generally, at such a time, at a low price, it is more likely that it would depend upon limiting its advances upon bills. Supposing that the Bank held it as a rule not to be departed from, that it should hold at least *one-third* of its deposits as a reserve, then, to meet a reduction of the deposits to 9,000,000*l.*, a reduction must be made in the amount advanced on bills of 2,000,000*l.* At this point, the account would stand thus:—

	£		£
Capital	14,500,000	Government Securities	10,000,000
Rest	3,500,000	Bills Discounted	14,000,000
Deposits	9,000,000	Bullion or Coin	3,000,000
	27,000,000		27,000,000

The pressure created by diminishing the discounts by 2,000,000*l.* at such a time, when a great demand for capital prevailed, would be intense. But, suppose the demand for foreign grain still unsatisfied, and the deposits finally sunk to 4,500,000*l.* —against which the Bank would hold a reserve of 1,500,000*l.* —the bills under discount would have to be reduced, or public securities would have to be sold, to the further extent of 3,000,000*l.* The amounts would then stand thus:—

	£		£
Capital	14,500,000	Public Securities	10,000,000
Rest	3,500,000	Bills under Discount	11,000,000
Deposits	4,500,000	Bullion or Coin	1,500,000
	22,500,000		22,500,000

During a portion of this time, while the advances on bills had been reduced from 16,000,000*l.* to 11,000,000*l.*, the amount of circulation withheld by the Bank's limiting the discount, would be supplied from the sums withdrawn from the deposits. But in such a state of things, with a scarcity and high price of raw materials, with a diminished demand for goods, owing to the exhaustion of people's means, for the payment of food, the trade of the country and the amount of employment would rapidly diminish; and with them the amount of circulation required. The amount of the circulation thus liberated would be used for the payment of foreign corn. Thus, with a purely metallic currency, in all cases the circulation would be acted upon last, and as an indirect consequence of other causes, both in the case of an import and an export of bullion—and it would only be in extreme cases that the circulation would be acted upon at all; for—in the case of an adverse exchange, which only went so far as to reduce the reserve of coin in the Bank to the proper proportion to the deposits, and there stopped—a considerable export of bullion might take place, without any derangement of business, or any sensible contraction of the circulation. During an influx of bullion, the effect would be—

First.—To increase the deposits, and correspondingly the reserve of bullion.

Second.—To increase the securities, and, if discounts were not required, by advances on stock at a low rate of interest; and

Third.—By the establishment of a low interest ultimately to promote more active business, and to increase the circulation through advances on bills.

During an export of gold, the effect would be—

First.—To draw upon the reserve of coin in the Bank (by discounting more bills), which the Bank held over and above the quantity required to protect their deposits.

Second.—To draw upon the deposits held by the Bank, which could only be done, partly by a reduction of securities, and partly by a reduction of the coin in hand; and

Third.—As a consequence of these measures, and other causes, to contract trade and reduce the circulation.

So that, as Mr. Tooke has always contended, the first effect of an import or export of gold to correct the exchanges, is felt exclusively on the reserve of bullion held in the Bank.

Such would be the operation of a purely metallic currency; and it will be seen that, under the circumstances supposed, of an adverse exchange, arising from the necessity of importing a large quantity of corn, at a time when our other commodities were much exhausted, a pressure of great magnitude must be experienced by the commercial classes; when a reduction of the amount of bills under discount becomes needful in consequence of a withdrawal of the deposits. And if it is not possible to avoid this evil under a purely metallic currency, how can it be expected to be accomplished by any contrivance with a mixed currency? The whole amounts to this—great ease is the accompaniment of abundance, and great difficulty and pressure, of scarcity, which cannot be remedied by any artifice which does not give greater abundance of commodities. By other schemes, the burden may be shifted from one shoulder to another, but it cannot in reality be lessened.

HOW CAN THE CURRENCY BE ECONOMISED?

Having shown that all the precious metals used as a circulating medium are so much of the wealth or the capital of the country, abstracted from reproductive uses, in order to be used as an instrument for exchanging other commodities; and

having shown the practical operations of a purely metallic currency; we now come to consider how far cheaper substitutes may be used, and to what extent the expensive commodity of gold may be liberated, in order to add to the real and reproductive wealth of the country. We lay it down as a clear and undeniable rule that, whatever substitute be adopted, it must be upon a principle which will secure to it *an identity of exchangeable value with the coin which it represents;* and that, in all its changes, under any circumstances, it should be found to follow the *same course precisely as a purely metallic currency* under similar circumstances.

We have already remarked that the most perfect instrument by which the currency can be economised, and by which gold can be liberated from an unproductive to a productive use, is by means of bank notes, to be used as a substitute for coin. But, in order that these bank notes should at all times be identical in value to the coin they represent, and express equally the value of commodities in relation to the adopted standard, it is absolutely necessary that they should be convertible, at the pleasure of the holder, into the coin they represent; so that whatever purpose the coin could serve might be equally well performed by the note, or if not—as, for example, a foreign payment—that the note would instantly, and without loss of time, command the coin itself. That such a condition, attached to a bank note, must at all times, while the condition is complied with, make it in every respect identical with the coin, is to us self-evident; admitted, too, by all the first authorities on the subject. Adam Smith says:—

> A paper money, consisting in bank notes, issued by people of undoubted credit, payable upon demand, without any condition, and, in fact, always readily paid as soon as presented, is, in every respect, equal in value to gold and silver money, since gold and silver money can at any time be had for it. Whatever is either bought or sold for such paper, must necessarily be bought or sold as cheap as it could have been for gold and silver.

If there be any difference of opinion on this subject, among men whose opinions are worthy of respect, we think it more apparent than real.

From Sir Robert Peel's speech on the introduction of the Bank Bill, in 1844, it might be inferred that he doubted the efficacy of mere convertibility, as a security against depreciation, and for constant identity of value between the note and the coin. But, looking to the provisions of the bill, it would rather appear that Sir Robert Peel did not so much dispute the principle itself, as that he considered some further restriction to be necessary in order to secure a fulfilment of the condition on which the note was issued—namely, payment on demand. We come to this conclusion from the fact, that the bill of 1844 depends on no other principle, against depreciation of bank notes, except convertibility at pleasure, though it does provide a guarantee that that convertibility shall be certain, by imposing the necessity of keeping a large reserve of coin against the notes issued. Now, no one will deny that *certainty* of payment on demand is a necessary condition to maintain an identity of value between a bank note and the coin it represents. But whether that certainty is derived from a faith in the ability of the issuer always to pay when called upon, or from a reserve of coin, held voluntarily by the issuer, or from the same being held compulsorily by an act of Parliament, can make no difference. As long as the holder of the note is satisfied that he can at pleasure receive coin for it, it is the same value to him; and, when he doubts that fact, he carries it to the issuer for payment. So that, till the issuer actually ceases to pay, no depreciation can take place. We may, then, take it for granted that all are agreed that a *certainty* of convertibility at pleasure, from whatever that certainty is derived (which may be a proper subject for discussion hereafter), is a perfect guarantee against depreciation of bank notes, and for their maintaining an identity of value with coin. If this be the case, then it will be readily admitted that all the fluctuations and changes which take place in a currency composed of coin, and bank notes convertible into coin, must be exactly the same as would take place under a purely metallic currency; and, therefore, that such bank notes, so guaranteed, perform all thefunctions of a measure of value

and a medium of exchange, as perfectly as gold. It is, however, quite plain that, in order to secure the convertibility of such notes into gold at all times, the issuer must hold in his possession, or the immediate command over it, such a stock of gold as will meet any probable demand upon him for the payment of such notes—the remainder being held in good interest-bearing securities; and, therefore, only a certain portion of the gold, liberated by the substitution of notes, can be applied to other and productive purposes. By this substitution, the public gain in two ways—first, by the addition of such part of the gold thus absolutely liberated, to the general capital of the country; and, secondly, by the saving of the wear to which such coin is always subject.

Before while we inquire how far we have availed ourselves of this great source of economy, by which the capital of the country is so much increased, we will consider how far some other countries have done so.

THE CURRENCY OF HAMBURG.

The commerce of Hamburg is conducted entirely by silver, without any economy whatever in its use as capital. They do, however, save the wear of the metal, by depositing it in the vaults of a bank, and transferring it from one to another by means of written cheques upon the Bank. The Bank of Hamburg is exclusively a bank of deposit. It receives silver into its vaults, crediting the depositor with the amount he pays. The Bank possesses no capital, and, therefore, the silver in the vaults of the Bank is always exactly the amount of the deposits. The depositors withdraw from, or add to, this amount of silver at pleasure. The commerce of the town is then carried on by cheques or orders, given by the buyer to the seller, which orders being paid into the Bank, the amounts are transferred from the credit of one account to that of the other. The Bank, therefore, neither discounts bills nor makes any advances whatever upon securities. Therefore, as the Bank of Hamburg has no means of making a profit by the

use of any part of the bullion deposited with it, any more than the proprietors of the London docks have of using any part of the goods deposited with them, it becomes necessary that the depositors of the Bank shall pay for this safety and convenience they derive in their treasure being thus kept. All the economy which the Hamburg people derive from banking, therefore, is—they save the wear to which the metal would be subjected if it actually passed from hand to hand; but for this they pay certain charges to the Bank. We do not know the exact amount of silver thus deposited with the Bank of Hamburg; but taking it on an average at 4,000,000*l.* sterling, then that amount of capital is entirely withdrawn from all productive purposes, for the facilitating of exchanges. Taking it, on an average, to be 4,000,000*l.*, and supposing that when capital is very abundant, it sometimes increases to 5,000,000*l.*, and, on the other hand, when capital is very scarce, it diminishes to 3,000,000*l.*, and never below it, we see how much banking capital is thus unproductively locked up, which might be usefully engaged in making advances on good securities, and in discounting bills of exchange. If the Bank of Hamburg kept at all times a reserve of silver equal to one-third of its deposits, the remainder might be used as active capital, and the depositors (it being a public establishment not seeking to derive a profit) would, in place of paying for the safe keeping of their capital, receive a certain amount of interest derived from its use. As a matter of fact, the rate of interest is more fluctuating in Hamburg under this system than in any other capital in Europe; the changes often being equal to 1 per cent. week after week.

THE CURRENCY OF FRANCE.

In France, the currency is of a mixed character, and the capital of the country is economised, not only by the use of the deposits in the banks, but also by a portion of the circulation being in paper. We will leave out of consideration the local and private banks, and glance only at the Bank of

France, as the most important establishment. The business of the Bank of France is, in effect, precisely similar to that of the Bank of England; it is a bank of deposit and of issue, combined in one, as the Bank of England was, in form, prior to the bill of 1844, and is still in reality. The Bank of France, like the Bank of England, has a capital of its own, receives deposits from its customers, issues notes payable on demand, and advances its funds on public securities, and in the discount of bills; and it is thus enabled, while it affords great facilities to the commerce of the country by these advances of capital, to pay a good dividend to its proprietors, without any charge to its customers. On the 15th of last month the accounts of the Bank of France stood thus, converted into sterling money:—

Liabilities.	£	Assets.	£
Circulation of notes....	10,880,000	Bills under discount, &c.	9,400,000
Deposits	2,720,000	Bullion or coin.....	4,200,000
	13,600,000		13,600,000

The notes of the Bank of France are payable on demand, and so, being convertible into silver at the pleasure of the holder, perform equally well all the uses which coin would perform. So that, compared with the system used by the Bank of Hamburg, the Bank of France, between its deposits and its issues, supplies capital, which would otherwise be, in a great measure, useless, to the extent of 9,400,000*l.* And in order to secure to the public the payment of their deposits and the notes in circulation, a reserve of 4,200,000*l.*, in bullion, remains in the vaults of the Bank.

As the Bank of France issues no notes below the value of *five hundred francs*, or 20*l.*, the currency of the country cannot by this means be economised to any greater extent than in as far as notes of that and higher denominations can be used. The whole of the remainder of the currency is performed in silver. The economy, therefore, practised by the Bank of France, though affording many millions of capital to the public (which would otherwise be locked up unproduc-

tively) in performing the functions of a circulating medium, is extremely imperfect. In notes of 20*l.* each, it circulates 9,400,000*l.*; against which it holds bullion, say, to the amount of 3,200,000*l.*; the remaining 1,000,000*l.* of its bullion being supposed to be held in reserve against the deposits. By this means, therefore, the capital of France is thus economised or augmented, by—

	£
The amount of circulation of notes	10,880,000
Deduct the bullion held in reserve to secure the convertibility of the notes	3,200,000
	7,680,000

Thus, 7,680,000*l.* of additional capital is obtained by France, just as much as if that quantity of silver were dug from a mine in one of her provinces. But still the extent to which this economy is carried is extremely imperfect. Let us compare it with the Bank of England, and see how much more capital France would really economise, and render available for all her purposes, if the Bank of France carried the principle to the same extent as is done by the Bank of England. The Bank of England issues notes of the denomination of 5*l.* and upwards. On a recent day, the whole circulation of the Bank of England was thus composed :—

	£
Notes of 5*l.*	6,100,000
Notes of 10*l.*	3,900,000
Notes of 20*l.* to 100*l.*, both inclusive	5,700,000
Notes of 200*l.* to 1000*l.*, both inclusive	4,300,000
	20,000,000

So that the notes under 20*l.* were exactly 10,000,000*l.*, and the notes of 20*l.* and upwards were also 10,000,000*l.* Supposing, therefore, that if the Bank of France were to extend their issues to notes of the same denominations as the Bank of England does, and that the amount of the smaller notes would bear the same proportion to those of 20*l.* and upwards, in France as in England, then the circulation of the Bank of France would be increased by 10,880,000*l.* in addition to its present amount. But this additional circulation of notes would not

increase the circulating medium of France by one franc, but would only displace so much silver, and liberate it from the unproductive purposes of a circulating medium, and give it to the country as an increased amount of capital, for foreign payments or any other objects. In issuing this additional quantity of notes, the Bank would, of course, be obliged proportionably to increase its reserve of bullion, to secure their convertibility at all times. The mode would be thus :—The Bank would issue, in payment of its deposits, in advances upon securities, and in exchange for bullion, the notes in question to the extent of 10,880,000*l.*; as the bullion increased in its vaults, it would extend its accommodation to the public by additional discounts of bills, or it would increase the amount of its interest-bearing securities, retaining always a sufficient additional proportion of bullion to secure the convertibility of its notes. At the conclusion of the operation, the accounts of the Bank of France would stand thus, supposing the deposits to remain the same :—

Liabilities.	£	Assets.	£
Circulation	21,760,000	Securities	17,080,000
Deposits	2,720,000	Bullion and coin held against the circulation	6,400,000
	24,480,000	Ditto against the deposits	1,000,000
			24,480,000

So that such a change would accomplish an economy of capital, thus :—

	£
Circulation of notes	21,760,000
Deduct bullion held as a reserve to secure their convertibility	6,400,000
	15,360,000

Thus, besides absolutely adding to the capital of the country, after retaining a corresponding increased reserve of coin, the sum of 7,680,000*l.*, this step would save the country the great expense caused by the wear of the coin, and the

enormous inconvenience which attends a circulation of *five franc* pieces, carried about in bags. The introduction of this large economy is now contemplated by France.

