CIRCULATION

OF

INDIVIDUAL CREDIT.

OBSERVATIONS

ON THE

CIRCULATION OF INDIVIDUAL CREDIT,

AND ON THE

BANKING SYSTEM

OF

ENGLAND.

By W. Heywood of Liverpool

Nothing but Papers.
Let's see what they be: read them.—SHAKESPEARE.

LONDON:
PRINTED FOR LONGMAN, HURST, REES, ORME & Co.
1812.

Liverpool: Printed by G. F. Harris's Widow and Brothers.

On the Circulating Medium.

IT may be advantageous to state, early in these observations, what is the most generally understood definition of the Circulating Medium.

Mr. Rose states the Circulating Medium of Great Britain to be,

In 1798, Coin	£35,000,000	
Bank of England Notes	11,278,000	
		46,278,000
In 1811, Coin	3,000,000	
Bank of England Notes	23,000,000	
		26,000,000

Rose's Speech, 95, 96.

and he says nothing of country bank notes.

Mr. Johnstone points out this omission, and

shews, that Mr. Rose should, on his own grounds, make our currency to be,

In 1798,	Coin	£30,000,000	
	Bank of England Notes	11,000,000	
	Country Bank Notes	7,000,000	48,000,000

and at this time,

In 1811,	Coin	5,000,000	
	Bank of England Notes	23,000,000	
	Country Bank Notes	32,000,000	60,000,000

Johnstone's Speech, 50, 51.

Mr. Bosanquet calculates the Medium,

In 1810,	Gold	£2,000,000
	Bank of England Notes	21,000,000
	Country Bank Notes	27,500,000
		50,500,000

Page 125.

Mr. Johnstone considers the country bank notes of 1*l.* and 2*l.* to amount to 12 millions, (*page* 12,) and he thinks all the country bank notes current,

In 1807 to be	£26,500,000
1808	24,500,000
1809	29,500,000
1810	33,000,000

and Mr. Richardson says 30,000,000*l.* including Scotland, (*Rep. Bull. Committee* 149) at

which periods were current, Bank of England notes,

In 1807 . . .	£17,500,000
1808	17,500,000
1809	20,000,000
1810	23,000,000

The number of country banks, including those in London and Scotland, in 1810, is shewn, by particular enumeration, to be 796; and, reckoning the circulation of each at an average of 40,000*l.*, their notes would amount to 31,840,000*l.*

Mr. Johnstone, founding his calculation on the number of Stamps issued, makes the sum of circulation of these banks to be 32,000,000*l.* By the same calculation, Mr. Johnstone considers the sum circulated by country banks in 1808 to have been 24,500,000*l.*; and the number of such banks in 1808 was 600 and upwards. (*Bullion Committee*, 214). When the calculation at 40,000*l.* each, brings a similar result, it is reasonable to believe that the circulation may be safely assumed to be in that ratio.

Mr. Tritton, in his Evidence before the Bullion Committee, states his opinion to be, that the average of each bank might be 30,000*l.*; but

Mr. Johnstone appears to go on stronger ground.

The number of banks,

	Thousands.	£
In 1793	280 at 40	=11,200,000
1797	230 at 40	= 9,200,000
1805	517 at 40	=20,680,000

Evid. Secret Com. 1797, *fol.* 121.

1808	600 or more	=24,000,000
1810	796 exactly	=31,840,000

Bullion Committee, 214.

Mr. Johnstone (*page* 56) says, "combining the issues of the Bank of England with the issues of private bankers, the whole paper circulation of the kingdom will be,

In 1807	£44,000,000
1808	42,000,000
1809	49,500,000
1810	56,000,000

and Mr. Johnstone omits to consider any other description of paper circulation.

Sir Francis Baring says, "the only general "circulating medium, as a general representa- "tion of bullion at home, is the Bank of Eng- "land notes. Country paper cannot be consi- "dered as general medium of circulation. "Bank notes serve as *pocket money* in the

"capital, and melt down finally the whole pro- "duce of commerce, trade, agriculture, and "public revenue into one general mass." (*Bull. Committee*, 197.)

In 1797, it was stated, on good evidence, that few Bank of England notes circulated more than 30 miles from London. (*Evid. Secret Com.* 1797, *p.* 137, 127, 54. *Thornton*, *p.* 74, *&c.*) It would follow, that, at that time, Bank of England notes did not afford the convenience of circulating medium to 1-10th part of the empire; and, with the exception of 1*l.* and 2*l.* notes, which did not then exist, the same circumstances continue. (*Bull. Com. p.* 64, 197, *&c.*) "Paper of the Bank of Eng- "land is compressed more and more within "London and the adjoining districts, and pre- "ference is generally given, within the limits of "its circulation, to the paper of a well estab- "lished bank, over that of the Bank of Eng- "land." (*Rep. Bull. Com. p.* 64.)

Mr. Boyd (*p.* 54, *Evid. Secret Com.* 1797) says, "the circulating medium of London "principally consists of Bank of England "notes; and that of the country consists of "Bank of England notes, country bank notes,

and specie; and he means that the general circulating medium is to be so defined and limited; for, in his pamphlet, he says, "by the "words, means of circulation, circulating me-"dium, and currency, I understand always "ready money, whether consisting of bank "notes or specie, in contradiction to bills of ex-"change, navy bills, exchequer bills, or any "other negotiable paper."

Mr. Winthrop (*p.* 61, *Evidence Com.* 1797) says, "the right circulating medium of the "country is gold and silver," and he doubts whether it would be proper to increase the representation of that medium; and (*p.* 59) he says, "it appears to me impossible, the Bank "of England can safely fill up, by a proper "emission of notes, the void of currency cre-"ated by large exports of money for subsidies, "&c." Lord Liverpool (*p.* 220) says, "paper "currency, strictly speaking, *consists only* of "bills or notes, payable or convertible into cash "on demand by the person who issued the "same, at the will of the holder."

These references will sufficiently shew, that the circulating medium of England has been understood by high authorities to include, in

its utmost latitude, coin, Bank of England notes, and country bank notes only.

In the Evidence before the Commons' Committee, in 1797, Mr. Pitt, indeed, having remarked, (*p.* 103) that "if the scale of any trans-"actions, which cannot be conveniently carried "on without paper or money, as a means of "exchange, is at any time increased in any part "of the country, he should conceive that it will "create a necessity there for an increased circu-"lation, either of paper or money," proceeds to say, (*p.* 115) "this may be made by a pro-"portioned increase in the means of circulation, "either in cash, or country bank notes, *or some* "*other current paper, independent of the notes* "*of the Bank of England*." But he adds, that "he does not see grounds enough to sa-"tisfy him, that *mere individual credit* must *ne-*"*cessarily at all times* be able to supply increased "means of general or extensive circulation in "proportion to the increased scale of trans-"actions in the country; but if it did, it would "come within the exception as above, namely, "of an increased circulation provided for in-"dependent of bank notes." He also says, (*p.* 116) "I do not see that the causes enumerated "for reducing the facility of the circula-

"tion of paper, would any of them have a ten-
"dency to prevent the circulation of *any* pa-
"*per* that is usually current, unless the *credit*
"*of any of the parties* issuing it, should be
"affected by the consequences of them?"

It is one object of the present enquiry, to show, that this circulation of individual credit, which Mr Pitt so very cautiously and guardedly then doubted, was at that time, and has since been in a much greater degree, powerful as a means of the most important circulation. Before his observations, namely in 1793, it was considered to amount to 200 millions. (*See Mr Vansittart's reply to Dr. Currie's Jasper Wilson.*)

That the circulating medium of the country is derived, in a very large proportion, from this source, it will, I think, not be difficult to establish. "Bills, since they circulate chiefly "among the trading world, come little under "the observation of the public; but the "amount of them may be at all times greater "than the amount of all the bank notes of "every kind, and all the circulating guineas." (*Thornton, page* 43.) "They form, "in the strictest sense, evidently a part of

"*the circulating medium of the kingdom.*" (*page* 40.)

Mr. Huskisson (*p.* 3) notices of paper currency, that "there are two sorts, the one resting upon confidence, the other upon authority." Paper resting upon confidence is described by him as "circulating credit," and consisting "in engagements for the payment *on demand* of any specific sums of money;" and he adds, that "paper of this kind, *as alone* "used to be current in Great Britain, before the "restriction on the bank, was *strictly* circulating credit." The paper current in Austria, Russia, &c., is properly denominated paper "money." *In page* 8, "Bank of England "notes have, for more than a century, constituted a very large proportion of the circulating credit of this country." This "very "large proportion" will hereafter appreciated, upon documents which may justify a suspicion at least, that it is a very small proportion of the circulating credit of this country, and that a third sort of paper currency, not payable *on demand* by any specific sums of money, but so payable at *a defined future time*, is formed by inland bills of exchange. This circulating credit by bills of exchange, appears not to

have been sufficiently considered either by Mr. Thornton, or, so far as my information extends, by any other writer. It is even denied to exist, and I recollect an evidence, I think before the Lords' Committee, 1797, who, on being asked, "What is the circulating medium?" said, "Cash, Bank of England notes, and country "bank notes, both payable on demand;" and, on being further questioned, "Are not bills of "exchange to be added?" replied, "No, for "they are orders for, and resolve themselves "into bank notes or cash." This last reply is now found to be incorrect, inasmuch as the bulk of the amount of these bills of exchange is commuted and discharged without being paid in cash or bank notes, as will be hereafter shewn. The evidence is, besides, left short; and, among other questions, it might have been proper to ask, if, from the time of drawing such bills of exchange till the time of their maturity, they did not form a medium of circulation, and did not circulate with a clear increase of the confidence due to them, by the obvious addition of the name of every person who paid them, and the accumulation of his particular credit in the capacity of an endorser.

Mr. Blake considers bills of exchange, in

a very limited degree, a medium of circulation. He says, (*p.* 85) that "the effect of "bills of exchange, if never discounted, "upon the general currency of the coun-"try, would have been exceedingly limited, "compared with that which they have in the "more negotiable form of the notes of a bank-"ing company." But there cannot be so many bankers notes, originating from discount of bills of exchange, as the whole amount of those bills; and it will be seen, that less than 1-4th of the sum of existing bills of exchange, would at all times exceed the sum of all existing bankers' notes.