THE CURRENCY OF RUSSIA, AND ITS CURIOUS EFFECTS IN THE RECENT TRANSACTIONS OF THE RUSSIAN GOVERNMENT.

We will next consider the state of the Russian circulation. It is most interesting and instructive. The money of account of Russia is the rouble—a silver coin equal in value to 38*d.* or 40*d.* sterling, according to the rate of exchanges. Originally, the rouble was a silver coin only; but at a very early period the Government, to aid its finances, issued *paper roubles*, which, for a time, while their quantity was small, circulated at the full value of the silver rouble. In the course of time, as the necessities of the Government pressed, the amount of paper roubles was increased in payment of the Government expenditure beyond the wants of the country; and as there was no provision made for their convertibility into coin, they gradually pressed the latter out of circulation altogether, and were rapidly depreciated in value. This process went on until, at last, the paper rouble, originally worth 38*d.* or 40*d.* sterling, exchanged only for 11*d.* to 11½*d.* sterling in the transactions between Russia and England. In order at length to correct this abuse, and to restore the circulation to a sound footing, the Emperor, by an imperial manifesto, dated the 1st of July, 1839, ordained the adoption of cash payments, by making the paper roubles in circulation payable in silver on demand. To have done this at the original rate at which they were issued, or rather which they originally bore—that of 38*d.*—or *one rouble paper* for *one rouble silver*, would have been manifestly unjust to the country; nor did justice to the holders demand it, as they had all obtained them at the depreciated value of about 11*d.* The *paper roubles* were, therefore, by this ordinance, made payable on demand in *silver roubles*, in the proportion of 3½ of paper to one of silver, which indicated the real value. This is a remarkable

example of the effects of inconvertibility in producing depreciation. But since the 1st of January, 1840, when the ordinance referred to first took effect, no further depreciation has taken place, but 3½ *paper roubles* are for all purposes taken for 1 *silver rouble*, for the simple reason that the Government is always ready to convert the former into the latter at this rate. Convertibility at pleasure is thus proved to be a sufficient guarantee against depreciation. This act was similar in principle to our resumption of cash payments in 1819, though not accomplished in precisely the same way.

But the Russian government did more. The Commercial Bank of St. Petersburg, under the superintendence of a mixed Board of Directors, composed of Government Bank officers and eminent merchants, was empowered to receive deposits of specie, and to issue against those deposits new bank notes representing silver roubles (intended ultimately to displace the old notes, of which 3½ are equal to one of the new ones, as long as they circulate together). This bank has carried on these operations since January 1, 1840, and has up to this time accumulated deposits of specie, for which it has issued notes, payable on demand, to the amount of 114,000,000 roubles,—or, about 19,000,000*l.* sterling; so that the present account of this bank stands thus:—

Liabilities.	£	Assets.	£
Notes issued	19,000,000	Bullion	19,000,000

It is understood that the convertibility of the whole circulation of paper, including the *old paper rouble*, (the amount of which is not known,) depends upon this fund of bullion.

The Government officers and directors of the Bank have come to an opinion that this bullion of 19,000,000*l.*, locked up in the fortresses of St. Peter's and St. Paul's, is much greater than is necessasy to hold as a reserve against the circulation of notes, and that they may thus safely employ a portion of it, in interest-bearing securities,—and as such have determined to invest 30,000,000 of roubles, or at the exchange of 40*d.*, 5,000,000*l.* sterling, in "*home and foreign stock.*"

When this is accomplished, the accounts of the Bank will stand thus:—

Liabilities.	£	Assets.	£
Circulation	19,000,000	Securities	5,000,000
		Bullion	14,000,000
	19,000,000		19,000,000

Of the safety of which, as a bank arrangement, there can be no doubt; and as it is essentially a Government bank, the interest or profit is to be used for the benefit of the public, in liquidating liabilities of the Government.

Thus, the loan of the Emperor of Russia, which has excited so much interest during the last week, is neither more nor less than the adoption of an economy of banking capital.

THE SCOTCH SYSTEM OF BANKING.

In this system, the most perfect freedom existed up to 1845, and even now the restrictions placed upon it by law are less than on any other system of banking recorded in history; and under it the economy of Capital and Currency are pushed to the greatest possible extent. These banks are Banks of Deposit and of Issue, but, unlike the Bank of England and the Bank of France, they extend their issues from 1*l.* and upwards. The entire circulation of the country is paper, except the silver coin for sums below 1*l.*; but the notes being convertible at pleasure, and on demand, always conform strictly to their real value in gold, and cannot therefore suffer any depreciation, or be increased beyond the sum which would circulate, were gold substituted entirely in their place. But in order to preserve this convertibility, it is absolutely needful that the Scotch bankers shall always keep beside them a sufficient amount of gold, or the command over it, as will secure the payment of any portion of the notes sent in to be redeemed, either for the purpose of making a foreign payment or any other.

Besides the issue of notes, the Scotch bankers hold deposits

to a greater extent, in proportion to their business, than any other banks in the world, which arises from their great stability and the confidence reposed in them, and also from the fact that they allow interest upon them from day to day. As near as it is known, the deposits of the Scotch Banks amount to about 30,000,000*l.* But in the present case, we will treat only of the circulation. The quantity of gold for which they can ever be called upon in Scotland is so trivial, that the smallest possible quantity would be sufficient to hold there. The only considerable demand which they can have for gold is to make foreign payments, and this is required in London or Liverpool. The Scotch Banks, therefore, hold their great command over bullion, wherewith to protect the circulation as well as their deposits, in credits or securities, which will give them a command over bullion when required in London. The Scotch circulation, prior to the act of 1845, may thus be stated:—

Liabilities.	£	Assets.	£
Notes under £5	2,500,000	Securities in Bills of Exchange	2,500,000
Notes above £5	1,000,000	Securities in London, and bullion	1,000,000
	3,500,000		3,500,000

The Scotch Banks might hold the reserve against the circulation in Government Stock or in Exchequer Bills, but which would always be liable to a loss, in converting, at the moment of an adverse exchange, when their customers are most likely to require funds for foreign payments; but these are much more likely to be taken from the deposits, and certainly would be so in the first instance, and always, except in a case of extreme drain, than from the circulation. Still, as a matter of economy, it must be a calculation with Scotch bankers, whether it is better to keep such a balance unemployed with their London agent, to answer all the purposes of their foreign payments, or to run the risk of loss, by being obliged to sell securities at a disadvantageous moment. It is

a question of calculation between the loss of interest on such a balance in London, and the loss of selling securities when required. But the Scotch do, and always have, kept such unemployed balances of cash with their London agents, or, in other words, a command to that extent over the bullion of the Bank of England. A portion of the bullion in the Bank as much belongs to the Scotch bankers, as if it lay in their vaults; and remaining in the Bank of England, it has this advantage—it is always on the spot where it is required for the only purpose for which it is ever wanted, to meet foreign payments. A Scotch bank leaves this balance with their agents —say Messrs. Jones, Loyd, & Co.—Messrs. Jones, Loyd, & Co. keep their unemployed balance in the Bank of England, and the bullion in the Bank of England always answers to the demands of its depositors. This system, therefore, perfectly carried out, secures at all times the convertibility of the notes, and renders their depreciation impossible.

Now let us examine, as we have done in the case of France, what the effect would be, if the Scotch system of issues was made to conform with that of the Bank of England, and they were prohibited from issuing notes under 5*l*. As the banks redeemed their notes, their place would be occupied with sovereigns, and the banks would be obliged to withdraw their advances of capital to the public to a corresponding extent; but as correspondingly less reserve would be required, the advances to the public would not necessarily be reduced by the whole amount of the redeemed circulation. When completed, the statement of the Scotch circulation would be—

Liabilities.	£	Assets.	£
Notes, £5 and upwards ..	1,000,000	Securities on Bills of Exchange	700,000
		Securities in London and bullion	300,000
	1,000,000		1,000,000

By this means the capital of Scotland would be actually reduced for all productive and useful purposes, by the amount of 800,000*l*.;—thus, in the first case, the economy would be—

	£
Notes in circulation	3,500,000
Reserve against it, even though all held in bullion ..	1,000,000
	2,500,000

in the last case the economy would be—

	£
Notes in circulation	1,000,000
Reserve against it	300,000
	700,000

In the one case, the economy of capital affords additional means for productive purposes, to the extent of 2,500,000*l*., and in the latter case, to the extent of 700,000*l*.; and in both the circulation has the same extent of guarantee against depreciation. But Scotland would lose still further by the change,—in two ways. First,—The profits which the bankers obtain from the circulation of the notes, not only enables them to avoid the charge made by the Bank of Hamburg, and to keep the money of their customers without any charge, as the Bank of France and the Bank of England do, but it further enables them to give a liberal interest, from day to day, for all monies deposited with them; so that, by this means, the profit of the economy of capital thus brought about goes indirectly to the public, the bankers' profit arising from the difference of the interest he pays for deposits and receives for loans. Second,—The Scotch nation are saved from the expense consequent upon the wear and tear of a metallic currency, which the experience of England within the last seven years has taught us is no trifling matter.

The only possible question to which the Scotch system is left open is, whether the convertibility of the notes is sufficiently and absolutely secured. Experience should be a satisfactory proof of this.

THE STATE OF THE CURRENCY IN ENGLAND.

We now come to consider the character and state of the currency of England; and to examine how far the unques-

tionable principle of economy, which we have described, and which has the sanction of every writer and politician of any eminence whatever, has been adopted. The amount of gold coin in circulation in England is not precisely known, but by a variety of tests and calculations, to which it is not necessary here to allude, the lowest estimate is 35,000,000*l.* Exclusively of silver coin, then, the whole circulating medium may be thus stated:—

	£
Gold coin	35,000,000
Bank of England notes	20,000,000
Country notes	8,000,000
Total circulation	63,000,000

These notes are all payable on demand, and therefore always conform exactly in value with the coin they represent. There is no provision by law for the country banks to keep any reserve of bullion against their notes; but there can be no doubt that every well-managed bank does keep such a stock of bullion, or an immediate command over such an amount of the bullion in the Bank of England, as to secure the payment of any portion of their notes as may be presented. For the sake of simplicity, we will confine our attention now, only to the Bank of England. The Bank of England issues 20,000,000*l.*, convertible at the will of the holder. This convertibility is secured to the public by the act of 1844, thus:—it is there provided, that against any amount of notes which the Bank shall circulate, it shall hold as a security for their payment, 14,000,000*l.* of Government Stock, and for the remainder, gold and silver in the proportion of *four-fifths* of the former, and *one-fifth* of the latter. The circulation of the Bank in the hands of the public, averages about 20,000,000*l.*, the notes in the banking department of the Bank being in reality bullion, having gold and silver representing them in the issue department, lying to the full amount over and above the bullion, which acts as a reserve for the notes out of the Bank. If the notes in the hands of the public are 20,000,000*l.*, then

there is absolutely assigned, as a guarantee for their payment, 14,000,000*l.* of Government Securities, and 6,000,000*l.* of bullion; the economy of capital, therefore, which England enjoys from the use of Bank of England paper may be thus stated:—

	£
Circulation of notes	20,000,000
Bullion held in reserve	6,000,000
Economy of capital	14,000,000

The Bank of England is not, as some writers have supposed, relieved by the operation of the bill of 1844, from paying the whole of their notes in coin. They are liable to pay them, as before, to the last pound. The bill of 1844 only provides that they *may* issue notes, to the extent of 14,000,000*l.*, upon securities; but that whatever amount is issued above that must be against bullion. The principle which seems to have been acted upon in framing that bill is this: the author of the bill has considered to what sum, under any conceivable circumstances, could the circulation of bank notes be reduced, while they are issued of the present denominations, that is, 5*l.* and upwards. The lowest point in modern times to which they have contracted, under a similar process as we have described the contraction of a metallic currency would take place, was to 15,000,000*l.*, in December, 1839—after a severe drain for coin;—he then seems to have acted on the safe side, and adopted the sum of 14,000,000*l.*, under which the circulation could not fall; and then, by compelling the Bank to keep bullion above that amount, he secured at least, under any possible event, the immediate payment of all the notes which were likely to be carried in. But if, under any extraordinary circumstances, more than the 6,000,000*l.* were presented for payment, the Bank would be equally bound to pay them in gold, for which purpose it would sell a portion of the Government Stock held against them. In this arrangement there is nothing new in *principle;* it is precisely the same as all banks of issue follow, which are bound to pay

their notes on demand. What *is* new, and the only essential part of the arrangement, is, that it prescribes the kinds and proportions of the securities which the Bank shall hold, in order perfectly to guarantee the convertibility of their notes.