"The amount of paper circulation provided "for, independent of bank notes," and "the power of making calculation of its effect, have, I believe, first been brought into consideration by the Evidence before the Bullion Committee. In this Report (*p.* 236) it is shewn, that every day a sum of four or five millions of paper in circulation is paid with the use of only 220,000*l.* of Bank of England notes, in fractional sums and balances, by forty-five bankers living in London; and that, farther, there are twenty-one bankers in London, with the Bank of England, who separately discharge their engagements without attending at *the Clearing*

House. It cannot escape the attention of any person conversant with the detail of such business, that this sum of Bank of England notes, thus daily used for fractional balances, might itself be unnecessary, if the daily balances were carried forward to one annual settlement; in which case the use of bank notes could only be necessary for a single day in the year; and, reasoning upon possibilities and extreme cases, it might happen, that the balances of demands would be of themselves equal; and distinct cases in indefinite numbers may be put, in which sums to any amount will completely balance each other. The whole sum of this private circulation may become, in fact, wholly independent of the Bank of England notes; forming the circulation which Mr. Pitt contemplated in 1797, and which his knowledge of commerce suggested, but of the actual scale and use of which he was not duly informed. I refer my readers to the evidence given to the Bullion Committee, for the details of this system of the Bankers' *Clearing House*, which I conceive is yet in its infancy, and capable of being gradually improved in various ways, tending to make this species of paper circulation more and more independent of the notes of the Bank of England. I will endeavour to calculate from the data furnished by the evidence, some proofs of the importance of this medium.

Calculating 300 days in the year, at 4½ millions, the sum of paper engagements discharged daily at the Clearing House by 45 bankers, will be annually	1,350,000,000
These 45 bankers will pay at their counters,	150,000,000
The 21 bankers who do not attend, will pay	400,000,000
Received by the Bank of England, which had in 1810, as generally believed, 15 millions of discounted paper at or under 65 days' date, and would receive back from individuals about 230,000*l.* per diem, or nearly per annum,	70,000,000
By the different traders in London, who have no bankers, and all the acceptors in the country, which last in some parts of England, the city of Bristol particularly, are numerous, the sums must be very considerable, and may be computed	100,000,000
The bills drawn, and made payable at the Bank of England, by the agents of Government, &c., and circulating till their maturity may be.	10,000,000
N.B. It appears by the Evid. Com. 1797, that from Jan. 1, 1795, to Feb. 26, 1797, the bills paid by the bank, by orders of the Treasury, were 13 millions. (*Appen. No.* 12.)	
Other sums of Bills circulated, paid by the bank for the acceptances at their house, of the banks of Scotland, and their private customers, may be. . . .	5,000,000
	£2005,000,000

TOWN STAMPS.

1806.							1807.						
No. of Stamps.	Duty.		Amount.			Sum.	Circulation.	No. of Stamps.	Duty.		Amount.			Sum.	Circulation.
	s.	d.	£.	s.	d.	£.			s.	d.	£.	s.	d.	£.	
18,147	0	8	604	18	0	15	90,735	23,982	0	8	799	9	0	5	119,910
29,591	1	0	1,479	11	0	20	591,820	28,741	1	0	1,437	4	0	20	574,820
548,690	1	6	41,151	15	0	40	21,947,600	523,092	1	6	39,231	18	0	40	20,923,680
286,479	2	0	28,647	18	0	75	21,485,925	271,503	2	0	27,150	6	0	75	20,362,725
274,947	3	0	41,242	1	0	150	41,242,050	254,323	3	0	38,148	9	0	150	38,148,450
172,041	4	0	34,409	8	0	350	60,216,450	160,745	4	0	32,149	0	0	350	56,250,760
143,451	5	0	35,862	15	0	750	107,587,650	140,138	5	0	35,034	10	0	750	105,103,500
50,692	7	6	19,009	10	0	2500	126,730,000	56,698	7	6	21,261	15	0	2500	141,745,000
31,437	10	0	15,718	10	0	4000	125,748,000	33,231	10	0	16,615	10	0	4000	132,924,000
1,555,481			218,126	6	0		505,640,230	1,492,453			211,827	17	0		516,152,845
1808.								1809.							
39,597	0	8	1,319	18	0	5	197,925	65,838	0	8	2,194	12	0	5	329,190
137,250	1	0	6,862	18	0	20	2,745,160	551,964	1	0	27,598	4	0	40	11,039,280
480,059	1	6	36,003	19	6	40	19,202,120	302,644	1	6	22,698	6	0	40	12,105,760
280,709	2	0	28,070	6	0	75	21,052,725	282,955	2	0	28,295	10	0	75	21,221,625
236,977	3	0	35,546	11	0	150	35,546,550	189,274	3	0	28,391	2	0	150	28,391,100
167,632	4	0	33,526	8	0	350	58,671,200	174,873	4	0	34,974	12	0	350	61,205,550
131,436	5	0	32,857	10	0	750	98,572,500	83,619	5	0	20,904	15	0	750	62,714,250
60,090	7	6	22,533	15	0	2500	150,225,000	59,107	7	6	22,165	12	6	2500	147,767,500
37,051	10	0	18,525	10	0	4000	148,204,000	5,817	10	0	2,908	10	0	4000	23,268,000
1,568,791			214,321	15	6		521,897,240	1,716,091			190,130	13	6		368,042,255

For the purpose of comparison, the stamp duty is supposed to have remained unaltered. The sum of each bill is proportioned on a probable average.

These stamps are separated from those which are sold in the country, of which there is not so particular a statement as to permit the whole sum to be ascertained exactly; but as the nett amount of country duty received, considerably exceeds the town gross receipt, there can be no reason to suppose that the total sum will be less, and we may venture to conclude that stamp duty is paid annually on bills and notes of this description, amounting to more than 1000 millions; and we must add to this, all foreign bills of exchange, drawn from foreign parts, but remitted for payment, and circulating till paid, in England. When it is considered that goods imported are in general so paid for, and that the bills drawn on government, and on the East India Company, and Exchequer bills, are mostly of this description, it may be allowable to calculate upon 200 millions of such paper circulating in the year, without any payment of duty. Now all these bills of exchange are created with a power of circulation, independent of the notes of the Bank of England, for a certain defined

space of time; and, I trust, that it will not be unwarrantable to conclude, that Mr. Vansittart did not over-rate the sums daily circulating on the credit of mere individuals, in 1793, when he admitted it to be 200,000,000*l.* It is considered that by this expression, mere individuals, we understand the Bank of England to be excluded, though certainly not accurately; for the Bank of England, in its nature, differs from another bank in no respect, except in being a numerous, though (by being a chartered) a limited company, and having one great customer, which is the country; and also in that most exceptionable privilege which still exempts it from being liable, as other banks, to pay its notes in cash. Strongly inclined to believe, that a circulation provided for by the ingenuity of bankers and merchants, independent of Bank of England notes, does amount at this time to very considerably more, I will hereafter suppose it may be granted, that it amounts to a daily existing sum of 200,000,000*l.* and is to that amount to be added to the sum of other circulating medium in this island; more especially as in this assumption, it is not necessary to shew, that this sum is not at length resolved into Bank of England notes. It is sufficient that it is passed from

hand to hand for a limited time, and by being renewed and continued, becomes so passed at all times; and although it should be at length resolved into cash or Bank of England notes, which, it is very clear, will not be the case, this cannot at least be till after it has independently discharged its duty as circulating medium for the time it was agreed to be taken as such, without any fear or legal possibility of its being impeded in its temporary character of that medium. It is true that the day will come when any item of this medium, however secure for a time from the laws of legal tender, must become legally subject to be demanded in standard gold coin of this realm, of the weight of 5dwt. 8gr., like all other payments; but it has this satisfactory advantage, that when no such legal standard can be found, the mass of it will come into hands which are enabled to reciprocate the demand of legal payment, if when the amount is considered it were possible, and by a transfer of demands, balance and set off, to supply the want of it. And as Mr. Thornton coolly admits, *(page 15)* this medium of circulation "serves exceedingly to spare the use of notes*."

* Mr. Whitmore *(Bull. Evid.* 176) says, "the daily payments of the London bankers exceed, in his opinion, "five millions, 'which *are wholly made by Bank of England Notes, except fractional sums;*' and he adds, that fifteen hundred millions are *so paid* in one year, on the counters of the London bankers alone. The "Esprit de "corps" of the Bank Parlour, and the respect which the Governor of the Bank must have for the corporation he presides over, will excuse the want of recollection of *the Clearing House.*

The contrivance of *the Clearing House* was in effect practiced at an early period by foreign bankers. In 1636, before the Bank of England existed, Malines stated the process as follows, *Lex Mercatoria,* (*p.* 96)—"Some will say, or demand, Cannot a man have any ready money "out of the bankers' hands, if he have occasion "to use it? Yes, that he can; but, before he "have it, they will be so bold as to know for "what purpose he demandeth the same, or "what he will do with it. If it be to pay any "man withal, that they will do for him, as "having account almost with all men. Peter "hath 2000 ducats in bank, and John hath "3000, and William 4000, and so consequently others more or less. Peter hath occasion to "pay unto John 1000 ducats; he goeth to the "bankers, and requireth them to pay 1000 ducats unto John, whereupon they presently "make Peter debtor for 1000 ducats, and John

"creditor for the same sum; so that Peter having assigned unto John 1000 ducats, hath now no more but 1000 ducats in bank, when he had 2000 before; and John hath 4000 ducats in the same bank, when he had but 3000 before. And so in the same manner of assignation, John doth pay unto William, and William unto others, and not any money is touched, but remains still in the bankers' hands. If they pay out money to any man who having money in bank, will bestow the same in purchase of lands, they will still have an eye to have it again in bank one way or other, at the second or third hand; so that they once being possessed of monies, will hardly be dispossessed, and their payments are in effect all by assignation."