By this means England is richer in the possession of absolute and effective capital—has the command over other commodities to an extent of 14,000,000*l.* more than she would under a metallic currency, leaving out of view the country bank issues altogether. But the public have other advantages from this economy. The Bank of England virtually pays to the Government a large sum annually, as a share of the profit derived from the notes circulating, against the 14,000,000*l.* of securities; and further, the public are benefited by saving the loss which the wear of so much more coin would subject them to; they save, as Adam Smith says, all the capital which it would require, "first to collect and afterwards to support" this additional 14,000,000*l.* of bullion.

Now let us consider how we should be affected in England were we to adopt the French system, and confine the circulation of our notes to those of 20*l.* and upwards. We have already seen that the circulation, on a recent day, of notes under 20*l.*, and of notes of that denomination and upwards, were exactly 10,000,000*l.* each; this was the case within a mere trifle. In the case now supposed, the Bank would be called upon to redeem all its notes now circulating under 20*l.*; it would be called upon for this purpose to furnish bullion to the extent of 10,000,000*l.*, which would pass into circulation in the country in place of notes. If at the moment there was not a very large stock of bullion in the country, it would have to be imported, and commodities to the full amount sent in payment of it; and when completed, supposing the securities to be held in the same proportion as they are at present, the Bank account of issue to the public would stand thus:—

Liabilities.	£	Assets.	£
Notes issued	10,000,000	Government Securities ..	7,000,000
		Bullion	3,000,000
	10,000,000		10,000,000

By this charge, the country would be absolutely deprived of 7,000,000*l.* of capital, of *one-half* of the annual sum allowed by the Bank for the issue of notes, and also the further expense of the wear of so much more coin.

THE PROPOSED REMEDY.

We now come to the chief and important object of this article,—having first cleared the way of every objection that can possibly be raised against our proposal, either in principle or practice. We have shown that the circulation of gold in this country amounts, at the lowest estimate, to 35,000,000*l.*, of which, probably, 5,000,000*l.* consist of *half-sovereigns*, and 30,000,000*l.* of *sovereigns*,—and that the whole of this amount is *capital*, for which we have given *commodities—food, clothing, &c.*, in exchange, and is absolutely withdrawn from all productive uses, to be employed only as an instrument, or machine, by which the rest of our capital can be with greater facility circulated. For this purpose, it would be worth all its cost; but, if a cheaper and equally efficient instrument can be found, it is the height of folly to persevere in the use of one so expensive.

It is impossible that any can entertain stronger or deeper convictions than we do, of the necessity, at any cost, of maintaining and securing the value of our currency unimpaired, in relation to the standard, and therefore of securing, in the most perfect way, the convertibility of the notes which form a part of it; and no system, however perfect and attractive in other respects, that does not possess this important quality, should be listened to for an instant. Whatever plan, therefore, may be found most perfectly to guarantee the convertibility of our paper, should be adopted, nor will we propose any system which shall, by any possibility, endanger it. Well, then, we have a circulation of at least 30,000,000*l.* of gold in sovereigns in England, and we prohibit, by an act of Parliament, the issuing of paper of a lower denomination than 5*l.* We know that a strong prejudice prevails against the use of

1*l.* notes; but if we show that that prejudice arose from causes which our plan will entirely obviate, and that no more danger can exist with respect to 1*l.* notes than to those of 5*l.* by the system which we advocate, while at least TWENTY MILLIONS OF CAPITAL will be liberated immediately from an unproductive use, and rendered available for the purchase of food and of raw materials, for the employment of our population, and for all the purposes to which such an increase of capital could be applied,—then we feel certain, that in the present and rapid accumulating difficulties in which the country is placed, a mere prejudice, founded upon the adoption of false principles half a century ago, will not be suffered long to remain between the country and such a boon.

The prejudice against the use of 1*l.* notes originated with the depreciation which took place in our currency during the suspension of cash payments, for twenty years preceding 1819. But this depreciation arose entirely from the fact that the notes of the Bank of England, like the *paper rouble* of Russia, prior to 1839, were not convertible into gold. But this applied just as much to notes of 5*l.* and upwards as to those of 1*l.* The depreciation was the same on all, and from the same cause; and it would have been as unreasonable for the Bank of England to have withdrawn 5*l.* notes from circulation, after the resumption of cash payments, because they had been depreciated during the suspension, as it was to withdraw 1*l.* notes. What was the consequence? The Bank of England, a large and wealthy bank, withdrew what had previously been the main circulation of the country—its 1*l.* notes. To replace them with gold required an abstraction of actual capital from the country, the immediate effects of which were severely felt. Under this pressure, as no law existed against private bankers beyond a certain distance from London issuing such notes, a great number of new private banks sprung into existence, which became issuers of 1*l.* notes, and soon filled up the channels of circulation, which had been previously occupied by the notes of the Bank of England; and, but for the withdrawal of which, their notes could never have found their

way into circulation. Undoubtedly, wise as was the bill of 1819, there can be no doubt that the precautions taken by the Bank of England for the change, were very insufficient to prevent a great amount of mischief and abuse. The restrictions imposed by the then existing Bank Charter prevented the formation of sound and good banks, and threw the duty of issuing notes upon a class possessed neither of capital nor knowledge. This extensive issue of notes by an inferior class of private bankers was one, though not a very important one, of the remote causes which led to the panic of 1825. The sudden command which ignorant men found they had of capital by the issue of these notes, which they were enabled to keep out in consequence of the withdrawal of Bank of England notes, led to wild and extravagant systems of advances upon securities of a class which no banker, understanding his business, would dream of, and the consequence was, that such bankers, the moment the breath of discredit passed over the country, and their notes were returned for payment, were a mere herd of bankrupts, with nothing to offer their creditors but valueless securities. But all this again was as good a reason for the abandonment of 5*l.* notes as those of 1*l.*, or, in fact, against a system of banks of deposit as against those of circulation; for, strangely, the panic of 1825 began with Banks in London which did not circulate notes, but were merely banks of deposit. But it is perfectly idle to dwell upon reasons against a system founded upon such abuses.

We have had an experience of twenty years more, during which the whole system of our banking and banks has been greatly improved, and the principle become universally admitted, and proved by experience, that bank notes, against which a certain reserve of coin is held, the remainder being represented by interest-bearing securities, as a guarantee for their convertibility, form a currency in every respect as efficient and as safe as coin itself.

Now let us see what would be the effect if, at this time, we were to adopt, upon a sound and unquestionable principle, a

circulation of 1*l.* notes as a substitute for gold. Take the circulation of sovereigns at 30,000,000*l.* Now, let it be clearly understood, we would not *add one shilling* to the circulation; what we would do, would be to substitute paper, payable on demand, the instant and immediate convertibility of which should be secured by a sufficient reserve of gold coin, and the remainder in government securities—for the gold now performing the purpose, which such paper would do equally well. The paper could only be got out as the gold came in, and, therefore, the change would be gradual, but the greatest part would be accomplished within a year, and a very large portion within a few weeks.

We will not now discuss what would be the best machinery by which such a paper circulation should be managed—whether by a Board of Commissioners appointed by Parliament, by which the whole profit would go direct to the public; or through the means of banks of sufficient magnitude, like those in Scotland, in open competition, but all complying with whatever restrictions Parliament might impose—and through which plan the profit would reach the public, by more liberal terms of business, as we have shown prevail in Scotland—or by the present machinery of England, under the existing charter, and in every respect conforming thereto in spirit—the bank paying to the government a sufficient sum for the additional profit which it would derive from such a privilege, and extending to certain country banks the same participation in the profits of the circulation as at present. We will not now discuss which of these three plans would be best; but we will, for the purpose of illustrating the advantage, as well as the safety which would result to the country, by the adoption of such a system, suppose that the last-mentioned plan—that of employing the bank—were adopted, at least for a time; and that would present the great advantage of being in a state of perfect preparation and readiness to undertake it. As we have at present no absolute data by which we could form an opinion as to the lowest point to which, under any probable circumstance, the circulation of 1*l.* notes

would contract, a certain proportion should be fixed of the whole amount issued, which the bank should hold in government securities and in bullion; one which would be amply safe, would be two of the former and one of the latter; so that for every 100*l.* of one-pound notes which the bank issued, it would place in the issue department 66*l.* 13*s.* 4*d.* of government securities, and 33*l.* 6*s.* 8*d.* of coin. Now let us see what the effect of this would be when the operation was effected. The bank now stands thus:—

Liabilities.	£	Assets.	£
Notes in the hands of the public	20,000,000	Government securities ..	14,000,000
		Bullion	6,000,000
	20,000,000		20,000,000

After the change in question it would stand thus:—

	£		£
Notes in the hands of the public. Of £1 ..	30,000,000	Government securities ..	34,000,000
Of £5 and upwards ..	20,000,000	Bullion	16,000,000
	50,000,000		50,000,000

The economy of capital, at present secured by the adoption of this principle, compared with what it would be, thus compares:—

At present.	£		Under the proposed system. £
Circulation of notes	20,000,000	.....	50,000,000
Bullion held specially against this ..	6,000,000	.....	16,000,000
	14,000,000		34,000,000

Let it be observed that the 16,000,000*l.* of bullion held by the bank against the circulation would be over and above what it held against its deposits in the banking department, and would be applicable only to the payment of notes, and for which it would provide instant payment, down to the amount of 34,000,000*l.*, to which the whole circulation of this country never could sink; but if it did, then for every shilling below

that sum, there would be government securities to sell in order to provide payment for the notes. Who could doubt the safety of paper to the extent of 50,000,000*l.*, guaranteed by English consols to the extent of 34,000,000*l.*, and gold to the extent of 16,000,000*l.*? While, therefore, at present we economise the capital of the country by the use of 5*l.* notes and upwards to the extent of 14,000,000*l.*, we would accomplish the same to the extent of 34,000,000*l.*—or 20,000,000*l.* in addition—by the use of 1*l.* notes, and with the most perfect safety. We should thus immediately add to the effective capital of the country, to our stock of commodities, or, which is the same thing, our command over them, to the extent of 20,000,000*l.*—just as much, as if we dug that amount of bullion out of the centre of England, in the same way as Russia has, by the law of 1839, accumulated in the Fortresses of St. Peter's and St. Paul's, bullion, or capital to the extent of 19,000,000*l.*

While we write, it is just a week since all London, from the Royal Exchange to the House of Parliament, was one buzz of cheerful congratulation at the prospect of the country being saved, by the news that the Emperor of Russia was about to invest 5,000,000*l.* of bullion which he had thus economised from his circulation by substituting notes, under a perfect guarantee for their convertibility, in English stocks, by which the annual income or dividend derived from them would be transferred from the owners in England to the Russian Government, but, of course, in lieu of ample value given in return; while we, by the adoption of similar means—by the extension of the same principle and system, which we have already adopted with regard to notes of 5*l.* and upwards, would possess a fund at home, from which we could, with the greatest ease, derive a stock of bullion to the extent of 20,000,000*l.* over and above the 10,000,000*l.* which would be needful to protect the immediate convertibility of the notes! !

But to some it may appear at first sight that so sudden an addition to our stock of bullion would depreciate the whole currency of this country, in proportion to that of other

countries. Any such effect would be prevented by the immediate export of such part of the bullion as we did not require, just as the Emperor of Russia is exporting his bullion, collected by the issue of notes of the value of *thirty-nine pence* each. The effect of such an economy of gold from our circulation would be the same as if a similar quantity were produced from a new mine, and distributed over all the markets of the world. An immediate distribution would take place, so as to retain the same value over the whole world. The operation would be this: — Immediately that the Bank of Egland began to issue the 1*l.* notes, the gold which they would displace would be at the service of the bank, two-thirds of which would consist in the public securities it now holds, and one-third as an addition to the bullion in the vaults. For every 100*l.* which came in, 66*l.* 13*s.* 4*d.* would form a fund for additional advances to the public, for, though public stock would be held for it, yet that stock must either be purchased in the market, or taken from the Government securities now held by the bank, and so it would go on until the whole 20,000,000*l.* additional capital was diffused in the country. By this operation the rates of discounts would immediately fall; facilities would be afforded to commerce—the orders held by our manufacturers could be executed—and a large fund of bullion would be provided for the import of grain, a sufficient supply of which in this country has become a matter of the most alarming doubt.

Besides the advantages which would immediately result from the addition of such an enormous amount of capital, the Bank of England would make an amount of profit (including the additional cost of management) of 600,000*l.*, being *three per cent.* on the 20,000,000*l.* of government stock purchased, and held as a guarantee for that portion of the notes in circulation, out of which the government would receive such a portion as might be agreed upon for the privilege granted to the bank; and, besides this, the country would be saved the incessant cost of maintaining a gold circulation, which amounts to a large sum, and cannot be estimated at less than 2½ per

cent. in twenty years from wear. All these advantages we have voluntarily foregone for the last twenty years; but no period could be imagined when such a combination of the most complicated difficulties called upon the country no longer to neglect so obvious, so sound, so vast, and so easily attainable a boon. The question—how are the *hundred millions* of people which inhabit these islands and the adjacent countries to be fed during the next four months?—remains still without the slightest solution, while every market-day witnesses fresh advances in the prices of grain. And the almost equally important question—how are our artisans in the manufacturing districts to be employed during the remainder of the year?—it is difficult to answer. And, lastly, the great and essential question—how is our public revenue to be kept up amid such prospects?—forces itself upon us. It is a period when common danger demands that all party or other considerations should be set aside, and a great effort made to avert the serious calamities under which we suffer, and which time will only aggravate.