It is obvious, that the extent to which commercial transactions have been carried since the time of Malines, would have been wholly impracticable, if it had not been for the facilities derived from this arrangement. How much such transactions would otherwise have been impeded, even if the requisite quantity of gold could have been procured, needs no illustration; and not only is it founded upon convenience, but every commercial man has equally a personal

interest, that bills of exchange acting as orders for transfers, should be discharged without being resolved into the payment of legal coin, or dependent upon it: nor is it easy to conceive that any trader would require such payment, with the knowledge that he would thereby subject himself to a similar demand. When, to these considerations, it is added that, unlike either gold or notes, if it suits his convenience to keep his bills on hand, he can retain them till their maturity, without loss of interest, (an object so important on any extended scale of business,) the preference due to bills, and which will be given them by the trader, is clearly established. "The possessor of a bill of exchange possesses that which is always growing more valuable." *(Thornton, 40)*

Here then the position, that there is a most important and extensive "circulation provided for, independent of Bank of England notes," may be permitted to rest without going into farther details of an extensive subject. I will not venture, while adding 200 millions to the 60 millions, which are the largest circulating medium defined in the works of the authors who have written upon this subject, to appreciate lightly their circulating medium,

and consider it as "small change, or pocket "money;" or treat their works on gold and bank notes, as the speculations of the fly on the cow's horn. It is not surprising that such a stupendous power of circulation should have been inadequately considered, for it is comparatively of short existence; and unless I am greatly misinformed, still confined to this empire and its adopted situation in America, with some trifling exception of modern date with respect to France, where inland bills of exchange circulate in a small degree. The period is, however, arriving, when the importance of this medium cannot fail to be more justly appreciated, and we shall be enabled to relieve our minds from the paradox, that prosperous trade and accumulating riches require increase of means of circulation, by powers independent of their circumstances. An inland bill of exchange of sufficient credit to be discounted at the Bank of England is, at the present day, a circulating medium for almost every commodity in commercial dealing; and in the county of Lancaster, the population of which is equal to London, it is, among the mercantile part of the community, nearly the only respectable medium in use. When the metallic money of the country, from causes of a more serious nature than its incon-

venience as a medium in mercantile transactions, ceases to exist, and the laws of legal tender are become obsolete under this absence of coin; when its place is occupied by an issue of Bank of England and other bank notes, the consequence of which is only too well known; it is some consolation that there remains a medium of circulation, neither founded on gold or silver, nor dependent on these notes; a circulating credit, rising out of *bona fide* transactions, and representing them, which, even at the period when every man entitled to it, had subject to his command, any amount of gold he wished, was in use to such an extent, that the coin of the nation was comparatively with it, a dwarf to a giant.

On Excess & Depreciation of Bills of Exchange.

BEFORE entering upon the consideration of the excess and depreciation to which bills of exchange have been supposed to be liable, it may be proper to advert to the distinction which, in this country, is made with respect to the circulating medium, as calculated to serve two different purposes, viz.—1st, In the transactions of real property, and financial business, considered to require a medium of coin formerly, and now of bank notes: 2dly, In commercial transactions, which require chiefly, and in many parts entirely, a circulation by bills of exchange. It is true that government, and the landed proprietor, on the one hand, and the trader on the other, have alike the legal right to demand payment for taxes due, or for rent, or land or general commodities sold, in Bank of England notes; or while government has relinquished it, the landed proprietor and the trader have alike the legal right to demand payment in gold coin of the realm. In the case of government, the concerns of which may have been considered too many, and in that of the landed proprietor,

whose concerns in many instances are perhaps thought too few, to admit of commodious or eligible payment through the medium of bills of exchange, they have not hitherto come into general use; but whatever, under particular circumstances, may take place between the landlord and tenant, if the tradesman were to become the rigorous creditor, by demanding payment from his respective creditors in coin, to the exclusion of bills of exchange, he would, by forfeiting the good opinion of his fellow trader, deprive himself of the power of buying and selling with his neighbours. There is, perhaps, not in the history of any country, a more striking instance of the force of public opinion, which, founded on a sense of justice and common interest, extends to every banker and trader in the kingdom a protection as powerful as is given, by law, to the Bank of England. Trade being a system of mutual dependence, we have in this, the effectual security of the arrangements which it occasions.

Assuming, then, that the landed and financial circulating medium is one thing, and the commercial another, and that they are kept each distinct, it may follow, that these two means of interchange constitute one mass of national

circulating medium effectual to all purposes. In this view, the daily circulating medium of this country will be divided by the following round numbers:—

FIRST, Commercial, consisting of bills of exchange and paper, circulating on the credit of individuals	£200,000,000
And of bankers' notes not privileged, payable at different fixed dates or on demand,	30,000,000
SECOND, Landed and financial, sale and rent of land, with hire for labour, and collection of taxes, consisting of Bank of England notes as substitute for Gold	20,000,000
Gold and other coin	5,000,000
	£255,000,000

It is out of the question, that in any country, the transactions of which are so intermixed as in our own, these classes should be kept distinct. In certain instances, even Government taxes are received in inland bills of exchange; and, in payment of labour, and generally, in payment of small amounts, the use of notes is common alike to all. Inactive capital cannot preserve separately its medium of circulation. When deposited with the banker, its hoards, discounted for the sake of profit into commercial paper, become the support of active industry, and contrary perhaps to the wishes, and without the knowledge of the owner, are

the funds which invigorate the ingenuity of the manufacturer, and the adventures of the merchant; and when, from any cause, avarice becomes alarmed and recalls its deposits hastily, for the purpose of hoarding, it is certainly difficult to separate these secretly combined interests without some of the miseries of impeded circulation.

We are not able to trace inland bills of exchange to any remote origin. Though they now constitute general circulating medium in commercial transactions, applicable in their nature to all dealings, and convertible by discount into cash currency, yet their introduction is only less recent than that of notes. In 1636, foreign bills of exchange were the only bills in circulation, or known in this country. The progress of inland bills of exchange is briefly stated by Chief Justice Treby, who, in 1699, says, "bills of exchange at first extended to "merchant strangers trading with England, "and afterwards to inland bills between mer-"chants trading one with another here in Eng-"land, and afterwards to all traders and nego-"ciators, and of late to all persons trafficking "or not." Last of all came into use, notes which were called bills obligatory. They were,

however, held to be much inferior to bills of exchange, which last, Malines says, "must "not be made payable to the bearer or bringer "thereof, as your bills obligatory, to avoid the "inconveniences which might happen in de-"rogation of *the nobleness of bills of ex-"change*, which every merchant is to main-"tain." These bills obligatory were the goldsmiths' notes, which commenced in the reign of Charles II. and passed into Bank of England notes, bankers' notes, and promissory notes generally, as now understood. Under this class we have also to arrange what, in conformity with ancient language, is still called by the bank directory, *a town note*, but is better known in the country by the name of *an acceptance*. This town note or acceptance is a bill drawn by a seller of goods on the buyer, by means of which a borrower and lender may for mutual convenience borrow from public confidence, the seller being tempted to extend the dates of these engagements as long as he can pass them either in payments or for discount. In form, these town notes or acceptances are bills of exchange, but they do not pretend to transfer any previous debt, or any reserved capital, but merely represent the bargain, which may again be represented *ad infi-*

nitum. The mischief arising from this suppositious instrument is not the mischief of inland bills of exchange, but of notes assuming their form; and it is not surprising that a large proportion of paper circulation, dishonoured at maturity, should consist of these acceptances, which are notes of the most dangerous quality, by being the great inlet to imaginary capital and speculation. It appears, however, by the evidence before the Bullion Committee, that the Bank Directors give a preference to them over inland bills of exchange of some descriptions, even "although there were no doubt of "the solidity of the latter." This may be owing to their better opportunities of knowing the transactions of resident parties; but the fact is obvious, that if parties to whom the confidence of the bank directors is extended, can by any means elude their vigilance, or by any contrivances escape detection, the full range of this system of buying might be conveniently agreed to by different sellers, until the buyer became possessed for a limited time of articles of produce, to the amount of millions, without investing a farthing, or transferring a debt, or possessing any capital. In his hand would be placed the lever of Archimedes, which as long as it could rest upon the good opinion of the bank directors, might at pleasure move the mercantile

world. Mr. Thornton *(page 26)* says, "if "we suppose a progressive enlargement of "these notes, the bank must be assumed to fur-"nish perpetually increasing means of effecting "payments, and render punctuality in ful-"filling even the most extravagant engage-"ment, convenient and easy to the merchants." With this inferior instrument, it may be pleasing to contrast the inland bill of exchange, drawn to transfer an existing debt owing from one party to another, in payment to a third party; in which transaction, the first debtor or the banker, in the character of an acceptor, becomes a guarantee that there is a *bona fide* representation of real capital. This bill is founded on the commercial credit given in buying and selling, and is a just and limited medium of circulation. It is the sign of that credit, and forms the coin of that circulation. By its means, capital is not created, but capital possessed is kept at hand and never out of use; and the utmost limit of *bona fide* property is brought constantly to bear on the increase of commerce.

It is curious to trace the difficulties which were to be overcome, before the use of bank notes and bankers' notes, now so much esteemed, could be introduced. The most celebrated law-

yers of old times opposed their admission with all the strength of reasoning and continued reluctance which the practice of the courts would enable them to extend. In the second year of William and Mary, Chief Justice Holt said, "such notes were not bills of exchange, "and maintaining actions upon them was inno-"vating upon the rules of common law, setting "up a new sort of speciality unknown in common "law, and invented in Lombard-street, which "attempted, in these matters of bills of exchange, "to give the law to Westminster Hall." One of these notes being established in the Common Pleas upon the declaration of the custom of merchants, was reversed in the Court of King's Bench, *(Culling v. Williams,* 1 *Anne,* 1 *Salk,* 25.)—but, on a subsequent trial, *(Buller v. Crips,* 6 *Mod.* 29.) C. J. Holt said, "he "remembered when actions on inland bills of "exchange first began; but the notes in ques-"tion," he observes, "are only the invention of "the goldsmiths in Lombard-street, and sure to "allow such a note to carry a lien with it, were "to turn a piece of paper, which is in law but "evidence of a parol contract, into a speciality," &c.; and, farther, "the notes are not in the "nature of bills of exchange, for the reason of "bills of exchange is for the expedition of "trade and its safety, and likewise to hinder

"the exportation of money out of the realm." The Chief Justice remained firm, and notes were not established until a purpose law (3 *and* 4 *Anne*, c. 9) made all promissory notes recoverable by action "in the same manner as "inland bills of exchange." But many eminent merchants were dissatisfied with what Sir J. Child, in his "Discourses on Trade," calls "the innovated practice of bankers, and the "new invention of cashiering*." In the lapse of time, however, the more recent invention has usurped the post of honour, and is increasing, while the former is diminishing. The report of the bullion committee says, that "4½ mil-"lions of Bank of England notes and country "notes were, in 1809, added to the circulation "of Great Britain, an amount little short of all "the circulating coin added in all Europe in "any year, since the discovery of America," (*Report*, 70)—while we are enabled accurately to state, that in the same year, so far from an addition to the circulation of inland bills of exchange, there was a very considerable diminution. This will clearly appear by a comparison of the duties on stamps taken from the official documents published from the stamp office of

* See Appendix to Malone's Enquiry into the pretended Shakespeare Papers.

the gross receipt for town duty, and already mentioned.

	The Number of Stamps was	Amount of Bills drawn on Town Stamps.	Amount of all Bank of England and other Bankers' paper, according to Mr. Johnstone's calculation.
In 1806	1,556,000	£505,640,230	———
1807	1,492,000	516,162,835	44 millions.
1808	1,568,791	534,417,240	42 ditto.
1809	1,716,091	368,042,255	49½ ditto.

Whence it follows, that, in 1809, the circulation by bills of exchange decreased 166,374,985*l.* in the bills drawn on stamps sold in town only; and when we take into consideration that upon these bills of exchange is grounded the whole of the advances of the Bank of England by discounts, for the encouragement of trade, the prosperity of the country, its safety from enemies, the regulation of all the currency of Great Britain, and other like splendid atchievements, it is certainly strange that, while the total amount of bills of exchange, has thus decreased in the year 1809, the sum employed in discounting them, or, in other words, that portion which was wanted to be discounted, should have enlarged so extravagantly, and been greatly higher than it ever was before. The exact sum of the bank discounts, is for some, not very obvious reason kept carefully concealed, but busy spirits are inquisitive, and secrets do come out. Cer-

tain memoranda of the Bullion Committee are said to have been procured, and it is asserted that the scale of discount

In 1797 was represented by	241
1799	251
1810	688

That the circulation of bills of exchange diminished, while that of Bank of England notes and other bank notes increased, in the year 1809, and that "the innovated practice of bankers" has lately supplanted the old custom of merchants, is I think certainly true, and I believe it will be found that the sum of the discount of mercantile bills of exchange by the Bank of England has increased in no year so rapidly as 1809, when the total amount of such bills has rapidly diminished. If this be so, any evils arising from the excess of paper circulation, cannot, at this time, be attributed to the excess of inland bills of exchange, which are not supplied "as means of extensive and general circulation" in a greater degree than is required by prosperity and thriving trade, but as far as they are so required are naturally at all times supplied. It is no slight argument which hence arises in favour of a circulating medium thus elastic, and enabled to accommodate itself to the actual

wants and objects of a commercial country; and we may be induced from it to prize that mode of circulation, which, being extended on substantial ground for twenty years to the amount of 200 millions at least, can now adapt itself by diminution to all the absolute wants and extraordinary circumstances of the times. It is also gratifying to those who respect old fashioned doctrines and the prejudices of our forefathers, to shew, that this medium, when confined to its just definition, is, in ordinary times at least, not liable to excess and consequent depreciation, unless by interference of a third party, which, while the credit capable of being circulated for sixty-five days, by means of a bill of exchange, is already fairly compensated, and in exchange is given *bona fide* for valuable considerations, discounts such bill, for the sake of gain, into notes, payable on demand, and thus alters the natural state of things. Of this most valuable medium, it may be truly said, that, when unadulterated, it is, in the ordinary course of business, incapable of excess. The value being already "received," not merely by the buyer of the commodity for which it is given, who may be the drawer of the bill, but by its acceptor also, who, in accepting, declares it; these bills have necessarily the advantage

of two securities; and if, in the several stages through which raw materials pass into manufactured articles, property is, in certain instances, converted, so as to admit of its being represented by more bills than one, the advantages of the system are still such, as much more than to counterbalance the objection. Although too familiar to require illustration, the circumstances will induce me to attempt to shew, by a single case, what is nearly the general history. Let us suppose a merchant in Liverpool to receive from America, on commission, a bale of cotton, and, for the value, a bill of exchange to be drawn upon him at 60 days' sight. That bill and the cotton which it represents, will arrive, if not by the same vessel, nearly at the same time. The cotton is sold to a dealer, who in ten days gives for it his bill on London, at three months' date, the value of which has been "received" there, not in this bale of cotton, but in a former transaction; or if not so absolutely regular as this, the bill, to say the least of it, has two securities. The dealer sells the cotton to the manufacturer, and gives him two months' credit, during which period no bill exists on account of this stage in the progress. At the expiration of the credit, he receives from the manufacturer a bill at two months; which, if

the manufacturer has been successfully expeditious in manufacturing the cotton into goods and selling them, might undoubtedly represent the cotton so converted. Most probably the fact will however be, that the goods if sold, are sold to the exporting merchant at a credit of four months; and as during this period there is no bill in the transaction, the manufacturer's bill to the dealer at two months will, equally with the dealer's to the importer, represent other property. The merchant sends the cotton again to sea, exporting the goods manufactured from it, and receiving after the stipulated credit, a bill from his customer in payment; which bill, if drawn upon this country, will represent other property also.

These transactions form a short and simple history of the bill circulating medium. The exporter has at the close paid the importer virtually, as if the transaction had been only between two parties; and the powerful machine of bill currency has filled up an intermediate chain of dealing, which has given profit to a numerous class of dealers, manufacturers, labourers, bankers, and others. The real advantages to trade, arising from bills of exchange, and from the banking system by which they are

thus commodiously carried into effect, are shewn by the fact, that all the parties are enabled to discharge, in the most correct and punctual manner, their mutual engagements, and bring to a conclusion this chain of industrious labour. The chasms from discordant dates are filled up, balances set off balances, and all runs smoothly and in order. Neither is there any excess of the circulating medium: what is wanted is used, and what is purposed is completed; which purpose is, to obtain the difference between the amount of the first bill, on account of the cotton, and the last on account of the manufactured goods; a difference which, constituting the gain of the parties to the transaction, and supplying revenue to government, adds to our stock of wealth. This certainly is capital created by well directed labour, with the aid of circulated credit.

The operation of the bankers' *Clearing House* as to the respective bills in this transaction will not escape the notice of the reader. Each party had probably a different banker, but by the transfers made at *the Clearing House* the whole is conducted as it would have been if managed by a single bank; and the result is, not that one bill is paid, but simply the ba-

lances, *i. e.* the amounts by which each succeeding bill exceeds the preceding, and which consist of the expences and profit of the business done. It would be the literal fact, that not one of these bills would be actually paid, if by becoming due at the same date, they could appear together at *the Clearing House*; and although the identical bills do not so appear, the operation is the same substantially; other bills, if not belonging to the same parties, at least in the hands of the same bankers, answering the purpose as effectually on any given day, and producing eventually the same effect to the parties, as would have been accomplished by their own bills. It is not only probable, but may be expected, that the bill originally drawn for the bale of cotton, may be balanced by one drawn from Kamskatca, or other quarter as remote, and the real *balance of equivalents* be found in the *representative of money's worth articles*, collected from "Nova Zembla, or the Lord knows were."

A case I know may be put, in which depreciation will arise; and unfortunately with all the advantages to trade in general, of a paper, above a metallic currency, periods do come when in consequence of it, particular classes of

traders are sufferers, who would not otherwise have been affected. Goods are sold during a time of peace, and payment for them is made by a bill of 65 days' date, before the maturity of which a war breaks out, the goods are depreciated, the buyer fails, and the bill is worth only the dividend from his effects, and the effects of the acceptor, whose fortunes may have undergone the common fate. But it is obvious that, whether the currency of a country is gold or bills, these evils to its property will alike exist, whenever a war or any calamitous change in political or other events occurs, and especially if it occurs suddenly, though they will fall upon different classes. The holders of various commodities, if on an extended scale of business, and the event affecting their business could not be foreseen and provided for, will be inevitably doomed to suffer difficulty, and contribute to entail difficulties on others. The evil is in the depreciation of the commodity, and is not by any foresight wholly separable from trade, on whatever system of currency it is conducted; and the remedy of which alone it admits, is to be derived from that circumspection, which, availing itself of experience, will be prepared against contingencies, and especially from that considerate, honourable

feeling, by which men truly respectable will, under any circumstances, rather be less rich, than have too much afloat.

A farther question on this subject, is, whether excess of circulating credit does not exist from accommodation bills. There has certainly been much of that excess; and the consideration of it is reserved for the following chapter.

On the Abuse of Bills of Exchange, occasioned by excessive Discounting.

I HAVE endeavoured to shew, that the medium of circulation, which consists of bills of exchange, is, in its pure and simple principles, incapable of excess. The abuse of it arises from its being corrupted and vitiated, and the manner in which this is done I shall now endeavour to explain.

The leading principle of this evil is obviously by bills of accommodation. The most popular financier ever placed to guard the interests of this country, condescended to raise upon bills drawn for his accommodation by Messrs. Boyd and Co. the money which it was not convenient to obtain by loan and taxation, and to receive with reluctant indignation, the

indemnity, by which Parliament judged it necessary to protect this measure, and determined to protest against its recurrence. The laws of the country have more than once given encouragement to the issue of Exchequer bills for the relief of commercial distress, without any *bona fide* transaction of business; and lastly, the prevailing system of discount has, I conceive, contributed more than any other cause, to increase the mischief.