In conclusion, we claim for our suggestion the calm and deliberate consideration of the country. In support of every principle which we have advanced, we have ample authority. We have the authority of Smith, Horner, Huskisson, Lord Liverpool, Ricardo, Tooke, Loyd, and Sir Robert Peel, an array of the most unquestionable authorities upon political economy and finance to be found in history. Our plan, moreover, is in perfect accordance with the principles of the bill of 1819, and to which all the checks and guarantees afforded by the bill of 1844 may consistently be added. We would, therefore, suggest, that the various chambers of commerce throughout the country should immediately meet, and should each appoint a select committee of their members, best acquainted with these subjects, carefully to consider and report upon the plan as a whole. The only objection which the most careful examination of the subject has enabled us to suggest, is the greater liability to forgery—but practically that is not found to be the case in Scotland; and, moreover, that

objection is perhaps more than balanced by the present liability to counterfeit coin, and the loss caused by the wear of coin, which, when it does occur, falls greatly upon the lower classes. We can only say that it is with feelings of the deepest anxiety for the welfare of the country that we venture to propose this plan, and we shall be glad to furnish any further explanation of our views which the public may require.

ARTICLE XVII.

Reply to certain Objections to the proposal of substituting One-pound Notes for Gold.—*May* 15, 1847.

In our preceding article upon the state of the currency, in which we proposed a plan for the substitution of a paper circulation, instead of the gold now used, based upon a principle which should secure, at all times, the most certain immediate convertibility, we purposely avoided the discussion of the precise machinery by which it would be best to carry out that plan. We were anxious, first, to establish, beyond any doubt, the correctness of the *principle* on which the proposal was based; and we should then be prepared to consider the details of the machinery by which it could, with the greatest ease, simplicity, and security, be carried into operation. The numbe· of the communications which we have received during the week, in reference to that proposition, renders it utterly impossible to notice th=m individually. The great majority of these communications (and many of them from men of the highest authority) fully and entirely concur, not only on the *principles* on which the plan is advocated, but also as to its pr cticability, as a safe and certain means of effecting an extensive economy of the capital of the country, and thus securing a measure effective for immediate relief, and likewise for permanent economy. The objections which have been made to the plan, not only by our correspondents, but also by contemporary journals, have been chiefly confined to matters of detail, which we have not yet discussed. There are also numerous points, on which some of our correspondents appear to have misunderstood the last article, or its practical operation, on which it may be well that we now offer some observations, by way of more perfectly clearing up some of the popular errors in relation to the principles involved in our proposal.

Some of our correspondents regard the proposed substitution of 30,000,000*l.* of *one-pound notes* for the same amount of *sovereigns* as an addition to the *circulation*, and, therefore, fear, with such an addition to the circulation, that, compared with its present intrinsic value, it would become depreciated, and that contracts based upon the "Bill of 1844" would be virtually violated, because "money would be cheaper." It is impossible to conceive any conclusion more at variance with the truth, or one which evinces so imperfect an understanding of the proposal made by us, than is implied in this objection. All contracts made in this country, in the sterling money of the country, since 1819, are, in truth, made for so much gold, at the rate of *one ounce* for every 3*l.* 17*s.* 10½*d.* of such currency; and so long as our currency maintains that proportion, whether it be in coin, or in written obligations of any kind, convertibility at pleasure into coin, so long does every contract, to pay 3*l.* 17*s.* 10½*d.*, impose the necessity of paying *one ounce* of gold. Nor could any depreciation of the value of our currency take place, except by such an adulteration of our coins that 3*l.* 17*s.* 10½*d.* did not contain *one ounce* of gold, or by the issue of written obligations (notes), which should not be convertible at pleasure, and which might, therefore, not at all times be worth the coin they represented. The parties who start this objection are obviously confusing the effect of the plan proposed by us with the state of the circulation during the period of the suspension of cash payments, when bank paper, not being convertible into gold, was depreciated in relation to the coin—when it required a bank note of *one pound and seven shillings in silver* to purchase a *guinea* coin. No doubt that contracts entered into in 1814, under such a depreciation, and fulfilled in 1821, after the resumption of cash payments, did impose on the debtor a great loss, and give to the creditor a corresponding benefit. But the same objection prevailed then with reference to notes of all denominations. The issue of *one-pound* notes had no more con-

nexion with that depreciation, or, as it is called, "*cheap money*," than the issue of notes of a higher denomination.

The idea that our plan would add to the circulation is equally erroneous. We have shown, by unanswerable arguments, that under no circumstances will more circulation be retained in the hands of the public than is just sufficient to perform the functions of a medium of exchange for the internal transactions of the country. No man retains more money in his possession than he requires for immediate use, but places it in a bank, or employs it in the purchase of commodities on which he expects to obtain a profit, or securities which will yield an interest. As a rule, therefore, the circulation is at all times confined to the lowest sum which is sufficient to conduct the transactions of the country. If, therefore, any amount of *one-pound notes* were issued, they would displace the same amount of sovereigns, which, in the first place, would be received by the bank issuing the notes. The greater amount of capital thus placed at the disposal of the bank would enable either that body, or those from whom they purchased public securities, to give to the mercantile community that accommodation, by the discounts of commercial bills, which would enable the latter to import food and raw materials, and to execute those orders for the manufactures of the country, which would not only keep the people employed, but would also convert labour into a means of paying for the food imported from foreign countries. In the course of this operation, the gold which was no longer required here, would be exported in exchange for those commodities which we required more than gold. But the gold, though exported, would not on that account be lost to the country. Its whole value would be retained as perfectly as at this moment; the only difference being that it would be performing an active and profitable purpose, instead of, as at present, remaining dormant, as far as reproduction is concerned.

If we export 10,000,000*l.* of gold, we receive in return the full value in a variety of commodities which are to us more

valuable; otherwise the transaction would not take place. In the present instance, suppose we export that amount of gold to the United States, and import corn and cotton in exchange, the import cost of the corn and cotton is replaced from the general income of the country, or by the export of the goods to foreign countries. The capital itself remains undiminished; and whenever other articles become again cheaper in this country, and gold more valuable, the latter would again return here, in exchange for the former, just as certainly as a supply of any other commodity is received when the price is so high as to offer a profit on its importation. The substitution, therefore, of *one-pound notes*, convertible at pleasure, for the gold now performing the function of circulation, would immediately place at our disposal an additional capital, which we could employ in securing the largest possible share of the corn and the raw materials of our manufactures which the markets of the world have to offer; and that not by diminishing our capital, but by rendering *effective for reproduction* that which at present must be regarded as dormant.

No doubt the liberation of this quantity of gold would be precisely the same in effect as an increased supply to the same extent from the mines. But hat increased supply, because liberated from the circulation of this country, woul l have no effect in depreciating the value of property in this country in particular, in relation to our standard. The effect would be that of so much gold added to the general stock of the whole world, and not to that of this country in particular; and when even this large source of economy, the profit of which would be derived by this country exclusively, is considered in relation to the wants of the whole world, no appreciable change could take place between the relative prices of gold and commodities in general, and certainly none between the exchangeable value of the commodities of this country and those of others. And, therefore, no such disturbance as is apprehended by some, could take place in our standard of value.

Another objection has been stated, which is also founded on an entire misapprehension of the effects which such a change would produce. A notion prevails that the effect would be to increase the price of "*corn and cotton;*" but to diminish still further the price of cotton goods, and consequently to aggravate the present want of employment. Now, this notion again proceeds upon the supposition, that we *add* to the amount of the currency, in place of merely substituting an instrument which, as long as it is convertible, is equally secure for internal circulation, but which could not be used for a foreign payment, for another instrument, which could be used for the exchange of foreign commodities. The effect would just be the reverse of that anticipated by such parties. It would tend to lower the cost of corn and cotton, and to increase the price of manufactured goods, and thus to remedy the evils of short employment, so sensibly experienced in the manufacturing districts at this time. The operation would be this:—The Bank of England would become possessed of a larger quantity of bullion; the operations of the American merchants, instead of being, as at this moment, brought to a dead lock for the want of the ordinary facilities, would be resumed. Corn and cotton, being both scarce and dear in this country, would be imported in exchange for the gold thus liberated from a useless purpose. The increased supply of these articles would lead to lower the prices, while the greater import would also tend to a greater demand for our manufactures. At the same time, the larger supply of food, tending to moderate the price at home, would leave a larger portion of the national income free to purchase clothing. The effect, in short, would be, that we should exchange a commodity which we at present have, and which is of no absolute utility, for other commodities, mainly for the want of which the country is now suffering. We should obtain corn and cotton in greater abundance, and, therefore, at lower prices, while the demand both for exportation and home consumption of our manufactures, would be increased; and thus, not only would the supplies of the necessaries of life be greater, but

the means of the working classes to purchase them would also be increased. That some portion of these advantages would be obtained by railways is very true; but, in the present state of the prices of corn, we do not believe to any very great extent. However, to whatever extent even railways might share in the advantage of the great national economy proposed, it is certainly better than allowing this capital to remain, as at present, entirely unproductive—or, at least, not more so than the *convertible notes* would be which we would substitute in its place. The great and immediate effect would be to place us in an infinitely better position than we now are in the great struggle which will take place in the world during the next five months for the *corn* and the *cotton* which can be brought to market.

A suggestion has been made by many, that in adopting the change in question, it might be better to begin by the adoption of an intermediate denomination of notes between 1*l.* and 5*l.*—or to limit the amount of notes at first to one-half of the whole amount which it is supposed would represent the whole of the gold circulation. Another suggestion has been made, proceeding from a very similar view, that so great and unquestionable a reserve of capital as this source opens up to us should be kept till some more pressing and trying emergency. With respect to the former propositions, as far as they affect the mere detail of the mode of carrying the system most conveniently into operation, we will not now treat; but as to the notion, that by such a plan we should be retaining a fund for use at a future time, which would otherwise be exhausted now, we will endeavour to show the fallacy.

In the first place—although it were a source to which we could apply only once, and which, having applied to once, would fail us in future—we may remark, that it would be difficult to conceive the possible recurrence of such a combination of unhappy events, when any extraordinary reserve of means could be more demanded that it is now certain they will be during the next six months. And, therefore, on that score alone, and even admitting the view thus taken, it would

be difficult to conceive any time when such a reserve could be resorted to with more propriety. But those who reason thus, do so upon a misapprehension of the effect of the change proposed. They appear to suppose that the capital thus economised would be absolutely expended, and the gold sent abroad and irretrievably lost to the country. No such effect *could* ensue. If we thus added so much to our effective and disposable capital, which, in the first place, would assume the shape of gold—and if we disposed of that gold in payment for foreign commodities, consisting of corn and the raw materials of our manufactures—we should receive full value for it; and the same amount of capital would exist as before, only in commodities which we *did* require, in place of those which we *did not* so much require. The cost of the corn and the cotton so imported, would be replaced to the importer or the manufacturer from the current income of the country, and the capital itself remain undiminished, unless the population subsisted on their former accumulations instead of their current income, which they are much less likely to do with the aid which such additional facilities would afford to commerce than without them. This great national reserve, therefore, in place of being exhausted by its immediate application to useful purposes, would, in reality, be greater next year than it is now, by the profit which its useful application would afford to the country; and whenever the relative values of other commodities and gold were such, that an increased supply of the latter were desirable, it would find its way back to this country, with as much certainty as the large quantities of bullion do, which always accumulates in the Bank of England during a period of a favorable exchange; and thus this fund, to a great extent, would always return to this country in periods of great plenty, and be ready for a renewed and similar use in periods of great scarcity, on precisely the same grounds that, from 1842 to 1846, many millions of gold lay in the vaults of the Bank more than were required for its immediate use. Under any state of currency, the great commercial character of this country, and its great command of capital, will always, during periods of great plenty, become the chief depository of the precious metals.

The great and main objection which has been taken to our plan—that it would subject the country to a great increase of forgeries—is in no way appropriate to our last article. In that article we sought only to establish the *principle.* The objection is one which would be applicable exclusively to the details of any plan which might be proposed for carrying the principle into effect. If, indeed, we were to be content to risk the whole plan upon the adoption of a similar management as that employed by the Bank of England, during the time of cash suspensions, then might we expect a great objection on the score of being exposed to the evil of numerous forgeries. As it is, this objection, raised by our contemporaries the *Globe* and the *Manchester Guardian,* is wholly inapplicable to our proposition as so far developed. Our first object was to establish the *principle;* and that being done, we will next address ourselves to the mode by which that *principle* can be most effectually and safely carried into practical operation.

ARTICLE XVIII.

Reply to further Objections and Remarks on the same Proposal.—*May* 22, 1847.

BEFORE proceeding to consider what would be the best mode of carrying into effect our proposal for substituting a convertible paper circulation for the gold coin now in use, we feel called upon to make some further preliminary remarks on the merits of the proposed plan, in reply to objections or doubts suggested by some of the numerous correspondents to whom we are indebted for remarks and criticisms thereon. We must, however, be excused for remarking, that, had the whole of our two last articles been carefully read and considered, the greatest bulk of those correspondents would have been spared the trouble of putting forward their objections, as, in most cases, they had been anticipated and answered in the lengthened introductory remarks upon the general principles on which the proposal itself is based. We well knew how great a force of hostility we should have to encounter, arising from preconceived opinions based upon a long association of *one pound notes* with a state of the currency utterly and entirely indefensible upon any well recognised principle; and on this account we felt it more necessary to preface our proposition with a full explanation of the fundamental principles upon which every sound currency must be based, and to confine ourselves to a plan which should be in every way consistent with such principles. To those principles, as laid down in Article XVI., we have not yet met with one single objection, nor has there been an attempt, on the part of any one, to show that our plan is inconsistent with the strictest application of those principles. It would, however, be just as reasonable to object to banks altogether, because we have seen, from time to time, so much mischief arise from their mismanagement, as

it is now to object to the use of *one pound notes*, based upon a principle which must secure their convertibility under all circumstances, because in former times the greatest abuses have been permitted in the way in which they were used. Inconvertible one pound notes, issued by the Bank during the period of the suspension of cash payments, or convertible one pound notes, issued from 1822 to 1825 by banks which, from their character and the circumstances under which they existed, as explained in a former article, were utterly unworthy of exercising such a function, or of the credit reposed in them by the country, are no more to be considered as a test of the use of such an instrument of currency, when placed upon an unexceptionable basis, than the numerous failures of *non-issuing* banks during the last twenty-five years, and the enormous losses inflicted thereby on the country, are to be taken as a conclusive reason for the suppression of all such banks. We will endeavour, in a few general observations in relation to our proposal, to embrace the minor objections which appear still to be entertained against the proposal.