Strange as it may appear, there is an opinion very generally prevalent, that the discounts of the Bank of England are not merely convenient, but that they are essential to the vital interests of trade, and that by the utmost possible extent of them the utmost possible extent of commercial prosperity will be produced; that a considerable diminution of them would be followed "by injury to the general confidence and "credit of the country," *(Bullion Committee, p.* 217*)* "much public and commercial dis-"tress," *(B. C.* 154*)* and "if persisted in, "ruin to the mercantile part of the commu-"nity," *(p.* 153*)* and "fatal consequences to "the commerce and revenue of the country." *(p.* 186.*)* The largest "amount of mercan-

"tile discounts by the bank," says the Bullion Report, "if it could be considered by itself, "ought never, in the judgment of the Com- "mittee, to be regarded as any other than a "great public benefit." On this decision Mr. Bosanquet (*page* 106) very sensibly observes, "I much wish the Committee had not stamped "with their authority a doctrine, which re- "quires more consideration than they have "bestowed upon it*."

If one individual is ready to receive in exchange for goods a regular bill of exchange, payable at a future time, with which bill he can buy from another person, the medium of

* Of this trade which has been thus created and fostered within the two or three last years, Mr. Huskisson says, (*page* 137) in some degree of opposition to the judgment of the Bullion Committee, "the chain was sure to give "way in some of its links—great and numerous failures "are the consequence—suspicion and alarm become ge- "neral—securities, hitherto negociable, can no longer find "discount—many of the discounters themselves are ruined, "and all are put on their guard—the markets fall—goods "are forced upon sale, when all are afraid to buy, and "whilst the fortunate *few* retire upon wealth rapidly ac- "cumulated, thousands are left to lament the ruin, which, "deluded by the example of such rapid success on the "one hand, and tempted by the facility of over-trading on "the other, they have brought upon themselves."

circulation is created; and as long as bills paid on *bona fide* transactions are allowed to remain in circulation, and as the profit is not sought, which arises from discounting them, there must be a circulating medium in due proportion to the prosperity and increasing wealth of the country, and no more; and if the Directors of the Bank of England are told by Statesmen, who seek their confidence, or if they in any way believe, that while they serve their own interest by getting profit from discounting merchants' paper, they act at the same time as patriots, promoting the good of their country, and allow themselves to be delighted by so happy a union of profit and patriotism, they should pause, and reflect whether to induce merchants to overtrade their capital is not to spoil trade, and whether those who are anxious to borrow are likely to be rich, and whether those who seek to run in debt do not certainly run into danger. "Have we not seen enough," says Mr. Huskisson, *p.* 134, "of the ultimate effects of this "artificial facility and these forced specula- "tions? To those who still shut their eyes "to the melancholy, but instructive lessons "which we have lately received in this repect,

"it would be useless to offer any other proofs "of their destructive tendency. They would "remain unconvinced, even if all the follies of "the South Sea adventure, or of the Mississippi "scheme were acted over again."

If it is conceived by the statesman or philosopher, that all those fine things are brought about which are so eloquently stated to arise from bank discounts, it will be forced upon their knowledge by the cases decided in the courts of law, that abundance of accommodation paper, and of crimes nearly allied to forgery, coining and swindling, are also attendant. The good, whatever it may be, is not unmixed.

It was in 1793, perhaps for the first time, believed, that prosperous and thriving trade "did not necessarily at all times supply means "of general or extensive circulation," and the Bank of England was convinced that to provide the mercantile world with circulating medium, it was requisite to discount largely. "And now the restriction act is in force," says Mr. Blake, "the only rule of their conduct "will be, the validity of the bills that are "offered for discount, and they are bound by

"the duty they owe to the Bank Proprietors, "who appoint them, to profit by the faci-"lities thus imprudently granted by the Go-"vernment." What in the year 1793 was urged as a temporary measure, was afterward defended as a permanent one, and is now received as a first principle: nor can we be surprised after this, that the supply of circulating medium furnished by the Bank discounts, should have increased from 500,000*l.* which it has been estimated to be in 1791, to what it has since become. Mr. Pearse says, (*Bul. Com.* 128) "I am not of opinion that the applica-"tion for bank notes is for any other purposes "than as a circulating medium in the inter-"change of property," and appears wholly unconscious that they can ever be obtained for purposes of speculation. The greater the facility of obtaining them, the greater will be the longing for them; "and the Bank Directors ap-"pear to have considered the increased eager-"ness for discount as requiring some increased "indulgence on their part." (*Huskisson, p.* 136) And of course the more is given, the more will be wanted, inducing the Directors of the Bank, with whatever reluctance, to relax those rules by which, as appears by the evidence before the Bullion Committee, "the conduct of the Bank

"has been regulated;" (*page* 129) and we hear of various sums, in one instance 100,000*l.* being lent, not on bills for *bona fide* transactions, but on bills avowedly originated for the purpose of borrowing upon, without any transaction of real business. No wonder can be excited that with such examples and precedents, there are individual traders raising money upon bills, and carrying on great speculations without capital; and no wonder that in one day, in July 1810, five houses connected together in this mode of raising money, should stop payment for 1,766,602*l.* In discount so conducted, we have the true cause why bills of exchange, "though professedly drawn for exchanging a debt due to one person for a debt due to another, are in fact created rather for the sake of serving as discountable articles." (*Thornton, page* 39)

This increase of discount certainly does not grow with the growth of trade, nor strengthen with its strength: on the contrary, it exists in the greatest degree during commercial distress and national calamity; proceeding upon the vain attempt to keep, during those periods, the same quantity of paper afloat, which would have been necessary and rational only when (no such

distresses and calamities occuring,) the goods represented by the paper drawn and discounted, were in their accustomed demand, and of their accustomed value. In proportion as the demand lessens, and the goods are useless, the least which can be said of the bills which, notwithstanding this, are still forced into circulation, is, that they are useless also. But they do not stop here: the discount of such bills begets a gambling for time, and requires to be renewed indefinitely, so that the medium created and passed as circulating credit, is more properly circulated hope of success; a device to put off the evil day, which, like many other devices for that purpose, the more it is had recourse to, the greater the evil becomes. In the common sense of mankind it is, to "raise the wind," to "fly a kite," or any thing rather than what is founded in substantial good, or likely to produce it.

Nor is this all, for when distresses arise from any interruption to trade, with the causes of which, the circulating medium whether of gold or paper may be alike unconnected, if bill discounters are, in defiance of the general feeling, to give credit, when others will not, and thus prop up a vitiated excess of paper currency, another consequence will be, that of their con-

tributing, in no small degree, to insure a return of the calamity. For it is found, that there is a periodical return of the interruptions to trade; and as there were convulsions in the mercantile world in 1772, 1788, 1793, 1799, and 1810, they may be expected to visit it again; and so long as the improvident trader is injudiciously befriended by this system, it proves that the calamity is thought to be best relieved by what is the sure means of increasing the cause of it.

In endeavouring to point out the errors and injuries of imprudent discount, I trust, there can be no occasion to protest against being understood to proscribe discount altogether. There is no doubt that, in the present state of the circulating medium of this country, the discount of bills of exchange is an increase of power; a power, the consequences of which are good or bad, just as the principle on which it proceeds, is correct or not. To the substantial tradesman, it is a power, the use of which is generally confined within a small compass. While bank notes are requisite for government duties, and these or other notes are requisite for the payment of labour and other amounts in small sums, he can, at the maturity of his bills, provide himself with notes as he wants them;

and it is only when, in the course of his business, he has occasion for more notes than he has bills at maturity to command, that, calling into existence what with respect to him would not otherwise have existed in that form for sixty-five days to come, he has recourse to discount, or what is the same thing, that he procures from his bank, the notes requisite, replacing them with bills, by which, at their maturity, his account is balanced.

Before the year 1797, the sentiments advanced in these pages would have been supported, as it appears to me, by the general opinion of mercantile men, and the undeviating practice of the Bank directors. It has, at different times, been held, that the utility of bank discounts on the scale on which they have been conducted, was doubtful. In 1797, (*Secret Com. p.* 14) Mr. Giles says, "if the bank notes in circulation were "reduced one half, I do not think the public "would suffer any present inconvenience, but I "do not speak of the future." At that time, Mr. Boyd says, (*page* 54) that "government "had borrowed from the bank, and were in-"debted 10,916,010*l.*, which sum exceeded all "the bank notes, then in circulation," and thus none remained to be placed to loans on dis-

count." Mr. Giles says, (*page* 16) "there "have been, within these ten years, times when "we have consulted whether we should not "lower the rate of interest, which shows that "the discounts must have been very low." It appears, indeed, probable from other documents, that they were in 1790 and 1791 as low as 500,000*l.* (*Month. Mag.*, *Oct.* 1797); and with respect to that opinion of the future, which in 1797, Mr. Giles declined to give, it may be obtained from the admirable testimony of Mr. Richardson, the bill broker most conversant with the subject, who is asked in 1810, "what would be the consequence of reducing "the amount of circulating paper, by refusing to "discount so largely as at present?" and his reply is, "a more steady and regular price in "all commodities, and more confidence in all "money transactions;" (*Bul. Com.* 231)—and from the evidence of Sir Francis Baring, 1810, who says, "for all the purposes for which bank

"The value of money at that time prevented any really good paper from being offered to the Bank for discount, when their terms were fixed at the highest legal rate of interest. The price of the three per cents. consol, then ninety per cent, will prove, that the value of money was less than the bank price, and that discounts might be obtained plentifully from private discounters.

"notes are useful," (and he much exaggerates these purposes) "I conceive that 11,000,000*l.* "of Bank of England notes are far more than "sufficient." He however puts sufficient value on these notes when he says, (*page* 198) "Bank "of England paper is the basis on which the "best interests of the country rest; it is the "seed which serves to produce the whole of "its commerce, finance, agricultural improve-"ments," &c. But as if correcting himself when speaking of "demands created by the "bank and not arising out of a regular course "of trade," he adds, (*p.* 199) "I know, by "experience, demand for speculation can only "be limited by want of means." The change of the bank system is certainly an appalling circumstance; but in this quarter, error, when discovered, will not be permitted to remain. The success of the system, by which the bank directors had previously guarded the interests of the bank proprietors, was strikingly displayed when the accounts of the Bank of England were laid before both houses of parliament, in 1797; at which time, it appeared that the "bills discounted and unpaid" were only 88,120*l.* It is not probable, that this sum comprised all the bad debts from their first establishment. If it was limited to those

only which were not finally compromised, it is sufficient to excite the most sincere admiration of the diligent, watchful and wise management of this great business. The further fact, that last year the governor announced to the court of proprietors that the bills discounted and unpaid were less than had been rumoured, but amounted to 400,000*l*, is sufficient to shew, that errors have crept in; but the approved excellence of the general system would almost demonstrate, that being observed, they cannot be continued. I am not without hope of the revival of the good old doctrines. I hope that they will yet become public opinion, and will lead to those improvements in the English banking system generally, of which, from powers within itself, I conceive it to be amply capable.

It is become familiar to class the business of bankers geographically, distinguishing their different institutions by their local situations. Little consequence would attach to this classification if it did not, in some degree, lead perhaps to contemptuous and confusing appreciation. There is certainly no use in description which does not relate to some important distinction in essential character; and, any distinction which has a tendency to induce erroneous judgment, must be lamented. We learn from Mr. Thornton, (*page* 74) that, in 1793, "the Bank "of England was indisposed to extend relief "to houses in the country, till they found the "relief of the country was necessary to the sol-"vency of the metropolis."

The operations of Banking will be found to consist

FIRST, of deposit, or safe custody.

SECOND, of loan, or discount.

THIRD, of circulation of notes.

FOURTH, of drawing and accepting bills of exchange.

These different branches are not equally divided to all bankers. They are appropriated, in a great measure, in the following manner:

FIRST, deposit, loan, discount, circulation, to the Bank of England.

SECOND, deposit, loan, discount, circulation, and drawing and accepting bills of exchange, to those called country bankers.

THIRD, deposit, loan, discount, and accepting bills of exchange, to those called town bankers.

Of the nature and extent of their different dealings, we are enabled, from what has been already stated, and from other calculations, to form some judgment.

The Bank of England has in circulation 23 millions, and the country bankers 32 millions value, in notes payable to bearer on demand: the notes of the Bank of England pass current as circulating medium in the metropolis, and the other bankers' notes in the country, and almost exclusively of each other. The Bank of England is understood to lend usually on discount of commercial bills of exchange from three to five millions, but lately to have extended its discounts very considerably, by its notes now in circulation, payable on demand under restriction. It is not easy to calculate the discounts of the other bankers, but that they are considerable, appears by the evidence before the Bullion Committee. (*Page* 178, 179, 180, 182, 183, 215, *et passim*)

The proprietors of the Bank of England are about 600, and those of country banks, supposing two to each firm, about 1600. The capital of the Bank of England is 11,640,600*l.*, and with its undivided profits is considered in the whole 15 millions: that of the other banks is the private fortunes of all the individuals concerned,

which it is not possible to conjecture with any tolerable accuracy.

It is not necessary to consider the comparative security and convenience obtained by the public, from 15 millions of capital in one hand, and a capital divided in 800 hands, especially as there is, in some degree, competition, and the public must have the power of choice. The work is done to the envy and admiration of the world; and we are taught to believe, on the authority of Dr. Adam Smith, that the dangers arising from banks are lessened by the multiplication of them.

The profits of the Bank of England were, in 1797, calculated by Mr. Allardyce, in three different methods, and one of them was founded upon the documents furnished to Parliament by the Directors: the results were,

According to those documents	£1,272,710 net profits.
By other modes of statement	1,303,502 gross ditto.
	1,437,752 ditto.

these profits appeared to be derived from the following sources:—

Circulation of Notes	10 millions.
Discount of Bills	3
Loans to Government	10½
	23½

In 1810, these sources of profit were supposed to be increased in the proportion of the bank notes in circulation, viz. from 10 to 23½ millions, and it will follow, that the present profits may be more than double those of 1797, or in round numbers about two millions and a half, or three millions.

The profits of the other banks cannot, so far as I know, be calculated on any certain foundations; but when it is considered that their circulation of notes is larger, and estimating their profits from bills circulating in such very superior amounts, and the general advantages which individual establishments possess, it is very possible that they receive an equal share of emolument, and that the whole profit derived by banking establishments from the public may be five millions; this, upon the whole business transacted, does not appear equal to a profit of five shillings per cent.

The Bank of England is a chartered company. The other bankers are private partnerships. They would, in this respect, bear to each other the same affinity which the Sun-Fire Office, or any other numerous co-partnership, would do to any chartered company, were it not

that the Bank of England has the exclusive privilege, that more than six partners cannot form a bank, and also the modern privilege of not being obliged to pay their notes in coin, which the other banks may be legally compelled to do. By these means, with increasing confidence and credit, and magnitude of dealing, clearly evinced by the increase of the currency and circulation of all the parties, is the wonderful machine of the paper circulation of England carried forward.

Before the restriction of the payments in specie by the Bank of England, it was understood that the capital of the Bank could not supply the request of loan from the government, and those of the merchants for discounts. One party must have preference, or both be limited. At the present time, the bank has become possessed of unlimited power of advancing money to both parties, though there may still be some jealousy between them. Referring to the calculations said to be made by a very able financier, and published in the Monthly Magazine, October, 1797, it appears, that upon an addition of quarterly averages, the cash and bullion in the Bank of England, from March 1793, to

February, 1797, amounted to £22,110,000
Notes issued, 184,357,610
206,467,610
which sum was employed in
Discounts, £51,415,000
Loans to Government, 161,486,999
212,901,999

and from these statements, this author draws the conclusion, that "neither our foreign trade, "nor our commercial intercourse at home, have "derived much advantage from the operations "of this bank." From his conclusion I must however be allowed to dissent. The advantages derived, might be all that could, and even more than should, have been given. I am afraid that if the existing sum of discount had been materially exceeded, it might only have increased the bills drawn for that purpose, and not for *bonâ fide* transactions, and that no service would have been rendered to trade, if the discounts had been equal to the loans, unless it had arisen accidentally from the success of a spirit of gambling.

Except in the magnitude of their requirements, the demands of Government do not differ from the common circumstances of any individual customer. Mr. Thornton, with great pro-

priety, says, (*page* 61) that "the Bank is the "only lender on a large scale, the Government "is the only borrower on a scale equally ex-"tended, and the parties, like two wholesale deal-"ers, naturally deal much with each other;" and (*page* 97) "the Government is only one large "borrower from the Bank; the merchants are "a number of similar, though smaller, bor-"rowers." It has always been considered a strong evidence of the superiority of the Bank of England over all other banks, that its dealings with Government are conducted upon the same principles as with individuals; and in the evidence before the Bullion Committee, the continental merchant says, "there is no govern-"ment bank on the Continent, that rests upon "the same principles of solid foundation, as "that in this country, where the principles "adopted, are the same as would be followed "by any prudent individual in his own con-"cerns, and when the advances to Government "are optional and limited." By reference to the evidence of Mr. Giles, and other of the Bank directors, in the committee of the two Houses, in 1797, it will appear, that the directors at that time, considered their connection with Government, as with every other customer, and refused the guarantee of Govern-

ment when offered by Mr. Pitt; conceiving and alleging, that it could not do them any service, and they were inclined to believe might prove injurious. Such a guarantee would, in its circumstances, certainly reverse the usual order of things, by making the borrower and debtor become security for the lender and creditor. In short, the advances of the bank to Government differ not in their foundation and principles from those made to traders, so far as they are made by discount of circulating paper credit, whether Exchequer bills, or bills of exchange; and in the degree in which they thus assimilate, the reasoning will equally apply, which has before attempted to shew the nature of their influence and effects on the circulating medium*. The object of both these borrowers is to anticipate the expected receipt of money; but if the anticipation is con-

* In the evidence before the Committee of Secresy, 1797, page 12, Mr. Giles is asked, "Do you consider the "claims of Government, on any credits the Government "may have with the bank, as preferable to those of the other "legal creditors of the bank?" and he replied, "I appre-"hend them to be just the same." And in page 188 of that evidence, is a notice sent to Mr. Pitt, that the Directors would not pay the Treasury bills becoming due "until "money be issued to the bank to pay the same."

tinued, and becomes permanent, it is at length no real accommodation. The Statesman has year by year to apply to the public, by loan and taxation, for the money previously spent. Little is gained by being constantly a year behind; and much expence and reward for accommodation would be saved, by reducing the practice of having recourse to discount, appealing to the public at once, and making the expenditure of the nation keep pace with its receipts from loan and taxation. The same reasoning applies to the trader, who will equally derive benefit from his independence on a constant routine of discounting to supply by anticipation his certain daily wants. But the trader is found at particular times to shake off his dependence on the Bank of England. It has been already stated that in 1792, the discounts of the bank were reduced very low, and that there have been times when the Directors meditated a reduction of the terms, from the apprehension of the business being withdrawn from them, by the want of applications for discount. What was at that time probable, from the great prosperity of commerce, may at this time arise from its distress. Accumulation of unemployed capital may be the result either of great riches or of stagnated trade, and

without taking upon us to assert that it is the case, that bank discounts are now rapidly decreasing in amount, it is not irrational to suppose that they are so. Capital formerly employed actively in trade flows in from all quarters to the rich capitalist, and becomes difficult to be placed out profitably. If offered on discount, it may from its quantity, lower the price, and as long as discount can be got, at the same prices, from private hands, they will have preference, and the assistance of the bank discount will be rejected.

Upon the question of the connection of banks with States, a very unexpected and most singular illustration has been lately given to the philosophers of finance by the sudden dissolution and termination of the bank of the United States of America; an event so extraordinary, that it might be supposed certain to be followed by some national misery or some diminution of national power. So far as I have learnt, nothing of the kind has happened; and except in instances of accelerating the failures of some secretly insolvent traders, who could not repay their loans to the bank, it does not appear that any disatrous consequences have followed.