Many of our correspondents proceed, in their remarks, upon the supposition that our proposal is intended as a temporary palliative to meet a temporary exigency. If it were so, we should doubt much the wisdom of applying it. We should doubt much the wisdom of having recourse to any plan which is calculated to afford a temporary relief to temporary difficulties, and which was not recommended by undeniably sound principles, as equally applicable to all times. Temporary palliatives have only the effect of delaying and postponing the natural cure which is inherent in every evil. But while we would object to the adoption of any system as a temporary palliative, the pressing exigencies of the times are surely not to be used as a reason why a system, calculated to effect a great and permanent economy in the capital of the country, should be rejected. As well might it have been urged that the corn laws should not be repealed during a period of scarcity and famine. If our measure be sound in principle, it would be desirable at all times, but most useful at a moment

like the present, when every means of increasing the supply of commodities should be carefully economised; just as free trade, though equally sound and applicable at all times, even at periods of the greatest abundance, is yet of the greatest practical importance at moments of scarcity. But if, on the other hand, it can be shown that there is anything in our proposal inconsistent with sound principles, in its application *at all times*, then we would not for a moment urge its adoption as a temporary remedy. On this alternative we have already placed our proposition, and as yet, not one objection has been raised to the principles on which the plan is based, or on which it is supported. There are, however, some points requiring further explanation and illustration.

We have stated, in a former article, that we hold it as an indispensable principle, with regard to a paper currency based upon a metallic standard, that it should conform in every respect with a circulation consisting exclusively of coin. It must perform the same functions as an internal currency; it must maintain at all times precisely the same value; it must be equally capable of being used to effect a foreign payment, by commanding the amount in gold which it represents; it must follow precisely the same rules in all its fluctuations—in its contractions and its expansions; it must, in fact, in every respect, be practically identical with a pure and entire metallic currency. If so, it is impossible that any objection can apply to paper that would not apply to gold. Now, the plan which we have proposed embraces the whole of these essentials of a currency. We should not add one shilling to the currency; we should only substitute paper, secured in its convertibility into coin, for the coin itself. We should withdraw 30,000,000*l.* of gold from circulation, and we should replace it with 30,000,000*l.* of *one-pound notes*, which would be guaranteed by the deposit of 20,000,000*l.* of Government securities, and 10,000,000*l.* of gold coin, to meet any possible demand which might arise under a contraction of the currency for a demand for gold in exchange for paper. Out of the 30,000,000*l.*, we should thus liberate gradually, as the substitution took place, 20,000,000*l.* of gold, which would be added to the effective capital of the country, for the purchase of foeeign commodities, and the employment of our people. If it were possible to effect the whole change at once, it would be precisely tantamount to increasing the stock of our commodities, of corn, raw materials, &c., by that amount, just as much as if we had, by additional industry, produced commodities to that extent.

But, then, some of our Lancashire correspondents complain that such a measure, inasmuch as it would make capital more abundant, and discounts, therefore, more easily obtainable, would increase the price of both cotton and corn, by enabling the importers to hold more tenaciously for their price, and by making the demand on the part of the manufacturers, in consequence of a better trade, more urgent. Our correspondents, who take this view of the matter, entirely confuse the benefits of a low price produced by abundance of supply, and of a low price produced by the absence of demand, in spite of scarcity. What benefit is it to the manufacturer, that cotton should be pressed down a penny a pound, in consequence of his inability to purchase and consume it? What benefit to the mechanic is it, that corn should be forced down 10s. a quarter, only because he has not the means to purchase it? Price is a thing relative to supply and demand; and a low price, existing in spite of a short supply, is the very worst evidence of the state of the country, and is productive of the worst consequences to the manufacturers and consumers. What are the facts at the present moment? Liverpool is said to be the cheapest market in the world for cotton, owing to the inability of the importers to hold it, and to the inability of the manufacturers generally to purchase and consume it. The result is, that shipments of cotton are being made to all other markets, and a scanty supply rendered still more scanty there; while, by the two last packets, all orders have been countermanded, and credits upon Liverpool closed, so as to discourage as much as possible further shipments to this country. The same has been the case with respect to grain and provisions. We have

every reason to believe that, by the two last steamers, nearly every order to purchase grain or provisions in the United States, for this country, has been countermanded; not because there is any doubt that supplies, both of cotton and corn, will be wanted, but because parties have no faith in being able to effect the payments necessary for the operations. Whatever effect, therefore, the present pressure may have in reducing prices, or in closing the usual channels of supply, it must act most prejudicially upon the interest of the manufacturers, in making cotton still more scarce—and upon the general consumer, in making grain and provisions still dearer.

We last week stated that our measure would make both cotton and corn cheaper, by increasing the supplies. It would have been more accurate if we had said that it would increase the quantity of these commodities which, with the same demand, would give greater cheapness. If, however, the price were to rise, in spite of the greater abundance, in consequence of a better demand, such a result could only be an evidence of a greatly improved state of trade and the means of the consumer. At the present moment, both with *cotton* and *corn*, it is entirely a question of *quantity*. Any plan, which is not of itself otherwise objectionable, which will increase the *quantity* of cotton, must be beneficial to the manufacturers,—or what will increase the *quantity* of corn, must be beneficial to the general consumer. While a high price is the only natural corrective of scarcity, a low price is not only calculated to aggravate the evil, but, as it can only be the consequence of the absence of demand, is the surest evidence of extreme depression and suffering. But as it is quite clear that the plan we propose could not fail to obtain a greater *abundance* of cotton and corn for this country, it follows, as a matter of necessity, that we must either have a lower price, or if not, a better trade and a larger consumption, which would maintain or increase the present prices in spite of a larger supply. Whether, therefore, we had lower prices, with the present demand, or higher prices, as a consequence of increased demand, greater abundance could only be a source of unmixed blessing to all.

Some of our correspondents, again, who see clearly the manner in which the 20,000,000*l.* of capital might be liberated, and used most opportunely to increase our present amount of necessary commodities, are alarmed as to the effect which a return of such an amount of bullion would have upon the currency of the country. This alarm is founded upon an entire misapprehension of the operation. The effect of an efflux and influx of bullion, under the plan proposed by us, would be in every respect identical with that which would take place under a purely metallic currency, as explained at great length in Article XVI. Bullion, bearing so uniform a value in any country, is never made use of as a subject of export or import, until other commodities have ceased to bear a profit. We do not export bullion, until we have no other commodities which we can export at a profit; nor do we import bullion, until our stocks of all other commodities are so large that it will no longer be profitable to import more. In both cases, bullion is usually resorted to as the last instrument of international exchange, excepting from the countries where it is produced. We are now come to the predicament in this country, that we have no commodities to export in sufficient quantities to meet the payment for those which we must import. We have arrived at the point when we must have recourse to bullion. We had from *five* to *six* millions of bullion lying in the Bank above what was needful to be retained. That has been disposed of in payment for grain and cotton. We now propose to liberate 20,000,000*l.* more, by an operation which would be gradual in its effect, for the purpose of continuing our importations of grain and raw materials. The effect of this last operation would be that we should have so much more cotton and flax to work up, and so much more food with which to support our labourers; and these combined would furnish more goods to exchange, for a further quantity of raw material and food. The additional capital of 20,000,000*l.*, thus added to the existing means of the country, would correspondingly add to the extent of our commerce, the employment of

our people, and the general income and wealth of the community.

But, then, some of our correspondents apprehend inconvenience from a return of the bullion, unless we again revert to a gold circulation, which we do not contemplate, and which would be quite inconsistent with the principle upon which our plan is based. This apprehension we will show to be quite groundless. It will easily be understood that we will not import gold as long as we could import commodities which yielded a profit to the merchant. As long as corn, or cotton, or flax, are in demand, and can be imported at a profit, there will be no influx of gold; but, if we had seasons of abundance, and our imports of all other commodities had been so large as to reduce their price, so that it was no longer profitable to import them, then, as the last article, an influx of gold will take place to balance the exchanges. Now, suppose the *six millions* which have already been exported were first to return, then there would still be 20,000,000*l.*, which would have been subsequently exported, existing in the general markets of the world. But under no circumstances could the whole of that quantity return; for the larger extent of business which the employment of that additional capital enabled the country to perform, would require larger imports of all the raw materials, as well as of articles of food of all kinds, consumed by those to whom such an extended trade would give an increased employment. A portion of the gold, therefore, which we first exported, would be circulating among those whose increased industry we called into existence to supply us with the additional commodities which we imported, and those new producers would become new customers for our manufactures.

But suppose our imports were at length in excess of our wants, and that accumulated stocks reduced prices so as to diminish our imports, turn the exchanges, and lead to an influx of gold. Gold would then accumulate in this country, as it did from 1841 to 1844. But an accumulation of gold in the vaults of the Bank would no more lead to an undue extension of the currency under the new state of things, than it

has done hitherto. From 1841 to 1844, although bullion in the Bank increased from 4,000,000*l.* to 16,000,000*l.*, yet, comparatively, a very small increase took place in the circulation of the Bank. The stock of bullion remained in the vaults of the Bank, as the stocks of other commodities remained in the various public warehouses, until it again became profitable to export it in exchange for food and other commodities. No doubt, however, such abundance of capital as is indicated by large stocks of commodities of all kinds, including bullion, would necessarily lead, not only to lower prices of commodities in general, but also to a lower rate of interest for a use of capital. If we have a stock of commodities on hand, which is sufficient to serve the country for two years to come, a command over those commodities would be obtained for a given period, at a much lower rate than if the stocks were barely sufficient to last us two months. All loans of money, in whatever shape they are made, are simply a transfer of a command over commodities from one to another. Whenever, therefore, commodities are abundant, the interest of money must be low, and, when they are scarce, the interest of money must be high. The way in which this undeniable principle operates is this—As commodities become abundant, the number of sellers, in proportion to the number of buyers, increases, and, in proportion as the quantity is more than is required for immediate consumption, so must a larger portion be kept for future use. Under these circumstances, the terms on which a holder becomes willing to sell for a future payment, *or on credit*, become lower than if he were certain that his whole stock would be required within a few weeks.

But let us examine the particular effect upon the currency which this greater abundance of capital, and a consequent return to this country of a large portion of the gold which it is now proposed, by our plan, to liberate, for the purpose of making foreign payments. There can be no doubt that a return of abundant harvests, which would render it unnecessary for us to import food to the same extent as before, while our exports were increasing, would lead, in the course of time, to

a return of a considerable portion of the gold now exported, just as the bullion, exported in 1839 and 1840, returned in 1842 and 1843. The effect of this return of bullion, were the currency purely metallic, has already been explained in Article XVI. Capital would be more abundant, and the price paid for its use, or, in other words, "the interest of money," would be lower; and as a greater abundance of general commodities and a lower rate of interest, would lead to an extension of business and a greater amount of employment, some increase would take place in the quantity of money required for the circulation of the country. But in the case of a purely metallic currency, all the bullion, over and above the quantity required for an increased circulation, would remain in the vaults of the Bank, as so much accumulated capital, waiting for the first opportunity of being profitably employed again in a foreign payment; just as the *six millions* of bullion recently exported remained in the Bank from 1842 until the end of 1846. The same would precisely take place under the plan now proposed. We liberate 30,000,000*l.* of gold from circulation, supplying its place with the same amount of *one-pound notes*, guaranteed by 20,000,000*l.* of Government securities, and 10,000,000*l.* of gold. We have a balance left of 20,000,000*l.* of gold, wherewith we can go into the markets of the world, and purchase food and raw materials, and where we can only obtain a large share of a limited quantity, just in proportion to the price which we are willing or able to give. In the first place, the 20,000,000*l.* of gold sent abroad would be represented only by other commodities imported, and would continue to be so represented, until a return of general abundance, when, as explained, a portion of it would return in the form of bullion. As capital became abundant, the rate of interest would fall, and the increased transactions of the country would require a somewhat larger circulation. This would be furnished by an increased issue of paper, but represented by the additional quantity of bullion in the Bank. The increase of circulation, however, always bears a small proportion to the increase of bullion. Thus, at the beginning of 1840,

the bullion in the Bank of England did not exceed 3,000,000*l.*, when the circulation was 15,550,000*l.* From that time until the end of 1842, the bullion increased to 11,050,000*l.*, while the circulation of notes increased only to 17,400,000*l.*; so that, in the face of an accumulation of gold to the amount of 8,000,000*l.*, the circulation increased only by 1,850,000*l.*, and this in the absence of the legal restrictions which have since been imposed upon the Bank. The effect under the system now proposed, would, therefore, be, that we should liberate a larger amount of bullion for the purpose of making foreign payments when required, and that in periods of great plenty we should again accumulate a large reserve of gold in the vaults of the Bank, to meet a similar emergency when it again occurred. Under the new circumstances, in place of a stock of bullion, amounting only to *five* or *six* millions, held in reserve by the country, to meet an emergency, as we had last autumn, we should hold a reserve equal probably to *twelve* or *fifteen* millions at such a time; the difference, making up the *twenty millions* originally liberated, being held in an increased quantity of other commodities, to sustain the larger trade to which the active employment of 20,000,000*l.* of capital would give rise. The plan, therefore, which we now propose would always place us in a more effective condition to meet any emergency, whatever it might be, which required a transmission of bullion to meet foreign payments—whether to carry on a foreign war, or to import grain during periods of dearth.