This event gives very particular interest to the history of our banking system as adopted in America, and it will not be an improper digression to describe it as detailed in a very intelligent manner, by Mr. Samuel Williams in his evidence before the Bullion Committee. I am not aware that we should object to reason upon these statements. An infant but greatly commercial state has the power to build upon the existing practices of the world and to improve the superstructure. If wisdom can be gained, it may be expected from theory founded upon previous knowledge, and experience of whatever description.

In America, banking institutions are numerous and probably excessive. They are all private banks, and almost without exception chartered companies, affording their services to the public under circumstances of the fairest competition, furnishing circulation for 9-10ths of the currency of the country to the amount of thirty millions of dollars. Their capitals amount to forty millions of dollars. Their notes are not legal or privileged tender in payment, and have as the banks in the country in England, local currency, while the notes of

the United States Bank had, like the Bank of England, general circulation. They are subject to be run upon for silver money, and to be embarrassed by the want of it, and a demand upon three or four banks for silver has been satisfied by other banks not so circumstanced. No difficulty of this nature has occurred with respect to gold coin, and no general want of confidence, or run upon all banks at one time, has ever happened. It is not believed that since the revolution there has been any excessive issue of paper, and it is not thought there can be one, the number of banks being considered a sufficient check*. The State Bank, now dissolved, kept the Government accounts gratuitously. With one exception, of a bank which issued notes without any capital, there have been no failures, and the public consider themselves perfectly accommodated by the security and convenience of many establishments, and the competition excited by consequent rivalship.

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* "The private and country Banks of England, as rival "institutions preventing the monopoly of the trade of "money lending, produce all the benefit of our nume-"rous chartered banks."—*American Review, Oct.* 1811.

The discounts made to traders are probably too great, and the effects of such liberality have been revealed, but it is not generally understood that banks are to create trade, and the old genealogy seems to prevail. If benefit can be derived from example, we cannot appeal to any other country than America, for no where else has our system been adopted. In their practice may be found some valuable combinations, such as numbers to give security, and rivalship to prevent excessive issue, the advantages of competition, of independence both of employers and employed, and what is perhaps the greatest lesson, that confidence is most properly given to the credit and conduct of individuals, having no monopoly or privileges. Honesty at all times the best, becomes the only policy, of numerous and equal competitors, who exist only by public good opinion and confidence. And we have further to feel obligation for being shewn the phenomenon of the dissolution of a national bank, enjoying entire credit, which appears to be one of those "chances of experimenting," considered by Lord Bacon to be the probable source of the soundest knowledge.

It remains to pay some attention to those

private institutions which are called Country Banks. As far as their dealings resemble those on which we have treated, it would be unnecessary repetition to retrace the history of their similar transactions. But they are considered as nuisances, and degraded in the general system by most English writers. This is owing to a prevailing opinion of their insecurity, and merits particular attention. Even on a superficial view of the subject, this danger appears obviously exaggerated, for if these institutions were discredited, or deserving of discredit, they would not grow and strengthen. It cannot be supposed that the public was become so infatuated and obstinate, as to despise all warning, and trust its property pertinaciously where trust was not due. Property is to every man most dear, and he is easily alarmed for its safety. If he is told he is not wise in trusting with his pocket money, the neighbour whom he is willing to trust, and probably in the habit of trusting, with all his substance, he smiles at the story. But if experience is against him, he will withdraw his confidence; and his neighbour's trade as a banker will diminish. "In a country possessed "of commercial knowledge and experience, "confidence, in most instances, will not be

"misplaced." (*Thornton.*) We may state from the evidence of Mr. Tritton, (*Bull. Com. page* 214) that there have not been many failures; from that of Mr. Richardson, (*page* 178) that he sends London bills into the country for discount, that he seldom borrows and often lends for country bankers, and mostly lends on bills which having longer than common date to run, are not agreeable to the Bank of England; and that he lends, fifty times more in amount than he borrows, for Country Bankers; and from that of Mr. Whitmore, (*page* 172) that their bills though considerable are not, comparatively with the discounts of the Bank of England, more than they were in 1797; and (*page* 172) Mr. Whitmore thinks, if the Country Bankers are as clever as the Bank Directors, there is no excess of their paper, but if it should prove otherwise, "an "excess may obtain, and in whatever degree "such an excess may exist, the proportion be-"tween the Country Bank paper, and Bank "of England paper to the occasions of their "respective districts would differ." Mr. Whitmore appears to have great doubts of these Country Bankers possessing necessary cleverness, for he is led to a general interdiction of their bills, as well as all bills drawn

from the country: he says, (*page* 172) "that "the bank with every intention on their part "to limit as much as their influence can effect, "the discount of all bills drawn *from the coun-*"*try by Country Bankers and others*, has "not been able to prevent their being in "amount beyond what they were in 1797, "previous to the Restriction Bill." And this is hard judgment, for the Corporation over which he presided has chosen, or has been in some way induced, to raise their issues, at that time about 8,640,250*l.* to its present amount of twenty-three millions and a half; the Bank Directors, all this time, holding it to be their duty, "to be actively alive to dis-"courage the discounting of such paper as "seems to have an immediate connection be-"tween the Country Bankers and their agents "in London, although," as it is added, "there "were even no doubt of their solidity." (*Bull. Evid. page* 171.)

I trust that these general denunciations of bills of Exchange drawn from the country will on reflection be modified; for if still retained, they will be so in mortifying opposition to the opinions and practices of our forefathers, and go the length to declare that the same thing

when done in the country, is different when done in the metropolis. And with respect to the country bills themselves, it is clear that when discount is comparatively with others less easily extended to them, they must be less likely to be "created for the sake of serv-"ing as discountable articles."

It would appear that I have inverted the usual order of precedence, in delaying to notice the nature of the business of town bankers and their services in the circulation of inland bills of exchange. It is obvious that these services are essential parts of the system, and that this circulation without the town banker and his ingenious contrivance of *the Clearing House* would hardly remain in existence, or would at any rate be reduced to insignificant limits. The town bankers are the natural agents of the country bankers, and employed to pay and receive for them, and either actually to lend their money on discount, or virtually as part of their own business; the transactions of discounting with the country bankers' money, becoming part of the general business of the town bankers. This general business amounts, as Mr. Whitmore has stated, to more than 1500 millions

per annum, and the calculations in the preceding part of these observations, make it probable that it is upwards of two thousand millions. These bankers are consequently very important organs of national circulation, and necessary to the existence of the particular circulation which is under consideration, and upon the value of their establishments there can be no doubt. Their characters and credit are highly honourable, their dealings are not considered excessive, and their powers of capital contribute to the strength of the country by facilitating the borrowing on loan for public service: their connections with the banks in the country may be therefore considered to be equally advantageous and honourable to both parties, though in a national view of the subject, it will probably be observed, that by this connection some injury is done to that independence and credit which are due to numerous establishments wholly separate from each other both in situation and interest.

Let us proceed to consider the experience of individual banking credit in comparison with public banking credit, or the credit of any corporate body of bankers, of any other nation. What has been the fate of such institutions?

the schemes of Law? of the Mississippi company? the banks of Paris, Berlin, Warsaw, and Vienna? and what is the state of all such banks out of England? If we cast our eyes a moment beyond our own little territory, we may find individual credit holding high its unprotected head in those regions where state patronage, distinct privileges, and even military force, have in vain been directed to keep, in any stage of existence, the circulation of paper credit. During the horrors of the French revolution, the reign of terror, the corruption of the directory, and the tyranny of Bonaparte, the bank of Perigeaux & Co. has held its station, and afforded all the advantages and accommodation compatible with its well-founded establishment. And Lord Liverpool, adverting to the French paper credit, which had failed at three different periods of their history, though not meaning probably to give preference to any other paper circulation, observes, *(page 227)* "It ought always "to be kept in remembrance, that this paper "currency was issued to so great an excess, "either by corporate bodies under the au-"thority and protection of Government, or "directly by Government itself, and not on "the sole credit and responsibility of unau-

"thorized individuals." From the knowledge of what has been, we may be induced to assume it as a fact, that a nation may more safely rest the security of its money transactions with one general bank independent of the state, and with eight hundred individual, unconnected, unprivileged institutions, independent of each other, and, in a degree, of any common centre; and feel happy that if the hour of real danger should come, the last stake is not to be involved in a single event. In this country, an alarm of invasion in 1797 was at first effective in only one remote district; but the existence of invasion which succeeded, upon the landing of the banditti in Wales, communicated irresistible panic to every part of the empire by its effect upon the centre of circulation in stopping the payments of the Bank of England. "I am fully "aware," says Mr. Hill, *(page 26)* "that the "demand of cash for domestic hoarding was "one of the immediate causes of the stopping "of the bank." If each banking institution could be wholly independent, one-half of the eight hundred country banks might be neither injured nor incommoded by invasion; for it is generally the case in countries invaded, that individual property is most secure from

the events of warfare, and in the last extremity, the debts would remain due from neighbour to neighbour, subject to be recovered from his future fortune. Many have been the difficulties which were opposed to the first establishment, and which impeded the growth, of private banking undertakings. But they are now seated on a strong eminence, and their future progress may become less difficult. The country bankers appear to be aware of their situation, and to understand what it requires. This is evident from the business of their agent in directing the stream of their abundance directly to the relief of the wants of the metropolis, and from their exertions in various other ways to attain the power of depending upon their own strength. In proportion to the progress made in these endeavours by bankers in general, will probably be the approach to the more perfect independence of that medium of circulation which is already understood "to spare the use of "Bank of England notes," and which may be found to be as capable also "of sparing "the use of gold, if Bank of England notes "were abolished." *(Thornton, page 55.)*

On the Bill Circulating Medium, in the present state of this Country, and with a view to its future prospects.

(BY A FRIEND OF THE AUTHOR OF THE FORMER SECTIONS.)