By some an objection to our plan has been made that by retaining a gold circulation we have always a large supply of bullion in the country to meet the emergency of a war. But to assume that the circulation of the country is kept as a reserve for such a purpose, is to admit that, on the recurrence of such an event, we should again suspend cash payments—a measure to which no government or parliament would assent. Coin, constituting the circulating medium of the country, would be entirely unavailable for the purposes of making foreign payments, either for the expenses of a war, or for the import of grain. Before it can be used for either purpose, it

must be replaced with some other medium of exchange. That had better be done under the system which shall secure the greatest possible economy of capital, consistent with the perfect convertibility of the paper, than left until the pressure of the moment might involve the country in the necessity of resorting to some violent and ill-considered measure of relief. The economy of capital proposed by us would at all times find us much better prepared to meet any emergency, whatever it might be. It would give us a command over 20,000,000*l.* worth of commodities, and whether gold, or grain, or cotton, matters little, which at this moment we do not possess.

But against our proposal every prejudice which has been called into existence from time to time, owing to an abuse of the issue of paper, has been started. Amongst others, we have been reminded of the American Banks, which professed to circulate paper, convertible at pleasure. There is no parallel whatever between the paper issues of the American banks and those contemplated by us. The paper of the American banks, though professedly convertible, yet, by the understanding which existed among the banks themselves, and between them and the public, the paper was really not convertible. By an agreement between the different banks, they never called upon each other to pay their notes in specie; and thus each bank always held large quantities of the notes of other banks, for which they did not demand payment; and such was the political prejudice against the payment of specie, that any private individual who demanded the payment of specie to any large amount, was marked as a common victim by the banks. The latter practice, however, would have been altogether unavailing, had the banks themselves exchanged regularly with each other, as the Scotch banks do, twice in each week, the balance being paid in cash. No over-issue could have taken place. As it was, the paper of the American banks was not practically converted, much less was it issued against well-ascertained securities, and a suitable portion of bullion to secure its convertibility as now proposed.

But besides notes nominally payable at sight, a large portion of the American paper currency, when it was depreciated, consisted of notes payable on a distant day, bearing interest, so that in no respect is there the slightest parallel between the two systems. We would, however, remark, that as soon as the American banks adopted the system of exchanging their notes periodically with each other, and paying the balances in cash, their notes were never afterwards depreciated.

An impression also exists that the plan proposed by us would favour a more lax system of credit in general business. No such result could occur. No note would be issued for which there was not government securities or bullion deposited to represent it. No better security could be offered. No more absolute representation of real capital, or a command over it, can be found in this country. No one doubts the security of consol warrants, or bars of gold; and surely no credit, based upon such undeniable representatives of value, could be considered as unwarranted or subject to abuse. It is a curious fact that, in Lancashire, where the greatest prejudice has always existed against the use of *notes* (but this was always more directed against those issued by local bankers, than by the Bank of England, and, if well considered, would have no relation whatever to the present proposal)—it is, however, curious that, co-existing with this prejudice, if we may term it, an unlimited circulation of bills has been in use from time immemorial. Where the notes of bankers, payable *on demand*, and, therefore, the value of which could be tested at any moment, were refused, the bills of the same bankers, payable at the end of two or three months, have always freely circulated. Notes payable on demand can never be kept out in excess, because the excess would always return to the bank for payment, while bills at two months may be issued in great excess, there being no means of checking the issue till they have arrived at maturity, when they may have been replaced by others. For people to admit the safety of the circulation of bills payable only *on a distant day*, and to object to the safety of a circulation of paper payable *on demand*,

is, to us, perfectly unaccountable. But even the paper which we now propose is altogether deprived of the objections which the Lancashire people always felt with respect to an issue of local notes.

We know that a difference is made in the public mind between *notes* and *bills*, inasmuch as the former circulate among the lower classes, who cannot judge of the solvency of banks, while the latter circulate among the trading classes only, who are supposed to be able to judge of the credit of the drawers. But whatever weight such an objection might have against an unlimited issue of local paper, which, were it needful, we could show is much less than appears at first sight, it cannot in any way apply to the plan now proposed by us. Notes, issued upon the basis on which we propose, could never be the objects of discredit. The knowledge that each note was represented by government security and bullion would effectually prevent this. But, then, it is said, that a sudden panic might seize the lower classes, and that they might rush, in ignorance, suddenly to demand payment of these notes. Practically, this objection has no existence. The lower classes, although the medium through whom, in the payment of wages, these notes are circulated, yet never, at any one moment, are holders of any great quantity beyond a few hours. What is the practice? A manufacturer receives from his banker 500*l.* in notes on Saturday for wages, which he distributes among his men. On the same day the great majority are carried to the shopkeepers, and by them again returned to their several bankers. As long, therefore, as the bankers take the notes freely from the shopkeepers, and the shopkeepers from the operatives, there cannot be a hesitation on their parts on taking these notes. There is no hoarding, as a rule, among the working classes. Those who do save money, place it in the savings'-banks, but do not keep it by them. This rapid and direct circulation of notes from the banker to the manufacturer, then to the operative, and from him to the shopkeeper, and, lastly, again to the banker, would always secure the plan against the effect of an ignorant panic,

and is also one of the best guarantees against the poorer classes suffering from forgeries under any circumstances. While it is possible to suppose that a great and inconvenient demand might be made upon the savings' banks, from a sudden panic among the lower classes, no such panic could occur with respect to such *paper* as we propose, which would always be freely taken by shopkeepers, and by bankers, from the fact that in their hands it would always be convertible.

We cannot too often repeat and insist upon the fact that our proposal is not one of an increased currency, but simply one by which we are enabled to replace gold, so as to add to our exchangeable capital, with an instrument practically convertible into gold. No attempt to increase paper upon a principle which did not liberate gold would be of the slightest use to the country; and, no paper, which was not at once convertible into gold, could be safe. It is commodities alone that we want, and no paper which will not command gold can be of any service in procuring them. But a correspondent says—

"You assume, as a truth, that convertible notes can never be redundant. But were not the notes of 1826 convertible, and was it not also admitted that the issues of 1836 had been too profuse? Is it not indeed a subject of reproach to the Bank, by yourself, at present, that discounts have been too profuse, and what means has the Bank of discounting, but by an issue of notes? Does not every bill discounted imply an issue of notes for its amount? It surely is not pretended that the bullion advertised weekly is the source whence these discounted bills are supplied?"

If this correspondent had carefully read our two last articles, these questions would have been unnecessary, as they are fully discussed therein. We have proved abundantly that convertible notes cannot be redundant; and there can be no doubt that the abuses of 1825 and 1836 consisted entirely of an excess of injudicious credits, and not of an excess of circulation, from the simple fact that at neither period can it be supposed that any one held more notes in his possession than barely sufficed for his transactions. That the power of issuing notes increased to a certain extent the means of some bankers to give injudicious credits, there can be little doubt; but the fact that injudicious advances were

made as much by non-issuing banks as by those who did issue notes, shows that it was an injudicious advance of capital rather than a redundant issue of paper. But the facts of the last eight months, to which we referred in our article of the 8th instant, are conclusive as to our correspondent's question. We found fault with the Bank that it did not sooner check the demand for discounts by raising the rates, not because it was thereby increasing its issue of notes, but because it was parting with its capital in the form of bullion, too easily. Our correspondent asks, "Does not every bill discounted imply an issue of notes for its amount?" Our reply is, that although notes may be immediately given for every bill that is discounted, yet that such notes do not add to the circulation, but, when the circulation is full, immediately return to the Bank, in exchange for bullion; and that the bullion *is* really the only source whence these bills are discounted, when the circulation is full. Let us see what took place during the period with respect to which our complaints against the Bank referred. On the 18th of September, 1846, the rate of discount was *three per cent.* The amount of bills discounted by the Bank was 12,321,000*l.*, the circulation was 20,900,000*l.*, and the bullion was 16,273,000*l.* From that period a greater demand for discounts occurred, and, yielding to this demand, the Bank increased the amount of bills under discount on the 5th of April, 1847, to 18,627,116*l.*; but at that date, notwithstanding this increase, the notes in circulation were only 20,815,000*l.*, while, however, the bullion had been reduced to 10,246,000*l.* Let us place these facts in a tabular form, to make them more plain. Thus:—

	Bills under discount.	Bullion.	Circulation of notes.
September 18, 1846	£12,321,000	.. £16,273,000	£ 20,900,000
April 5, 1847	18,627,000	.. 10,246,000	.. 20,815,000

Thus, while the Bank increased during the period in question, the amount of bills under discount, or, in other words, its accommodation to merchants, by more than 6,000,000*l.*, no increase took place in the circulation of notes, but a corresponding decrease in the amount of bullion. So that, although for each bill discounted the Bank actually gave out notes, yet they were immediately exchanged for gold, and did not add to the circulation, but reduced the available capital of the Bank. No banker should discount a bill in exchange for his own notes payable on demand, which he would not equally discount if gold were at once demanded. When the circulation is full, every issue of notes is tantamount to an issue of capital, because they immediately return for payment, and, therefore, a really convertible circulation cannot be redundant. The above facts, connected with the transactions of the Bank, are a conclusive illustration of this point.

The same correspondent says:—

"At another place, you say the gold liberated from its useless office, would purchase the corn and cotton of which we have need, which again would increase the exportation of our manufactures. I can easily understand that a diminished price of food, which would be the result of an increased supply, should lead to an increase of home consumption of our manufactures; but I do not see why it should necessarily occasion their increased exportation. And indeed, do you not presume, in the outset of your argument, that the sovereigns to be displaced by an issue of notes, are to pay for the food and cotton imported?"

Our present export trade is notoriously suspended, or, at least, materially lessened, not only by a want of the raw materials of our manufactures and food to pay for labour, but also for the want of those facilities of credit which are necessary to conduct them. Any plan, therefore, which increased the abundance of raw materials and food, would facilitate and cheapen our productions; and if, at the same time, it afforded increased facilities to credit, would again open the channels by which our foreign transactions are conducted. The liberation of 20,000,000*l.* of gold would not only give us a command over that amount of commodities which at present we do not possess, but it would further, in the very act of its liberation, furnish to the Bank the means of continuing those facilities which would insure the execution of the large orders

which have recently been received from America, and in exchange for which further supplies of food would be obtained.

Some of our correspondents have inquired what is the character and nature of the securities which we would propose to deposit along with the necessary proportion of bullion in order to guarantee the ultimate safety and immediate convertibility of the proposed circulation of notes; and by what means the Bank, issuing the notes in question, would become possessed of such securities in exchange for the notes so issued. The only securities which we would propose, and which we have already indicated, would be the public stock of our own Government. The mode in which the Bank, if the notes were issued by that body, would become possessed of such stock would be as follows:—For every 100*l.* of notes which the banking department received from the issue department, the former would give to the latter 66*l.* 13s. 4d. of Government securities, and 33*l.* 6s. 8d. of gold. The Government securities would either be given out of that portion which the banking department at present holds, or purchased by it for the express purpose; and by this means, to whatever extent notes were issued, the public securities and gold would be placed in the issue department to represent them, as indicated by our proposed plan.

Some of our correspondents, as well as many public writers, have doubted whether *one-pound notes* could be substituted for the gold coin in circulation. This subject is so well handled in a letter which we have received, that we cannot do better than quote it, in order to answer such objections:—

"Sir,—Referring to your admirable and most clearly elucidated plan for the extrication of the country out of its present want of available capital, the editor of the *Globe* doubted that the issue of one pound notes would speedily displace any large portion of the gold circulation, principally because of the supposed prejudice of the people against one pound notes. But it is to be observed that that prejudice was against the notes of the country banks, not against those of the Bank of England. Was it not by issuing one pound notes the Bank of England stopped the panic of 1825? Assuming, however, such a prejudice to exist, there is to be set against it what I believe would prove a potent antidote,

viz., the manifest interest which the great body of the country banks, through whose hands the whole gold circulation of the country probably passes in the course of the year, would have in the substitution of one pound notes, even those of the Bank of England, for gold. Any one who has ever been engaged in country banking, knows what an endless plague, expense, and risk that part of their business is which has to do in their supply of gold, whether the bank be situated in an agricultural district, where gold has always a tendency to accumulate in the banks, or in a manufacturing district, where the banks are generally in want of gold. The country bank from which I write this letter is situated at a great distance from London, and has held, for the last three months, a gradually increasing surplus of gold over and above its wants, not as yet sufficiently great to make it worth while to incur the expense and trouble of a special messenger to London, but causing, nevertheless, a dead loss of interest, which would have been saved, had one pound notes of the Bank of England come into our hands instead, for in that case we should have, day by day, sent our surplus stock to London. We should further save the loss on our light gold; for, let us be ever so particular in weighing the gold we send to town, we find we are always mulcted for shades of deficiency of weight so fine, I suppose, as to escape penetration of provincial eyes.

"With such powerful reasons for preferring the use of one pound notes, do you think it likely country bankers would humour the idle prejudices of their customers against them? They would of course resist them to the utmost point short of giving actual offence, and those who were not their customers they would *compel* to receive the one pound notes in payment; for I presume, of course, you propose to make them legal tenders, as the existing description of Bank of England notes now are.

"Thus the bankers' interest to use one pound notes would be immediate and permanent, in fact, a "constant quantity," while the prejudice of the public (if it exist, of which there is really no proof), would in all probability, turn out to be a constantly diminishing quantity.

"Did not your contemporary make a singular mistake in his estimate of the comparative expense of a paper and metallic circulation, in setting down *the cost* of the latter as consisting merely of the wear and tear (2½ per cent. in twenty years); forgetting to allow for the loss of interest on the capital sunk in the purchase of the gold, say 5 per cent. per annum, taking the present Bank of England rate?

"Permit me to put a further question.

"As you propose doing away with a gold *circulation*, what in that case, would be the necessity of continuing the cost of a gold *coinage?* And what objection would there be to the adoption of Ricardo's plan of making the Bank of England notes payable only in gold ingots, and for sums amounting to at least 200*l.*, 300*l.*, or 500*l.*, adopted prior to the full resumption of cash payments by Peel's bill of 1819? The only purposes for which gold would then be wanted would be for export abroad, or for manufacture into plate, &c., at home, so that ingots with the mint mark would serve as well as the coined metal; and that it would preserve the value of the note circulation as thoroughly as complete convertibility, there cannot be a shadow of doubt; for the moment a difference took place between paper and gold, the lynx-eyed bullion-dealers and merchants would

run the Bank of England, and speedily restore the equilibrium. It may be, as a matter of principle, objectionable to depart from complete convertibility, but I submit that we have *already done so*, in making the Bank of England notes a legal tender; for if I, a country banker, residing far from London, can compel the holder of my five-pound note to receive in payment of it a Bank of England note, although he wants gold, it is clear that full unmodified convertibility does not exist; and my creditor, in order to get gold, will probably have to make a greater sacrifice than a person living in London would require to make in getting gold for a five-pound note, supposing Ricardo's system in operation. Thus, we should commit no new breach of principle, and should make a large annual saving, not merely of the cost of the coinage, but of the wear and tear of whatever amount the prejudice in the public mind, before alluded to, might, if not checked, cause to be still needlessly retained in internal circulation. When the ingot plan was put in practice, it became a dead letter, and for this plain and wholesome reason: the Bank of England had, by contraction of her issues, raised the value of her paper to a par with gold, and the balance of trade being in our favour with foreign countries, not an ounce of gold was called for. Such, no doubt, would be the action of the ingot plan, were it now adopted; a dead letter when the exchanges were in our favour, and an effectual means of supplying gold when they came against us.—I am, Sir, yours respectfully.

A Country Banker."

There is only one other objection to which we will now refer. A correspondent says, that "the only valid objection I have heard to the issue of one-pound notes, the convertibility of which is secured as you propose, is, that such notes would, as a matter of course, come in for payment pretty much as fast as they are issued." This would be the case after the full amount required for the circulation of the country was issued, but not sooner. If we are right in our estimate, that 30,000,000*l.* of sovereigns are always in circulation, then there is no reason why the same amount of *one-pound* notes should not be kept out in their place. It is true that a large amount of sovereigns is daily carried into the different banks by one class of customers; but, on an average, an equally large amount is carried out by another class. So it would be with notes. A large amount of these notes would daily be carried into the various banks by one class, but an equally large amount would be carried out by another class, the daily circulation of commodities requiring their use. The only purpose for which such notes would be carried into the bank and exchanged for

gold would be when the holders required gold to send abroad —a purpose for which the notes were not applicable; and it is just to meet a possible contraction of the circulation for this purpose that a reserve of *one-third* of the whole amount is proposed to be retained in coin. One thing is clear, that to whatever amount sovereigns could be kept in circulation at home, *one-pound notes* represented by such unquestionable security, could also be so. And that to whatever extent the quantity of notes might be exchanged for gold to send abroad, to the same extent would sovereigns be withdrawn from circulation for that purpose, under our present system. In fact, the operation of the two systems would be in every respect identical—the only difference being, that the one places at our command a capital with which we can purchase commodities to the extent of 20,000,000*l.*, while the other keeps that capital unproductive and useless.

We have carefully considered every objection that has been offered, and every doubt that has been expressed, with the most earnest desire to give them all the weight to which they are justly entitled. We have not, however, yet met with one which has in the slightest degree shaken our confidence in the safety, as well as the effectiveness, of the proposal to meet the great difficulties which the country must endure for a long time to come, and also to add permanently to the wealth and general prosperity of the country, by such an addition to the active capital of the country. We do not, indeed, pretend that it would make corn and cotton abundant and cheap; but it would place us in a position, in the struggle which must go on for the next six months, for the scanty supplies of those articles which at present exist, to obtain a quantity to that amount more than we can command under present circumstances. And when we reflect, that, in the face of the present prices of grain, our orders, instead of going out more freely to the only country from which supplies can be obtained, have been all countermanded, for want of confidence, on the part of merchants, that money will be found for their payments, it would be difficult to conceive a moment when any possible

source of economy of the national capital could be resorted to with more propriety.

Our proposed plan for carrying those principles into practical effect, in order that it may be rendered as *immediately* applicable as possible, must partly rest upon the construction of the existing Acts of Parliament, which at present are not very clear. There cannot, however, be any serious practical difficulty, whatever that construction may be, though the plan may accordingly be somewhat varied.

ARTICLE XIX.

Plan for a secure Paper Currency, in accordance with the Principles laid down in the Three preceding Articles.—Free Competition in Banking.—A National Bank of Issue considered.—By means of the Bank of England considered.—*May* 29, 1847.

THE *principle* of the measure by which we propose to effect an extensive economy of the capital of the country by substituting notes, secured in their immediate convertibility, for the coin now in circulation, having been fully considered, we now propose to examine by what means that principle could best be carried into practical operation. We are quite ready to admit that it is not enough to enunciate a new *principle*, which is sufficiently sound to resist all objections, unless we can at the same time show how that principle can safely and advantageously be carried into practical effect. For though no practice can be safe which is not based upon a pure and sound theory, yet in questions connected with banking and finance, it is of the utmost importance to the success of the most unobjectionable principle, that the details of the measures by which it is proposed to be carried out shall be equally safe.

In a former article we said—"We will not now discuss what would be the best machinery by which such a paper circulation should be managed—whether by a board of commissioners appointed by Parliament, by which means the whole profit would go direct to the public; or through the means of banks of sufficient magnitude, like those of Scotland, in open competition, but all complying with whatever restrictions Parliament might impose, and through which plan the profit would reach the public by the more liberal terms of business, which we have shown to prevail in Scotland; or by the present machinery of the Bank of England, under the existing charter, and in every respect conforming thereto in

spirit—the Bank paying to the Government a sufficient sum for the additional profit which it would derive from such a privilege," &c. &c. Such are the questions connected with the practical details of our proposal, which we now come to consider.

In the first place we must remark that it must be obvious to all that there is no necessary connexion between the two functions exercised by some bankers—viz., the issuing of notes, and the transacting of ordinary banking business, consisting of receiving deposits and making advances upon certain securities; or, in other words, between banks of issue and banks of deposit. At the present time many bankers, among whom all those in London, except the Bank of England, carry on the latter department of the business without any connexion with the former function, being exclusively banks of deposit. There are, however, no banks which are exclusively banks of issue, as those who exercise that department of the business invariably combine with it the business of deposits; still there is no reason why a bank of issue should not exist independent of the business of deposits, there being no necessary connexion between the two. The question which we have now to discuss is one exclusively connected with the issuing of notes, and it will be competent for us to consider it either in connexion with the other branch of the business or separately.

We have already indicated three modes by which our proposed plan might be carried into effect; and we will now examine them separately, in order to determine which of the three, all things considered, would be best adapted to the present state of public opinion, the general convenience of commerce, and the existing laws of the country, to which we are committed for some years to come. The three modes alluded to are:—

First.—By means of Banks openly and freely competing with each other without any legal restriction whatever.

Second.—By means of a Government or National Bank.

Third.—By means of the Bank of England, under regulations, corresponding in spirit with those by which the issue of paper is now conducted. First—

FREE COMPETITION IN BANKING.

We have never been able to discover any good ground for the objections which appear to exist in the minds of a large portion of even the most uncompromising free traders, against the application of the same principles to banking, and especially to the issue of notes payable on demand. Nor have we ever been able to elicit any satisfactory reasons for their objections; which the more we have considered the more we are satisfied are based upon groundless fears and misapprehensions. At first sight, it appears a strange anomaly, that no party should object to banks being established or carried on by any one, and without any restrictions whatever, as long as they confine their business to receiving the money of the public in deposit, and to the drawing and accepting bills, or mere written obligations to pay, at a distant date. For these two great functions of banking the public and the Legislature are perfectly content to trust to the prudence and credit of any who chooses to embark in the business, and whom the public choose to employ. But the moment it is suggested that notes, *payable on demand*, may be issued by the same class of bankers, insuperable objections are instantly raised against it as a dangerous practice; although the whole amount of such notes could not involve liabilities to the public equal to one-tenth of the sums with which the same parties are now intrusted; for at the very lowest calculation of the amount of deposits held by bankers, including their current drafts, the amount of notes required for circulation would not exceed ten per cent. of that sum. The deposits alone in Scotland amount at least to *thirty millions*, while the notes in circulation seldom much exceed *three millions*. Public opinion in England has long decided against intrusting the same parties with the power of issuing upon their own credit the *three millions*, without venturing an objection to their title to be entrusted with the

keeping of the *thirty millions*. It is, therefore, quite clear that the objection which has been raised against free competition in the issue of notes, has not arisen on the score of the credit which may be reposed in well-constituted banks. These indistinct objections which float in public opinion, against such a use of bankers' credits, are now of ancient and historical origin, and are chiefly associated with the abuses which arose during the period of the suspension of cash payments, and from the restrictions imposed by the Legislature against the formation of such banks as were likely to offer to the public the best guarantee. There can be no doubt, that were it not for the legal restrictions as to the formation of banks, for the purpose of protecting the monopoly of the Bank of England, numerous large and wealthy joint-stock banks would have been called into existence in the metropolis, as well as in the provinces, many years ago, and would have thus prevented the establishment of those inferior banks, the failure of which, from time to time, has caused so much distress and ruin. Of this, we cannot have a better proof than by referring to what has taken place in Scotland. In that country, up to 1845, no law whatever existed, which in any way attempted to regulate or interfere with the mode in which banks should perform their business, with the exception of a very ancient act which prohibited the issue of notes of a lower denomination than *one pound;* and this law was a dead letter, inasmuch as it has been ascertained, that no bank could make a profit by the use of smaller notes. Practically, we may say, up to the passing of the act of 1845, the business of banking in Scotland was conducted upon the most perfectly free principles, uncontrolled by any interference whatever on the part of the Government. There was a perfectly free and unrestrained competition. But do we find that, in consequence of that, there was any tendency to establish unsafe banks, or that banking was conducted on a principle more lax or dangerous to the public than in England? On the contrary, the whole tendency of the practice for the last fifty years in Scotland has been to render the banking establishments more sound, and more deserving of public confidence; for the simple and plain reason, which would equally operate in all places, that one of the greatest recommendations of a bank to the confidence of the public, and, consequently, to a larger share of business, is its known safety. Private banks have gradually disappeared, and the public banks have added, from time to time, to the amount of their capital, in order, not only to enable them the better to accommodate their customers, but also to give greater confidence to the public. It was thus that free competition led to a gradual improvement in the character of the banks in Scotland, and ultimately produced the large, wealthy, and well-managed establishments as they at present exist, so distinguished in the annals of banking. In Scotland it has been found by experience, that no weak or unsound bank could exist in open competition with the others, and such banks, as possess a limited capital, have been gradually driven to unite or amalgamate with one or other of the numerous wealthy corporations with which they found it difficult to compete. That free competition in banking in Scotland has afforded to the public greater security than has been enjoyed in England under the restrictions which have existed during the last fifty years, we think no one will deny; and we believe it will be equally admitted, that, consistently with that greater security, the banks have conducted their business more to the general convenience of the public. And thus the two great objects of banks, security and convenience, have been admittedly enjoyed more under a state of free competition, than under any other yet tried.

We know, however, that many attach an importance to the privilege of issuing notes, apart altogether from the question of the credit of the issuers. Some hold an opinion, that notwithstanding notes are made payable on demand, it is still in the power of the issuers to keep out more than the public require, and that they are liable to be depreciated in reference to the standard. This is an opinion which we have so often

combated, and which facts so much disprove, that we shall not now allude to it further than simply to quote the state of the circulation of notes in Scotland, as one other conclusive evidence against the assumption. In Scotland, notwithstanding the free and unrestricted way in which the banks were conducted up to 1845—notwithstanding the numerous branches throughout the whole country, belonging to each of the large banks, and notwithstanding the efforts made by each to obtain as large a share of the circulation of the country for their own notes as possible, they have never been able to keep out so large an amount of notes in proportion to the population as have been kept out in England. In no country do the notes return more rapidly to the issuers than in Scotland, from the fact, that the same free competition has long ago introduced the practice of allowing interest from day to day upon deposits, which induces the holders of notes to pay them into their bankers as soon as possible; and, as the bankers exchange with each other twice in each week, paying the differences in cash, or in an order at sight on London, no bank can issue its notes in the discounts of bills, or in making other advances, which it is not prepared to redeem in cash, at least within the same week.

We have considered it needful thus far to express our conviction of the unfounded character of the alarm which exists with reference to free trade as applied to banking, even by those who advocate the principle as applicable to all other branches of commerce. With the present views entertained by the public in England, however, and the general state of our banking business, we would not advocate the introduction of this system, however unobjectionable it may be in principle, and however well it might have answered, had it been sufficiently long in operation to acquire the confidence of the people, and to produce such establishments as those possessed by Scotland. Our allusion to it in this place is therefore more for the purpose of defending a general principle, and to show that where it has already been so successfully adopted,

there can be no good ground for interfering with it. Second—

A NATIONAL BANK OF ISSUE.

But if it be judged unwise to apply the principles of free competition to banking in all its parts, we should be at least desirous to do so as far as it is admittedly safe. If we are to regard the function of issuing notes, payable on demand, as an exception to all other commercial transactions, and to which the general principles of free competition cannot be applied, then we would propose, as the only satisfactory and safe alternative, to separate entirely the business of issuing notes from other general banking business, strictly regulating the former by fixed and well-defined rules, and leaving the latter to free competition. We are satisfied that there is no wise or safe middle course. Free competition affords in itself a great guarantee against improvement and mismanagement; but if the public are to be deprived of that guarantee, and restrictions are to be resorted to, confining privileges to certain parties, then we are convinced that both public interests and safety require, in this case, that the regulations should be as stringent and as well-defined as it is possible, and that the profits should be enjoyed by the public at large. We would, therefore, propose entirely to separate the business of issuing notes from that of other banking, and to regulate the former upon strict and well-defined principles, leaving as little as possible to the option or judgment of those who have to conduct it, and so that the public should reap as much of the profit derived from the use of notes as possible. We should propose to confine the privilege of issuing notes to a public department, the whole profit going to the State, and to have all other banking perfectly free and uncontrolled.

We are quite aware that there are serious objections entertained as to the Government undertaking any kind of business whatever, and more especially being intrusted with the issuing

of paper money or the conducting of a bank. We are quite alive to the objections which are raised, that such a power placed in the hands of a government might easily lead to abuses of a serious nature, whenever the ministers of the day, for the pressing emergencies of war, or in order to meet a deficient revenue, would have strong temptations to abuse the powers which a government bank would give them. But Mr. Ricardo, in his proposed plan for a National Bank, has long ago shown that there is no necessity for incurring any such risk; that all the safety and public advantages might be obtained without giving the ministers, for the time being, any control or connexion with such a bank. And in our proposals, we shall go even farther than Mr Ricardo, in order to secure these objects.

We will now describe the plan by which we would secure to the public the whole economy, profits, and advantages to be derived from the substitution of a paper circulation, secured at all times in its instant convertibility. Supposing we were now to commence *de novo*, without any public obligations towards the existing issues, and then, looking to those obligations, we will consider what modification of that plan would be needful, in order to approximate as near to it as such obligations will fairly permit.

We would establish one public bank for the issue of notes only, to be managed by three commissioners; who, as proposed by Mr Ricardo, should be appointed by the Government, but removable only by a vote of the House of Commons. It would be desirable that an arrangement be made, by which one of the commissioners should be a member of the House of Commons. The business of the bank of issue should be as simple and as well-defined as possible by an Act of Parliament, and strictly confined to the issuing of notes against public securities and gold bullion. It should, moreover, be strictly prohibited from having any dealings, of any kind, with the government; not even, as Mr Ricardo proposed, keeping the government account, for that duty would introduce to it a branch of business foreign to a bank of mere issue.

Such a bank would, in fact, be as nearly as possible what the issue department of the Bank of England is at this moment. The Act of Parliament under which it would be instituted, could define its functions and its business so well, as to leave very little to the discretion of the commissioners. The issue department of the Bank of England is so regulated, that the directors have no power whatever over it. The principle is this:—It is correctly assumed that there is a certain point below which the internal circulation of notes cannot fall, under any possible contraction of trade that may take place; and that, if the Bank holds gold for any sum for which it issues notes, over and above that limit, the practical and instant convertibility of the paper is thus secured, and that Government securities held against the remainder of the notes, are a sufficient guarantee for their ultimate safety. The principle, however, does not imply a release from the obligation of paying the whole amount of the paper in gold, if required, and it might, therefore, become needful, that the Government securities so held, should be sold in order to pay the notes. In the case of the Bank of England under the present law, it is assumed that the amount of 5*l.* notes and upwards could not, under any possible contraction of trade, fall below 14,000,000*l.* (the lowest point in modern times having been 15,000,000*l.* in December, 1839); and, therefore, if the Bank deposits Government securities for that amount, and retains gold for whatever sum it issues beyond that amount, the public have not only a guarantee for the immediate payment in coin of such part of the paper circulation as is ever likely to be converted, but it has also the guarantee of Government stock for the ultimate payment of the whole. But though the Bank is permitted to issue notes on Government stock to the extent of 14,000,000*l.*, yet it is not released from the obligation of paying those notes, or any part of them, on demand. If, therefore, the Bank found the notes in circulation were rapidly coming in for payment, it would become the duty of the directors to sell a portion of the securities for gold, when the amount became so much reduced as to render it probable

that the circulation might sink below 14,000,000*l.*, a state of things which it is impossible to conceive. Still, if it did arise, the sale of Government securities would provide for the difficulty. In the issue department of the Bank, this is the only act in which the directors could be called upon to exercise a discretion. All the rest is a purely mechanical operation, strictly regulated by Act of Parliament.

Our proposed bank of issue should be as simple, as well defined by the Act of Parliament constituting it—and with as little left to the discretion of the Commissioners. Assuming that the whole circulation of the country of *one pound* and upwards required notes to the amount of 50,000,000*l.*, when the business of the country was in its usual state; and assuming that the lowest point to which, under any possible circumstances of trade, the circulation could be contracted, was 34,000,000*l.*, then the national bank would issue notes to the extent of 50,000,000*l.*, against Government securities to the amount of 34,000,000*l.*, and gold to the amount of 16,000,000*l.*; and to any further amount in exchange for gold only. So that at all times, to whatever extent notes should be issued, the whole amount over and above 34,000,000*l.*, would be represented by gold. The bank would be compelled to buy gold to any amount, as at present, at a rate little below the mint price, and to pay its notes in coin or bullion, always on demand, at the mint price.

By this means the Bank would make an annual profit equal to the dividends received upon the 34,000,000*l.* of Government stock, which, taken at the rate of 3 per cent., would give a sum of 1,050,000*l.*, subject to a deduction for the expense of management. This expense would be considerable, as it would be necessary, in each large town, to have an agent, whose only business it would be to exchange notes of one denomination for those of another, and to countersign all notes issued from his office, and who would not, in any way, interfere with any other branch of the Banking business, not even in transmitting sums from one part of the country to another. The business of such agent would, therefore, be confined almost exclusively

to the bankers in the neighbourhood, who would find an immense facility by having the power at all times to obtain small notes for large ones, in the districts where large amounts are required for the payment of wages or large notes for small ones, when they require to transmit large sums to London. It would be, by the facilities thus afforded to country bankers, that the notes of the National Bank of Issue, would easily be got into circulation in the first instance, and afterwards kept in circulation. By this plan, also, the circulation of each neighbourhood would be confined chiefly to the notes issued and countersigned by the local agent, whose signature would not only be familiar to all the bankers, but to the people generally. This would be a much greater guarantee against forgery than is now possessed in Scotland, where forgeries have been, for many years, almost unheard of. There, the notes are issued only by the head banks in Edinburgh and Glasgow, and circulated throughout the whole country without any local signature, but with local agents to refer to.

With such a circulation of notes, the danger of forgery (provided the best artistical means were adopted to make imitation difficult and expensive) would be extremely small. The direct issue of notes from the agent to the local bankers, and from them to their customers, for the payment of wages, and the rapid return from shopkeepers again to the bankers, would render it difficult, if not impossible, for forgers to get out any quantity of notes that would repay the great expense of imitating them. The best security against forgery is when it becomes unprofitable.

The whole expense attending the issue of notes, including such agencies as we have referred to, and also the management of the business of Government, which we do not propose to attach to such a bank of issue, is calculated by Mr. Ricardo at 188,000*l.*—but suppose it is called 200,000*l.*—a year, the Bank would still make a net profit of 850,000*l.* to be applied to the public benefit.

The only discretion which we would propose that the Commissioners should exercise, would be that which we have al-

ready shown is left with the Bank directors in the management of the issue department, viz:—That they should determine at what point, during the period of a contracting currency, it would be necessary to sell a portion of their securities, held against the 34,000,000*l.* of notes so as to prevent the possibility of an exhaustion of their bullion; and when again they should re-purchase these securities; never, however, exceeding the original amount of 34,000,000*l.* Then, as the sale of securities at such a time might entail some loss upon the Bank, we would propose that the profits should be allowed to accumulate for three years, which would create a *rest* of 2,550,000*l.*, which should always be held as a reserve fund to pay any loss which the Bank might incur by the sale of securities, under the possible but highly improbable circumstances which we have alluded to. And beyond this, the whole profits should be paid over to the public exchequer, so that, after securing the convertibility of the notes and the Bank from loss, they would go to the reduction of public taxes.

By this plan the business of the Bank would be confined exclusively to the issuing of notes, upon strictly defined rules, and would not be connected with the government of the day in any way whatever, beyond paying over the net annual profits to the Exchequer. The Chancellor would keep his accounts with the Bank of England, as at present; and if he required any accommodation to eke out his quarterly payments, he must look to his banker for accommodation, or must borrow in the money market, as at present. By this plan, also, all banks would be placed on precisely the same footing, none possessing any privilege which others did not, but left perfectly free to transact all the business of banks of deposit and agency in competition with each other. And by this plan *twenty millions* of capital, which is at present wasted in performing much less perfectly the function of a currency, than would be accomplished by such notes secured in their convertibility, would be liberated, to increase the general stock of commodities, and to afford new facilities to increase the commerce of the country, just as much as the same amount of capital

derived from any other source whatever. The country, moreover, would save a further large sum, which at present is expended in coining, as well as in the wear of the coin, and the cost of its transmission; for when gold was required in exchange for notes, as it would usually be for foreign payments, bars would generally be taken in preference to coin.

The immediate adoption of the plan now explained, would, however, be impossible, in consequence of the Bank Charter, at least so far as regarded notes of 5*l.* and upwards, and it would raise a very doubtful question whether even the issue of *one-pound* notes by another body, would not be indirectly an infringement of that charter; but whether or not, it would not appear desirable that the notes issued should be from two bodies, and especially as the same machinery and establishment might easily accomplish it all. We therefore now come to consider, in the *third place*, how the proposed plan can be carried into effect by means of the Bank of England, under regulations corresponding with those which we have proposed for a National Bank, and of those by which the issue department of the Bank is now conducted. Third—

BY MEANS OF THE BANK OF ENGLAND.

To all intents and purposes the issue department of the Bank of England is now as completely separated from the banking department, as if the two were conducted by a separate and distinct administration. We have already explained that the directors have no discretion left to them by the Act of Parliament which regulates this operation, excepting in a very extreme and highly improbable case, when it might happen that the directors would find it needful to sell a portion of the securities held against the 14,000,000*l.* of notes issued against them. Practically this branch of the Bank is self-acting; and all that the directors have to do, is mechanically to follow the regulations laid down by the Bank Act. The precise character of the issue department has not been very clearly understood, or Mr. Masterman would not have proposed that

the next quarter's deficiency bills should be paid out of that department. And we rather agree with Sir Robert Peel, that if the two departments are to be separated at all, it would have been better to have made the distinction more clear and palpable than it is to the public, while it is left under the same administration. And this might easily have been done without either impairing the profits of the Bank, or depriving the Bank of England of the advantage of conducting its business by the Board of Directors as at present constituted. If, in place of the issue department, a separate bank of issue had been established, managed by a commission appointed by the Government and the Governor and Deputy-Governor of the Bank for the time being, which bank should have dealt solely with the Bank of England, on precisely the same terms as the issue department does with the banking department, there would have been no real difference in the profits or management of the general business of the Bank of England; but the distinction, contemplated under the Act of 1844, would have been more perfectly understood.

If, therefore, the Bank of England should be employed to manage the circulation of *one-pound* notes, under the plan proposed, at least until the end of its present charter, the issue department of the bank might be easily modified, to accomplish all the objects of a national bank of issue, as already explained, without interfering in any way with the privileges which it holds under the present charter.

Instead of the present issue department of the bank, we would propose to constitute a bank of issue, to be managed, as proposed, by three Commissioners appointed by the Government, in conjunction with the Governor and Deputy-Governor of the bank, who would form a Board to carry out the whole of the objects already explained, in precisely the same way as proposed to be done by a national bank of issue, the whole of the profits going in the first place to the Bank of England. This would give to the Bank of England a profit upon the circulation of the *one-pound notes*, over and above what it is at present guaranteed by the existing charter. If the figures

which we have assumed be correct, the Bank would issue 50,000,000*l.* of notes instead of 20,000,000*l.*, as at present; but it would be obliged to hold 16,000,000*l.* of gold against these notes instead of 6,000,000*l.*, and 34,000,000*l.* of securities in the place of 14,000,000*l.*, as at present. The additional profit made by the Bank would therefore be confined to the interest of the additional 20,000,000*l.* of securities held against that portion of the *one-pound note* circulation, subject to a deduction, on account of the additional expenditure connected with carrying out the plan in all its parts as proposed. The dividends thus obtained by the Bank for 20,000,000*l.* of stock, held against that amount of *one-pound* notes, would, at three per cent., amount to 600,000*l.*, from which the whole extra expenses of management, including such a sum as should be agreed upon to be paid to the Bank, as a fair and liberal remuneration for the facilities afforded, should be deducted, and the balance should then be paid into the public exchequer. Thus, by an easy and slight modification of the issue department of the Bank as it exists at present, the whole of the public advantages proposed by a separate and national bank of issue, might be easily secured at once, while the Bank of England would retain the whole of the advantages to which it is entitled under its present charter, unimpaired, with the additional ones, which would result from being employed to issue the new proposed paper circulation. At the expiry of the Bank Charter, no actual change would require to be made in the machinery by which the circulation would be in the meantime, conducted. The only question then to be considered, would be, whether the bank of issue should continue to be connected with the Bank of England at all; and, if so, what modification should be made in the terms, or whether an entirely separate and distinct Bank, performing precisely the same functions, and through the same local agents, should then be established. With the issue department of the Bank converted into a bank of issue, managed by three Commissioners appointed by Government, but only removable by the House of Commons, with their duties strictly defined by

an Act of Parliament, and the bank regulated in all the details of its business in the way described, as for a national bank of issue, the whole objects of safety, economy, and public convenience, would be so perfectly secured, that when the present Bank Charter expired, the only question to be considered would be, whether any further public economy could be secured by a change in its mode of management. By this means, the great economy of capital proposed could be at once effected, and the consequent advantages secured to the country without any infringement of the privileges of the present banks of issue, as guaranteed to them by the Bill of 1844.

D. M. AIRD, PRINTER, JAMES-STREET, COVENT-GARDEN.

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