THE use of gold, as circulating medium, had been much superseded, and in mercantile concerns was comparatively insignificant, before the period of the Bank Restriction Act. This measure, preceded by an Order in Council of the 26th February 1797, was however universally considered to be a momentous crisis. It certainly was such a crisis; but it was so in a very different sense from that in which it was then understood. One of its first consequences was, to weaken the association of ideas which existed in favour of a circulating medium possessing intrinsic value; and a result of the greatest importance is, that however unfore-

seen, and with whatever cost attended, it has proved to be the most efficient measure on record, toward establishing in this country, on right principles, that system of currency which consists in the general use of "circulating in-"dividual credit," in the various transactions of business.

Superseding the necessity of gold coin, the Bank of England Note saves trouble, abridges labour, facilitates interchanges of property; so far, immensely benefiting the community by the extent to which those interchanges may be conducted by its means*: but like gold, it is accompanied with the expense of interest, which every man loses by every note he

* It is also an advantage possessed by notes, that they are little hoarded; but the balance of public evil from the practice of hoarding gold, may be not so considerable as is imagined. In prosperous times, this practice operates as a check upon that increase of coin in circulation which tends to excess, and to its consequent lowering in value; and when a reverse takes place, it may, by retaining gold in the country, contribute eventually to avert the extreme of calamity. For a long series of years, the practise of hoarding in England, has been a description of monopoly beneficial principally to the community, and leaving the hoarder himself the chief sufferer.

holds; it may more readily than gold be in excess, and be thence depreciated, and this may be in a period of adversity, highly aggravating its calamity, the reverse of gold which increases by prosperity only; unless from particular precaution, it is an entire loss to the owner when destroyed, a loss, the amount of which alone is enormous; like gold, it can be used if stolen; and with every precaution on the part of the Bank, it admits so easily of forgery, as to require an eye more than ordinarily experienced, to be certain in its discrimination of the good from the bad.

The loss sustained by the community in the interest, excess, forgery, and casualities of notes, is however evanescent compared with the amount which it would have been, if the "fifteen hundred millions" annually "paid "on the counters of the London bankers," had been notes circulated; in other words, if the system of *Transfer and Set Off*, introduced by Bills of Exchange, had not "spared their "use." It may be assumed as a certain fact, that three-fourths of the business and money transactions of this greatest of all mercantile communities, are settled, that is, paid and discharged, without the use either of notes or

gold. It has followed that, the want of silver in small change excepted, the almost entire abstraction of metallic currency has had no particularly distressing effect on the commercial concerns of the country, deeply as those concerns are affected by other causes. This is a natural result of the general adoption of the banking system; and the principle on which it has proceeded, was distinctly pointed out by the earliest writers on the subject. What was laid down in theory, has been reduced to practice. "The ingenuity of "artificers operating on things invented," has devised the means to render gold useless in the main sum of their money dealings. Receipts and payments are discharged by assignment or transfer; and the only necessary use, whether of gold or notes, in the transactions of business, is for the settlement of small amounts or balances. The mass of those transactions is managed by a medium which does not require either; and it is a high situation for a nation to stand upon, that its scale of dealing is so extended that all the greater payments and receipts will, by this medium, generally balance each other, leaving only such small differences as may be discharged by a comparatively trifling use of

extraneous currency. To produce this desirable effect, we may consider every banking house to be actively employed, and even the whole nation to be so employed, united by a common interest in the same effort. It is a broad and clear principle, that property sold may be paid for, and pecuniary obligations be discharged, by transfer; nor does there exist any difficulty in accomplishing this object when banks can congregate the private economies of individuals, and buyers and sellers are there found to meet the occasions of each other as in a common market. Let every praise be given to those honourable efforts of patriotism and ingenuity, which have directed national attention to the subject of bullion and specie; but so long as the use of metallic circulating medium, private, public, or national, is to pay to every man, not the sums which are owing him by others, but the balances which are owing him, after all which he owes to others is deducted, and so long as we can facilitate, by means of banks, this mode of paying balances instead of separate specific sums, it is natural that the use of gold coin should be much superseded. We have learnt by "the chance "of experimenting," that it is not so necessary as we took it to be. We have been many

years sparing in its use, and we may in future from choice become more so. With the revival and establishment of a steady and moderately extensive trade, its restoration without restriction will be no difficult measure, after which it will take its chance with a more economical and profitable currency; and seen as it is, that the value of the whole interchangeable property of England can be "transferred from individual to individual," by the medium merely of bills and bank books, it is, I think, not probable that gold currency will be hereafter considered essential to the prosperity of the country, or its abundance be considered the best proof of productive national wealth.

The sum of gold coin after the recoinage in 1774 was estimated by Lord Liverpool to be nearly 25,450,000*l.* The quantity afterward coined until the time when he wrote, which was in 1805, was upward of 36,000,000*l.* making the amount which there might then have been, between 61 and 62,000,000*l.* less by the portion exported during the American war, and by necessary loss. Lord Liverpool was, however, of opinion, that it did not in 1805 exceed 30,000,000*l.*; but supposing it to

be more, it is plain that there must have been a great diminution of the amount coined; and under the circumstances of increasing trade and wealth, it is equally so, that some other medium of circulation must have spared its use. A statement of specific cases in which bills have contributed to this, which they have done in so much greater a degree than notes, would be little less than a compendium of the history of commerce for many years past. One of the numberless instances, is noticed by Mr. E. Wakefield in his letter to the Bullion Committee, that the Irish coal buyers who used to make all their payments in gold, now pay in bills of exchange.

It will be remarked, that the province of bills and notes with respect to gold coin, is to supply its place; which they might equally have done, and which in the regular order of things they would probably have done, not less with respect to the community in general, than to the mercantile part of the community, whatever had been the increase of gold. The cause of its diminution, which both operated before 1805, and has been operating with greater activity since, is altogether different. The course pursued in the war, has involved

so heavy a foreign expenditure, and has so much cut off from the country, productive export trade, that the valid and effective balance of account between us and other nations, is against us. This is ascertained unanswerably, by a fact which no reasoning can refute, namely, by the course of exchange. Whatever part of last year's exports may be hereafter productive, nothing can be more clear than that their effect upon the present available balance, is simply, that it is not so much against us as it would have been without them; and without attributing too much to the efforts either of the debtor country to reduce the balance, or of the creditor to procure its reduction, we have yet a constant drain of gold, in those operations incessantly projected and going forward, which depend upon its export for their success. In this state of our affairs, whether the issue of notes has been in the same proportion as before to the proper occasion for them, and they are stationary in value; or whether it has increased, and they are lowered; gold is scarcer and has risen; and the course taken by bills is, not to fall or keep down, in the direction of notes, but to rise in that of gold; the amount for which even inland bills are drawn, when they relate to pre-

sent contracts, counteracting, in general, the lessened or stationary value of notes; and our bills on foreign countries, having become dearer, from the same general causes which have rendered gold so. That gold is dearer, is not less manifest, than that there is a cause for it in the foreign trade, which is proved by the seizures of the customs; and the price obtained, is one yielding a profit to the dealer, and enhancing the value of that which remains.

Immediate stoppage to the circulation of gold coin, was put only by Lord Stanhope's act of last session of Parliament. Guineas being already of greater value than their denomination in notes, the moment this fact was virtually announced, by a law which, in prohibiting their passing for more, prohibited their passing at their worth, the circulation ceased of course.

If in times like these, the bill circulating medium is regulated, in the manner in which I have stated it to be, by the causes which regulate the value of gold, little can be apprehended for it, in this respect, at any other. Little can be, indeed, apprehended for it at all, in a coun-

try in which its abuses are exposed, its advantages are known and can exist, and in which in a few posts, every man can acquaint himself with the stability of one or more of the parties to every bill offered him. The establishment of the system, which is extending itself, forms an æra in our history, founded upon our holding metallic currency, on general principles, in less estimation than it is held by other countries; and which, though developed by accidental circumstances, is yet a natural consequence, in some measure, perhaps, of our insular situation, but generally of constitutional liberty and security of person and property, of public and private confidence, industry and known wealth. The subject at length resolves itself into a proposition too plain and too true to be misunderstood or denied. It is the interest of us all, to spare the use of gold and bank notes, and to transact our business by exchange of mutual engagements. We need not wish for a thing of better security than an English bill of exchange, given for its value in a *bona fide* transaction, which strengthening as it has gone, may have, beside the drawer and acceptor, the accumulated responsibility of endorsers, each substantial, and each indepen-

dent on the rest. Neither is there any limit to the ramifications into which this currency may be carried, so long as banks are compensated by the commission which it affords, and which is in principle not dissimilar from the usual allowance, per million, made by the nation to the Bank of England. It is that coinage by individuals, which has been long silently and quietly, but powerfully and effectually taking place of gold coinage by the State, and has demonstrated that, except for fractional sums, the State coinage is not less unnecessary as circulating medium, than it is costly in material, and inconvenient in use; and not only so, but next to the tradesmen, with whom bills originated, the State has been itself foremost in adopting them. Treasury bills, navy bills, transport bills, are bills of exchange. Inland bills are taken in payment of duties of the customs; and other taxes from the country, which are not remitted by bills, are remitted by a mode, which though not the same with bills, is part of the same system. All these, and other bills, together with ordnance debentures, are settled through the Bank of England; which, in discharge of government bills held by private bankers, issues notes, which it takes back in payment of

taxes*. Recourse for saving this trouble in the use either of notes or coin, will doubtless be had in due time to the convenience of the Clearing House suitably established; to the adjustments of which the stock dividends may be referred, by powers, in whatever form, from the stock holders to their bankers; and to the same common centre may be directed the bill concerns of all who have not hitherto adequately appreciated its value.

Improvements, arising chiefly out of the principles of the bill system, have been of late years made in the manner of keeping the pub-

* The business of Exchequer bills conducted by the bank is in a manner somewhat different from that of other bills. "All payments at the Exchequer are made by the "three clerks of the Bank of England, who attend there "daily, and who give credit to accounts kept at the bank, "or pay the various services in bank notes or cash; and at "the close of the business of each day, *receive Exchequer* "*bills from the tellers*, as far as the amount in thousands, "and for the fractional sums in cash. All receipts at the "Exchequer, on account of the public, are taken by the "bank's clerks, who, at the close of the business of the "day, *return the amount to the tellers in Exchequer bills* of "1000*l.* each, and the fractional sums in cash." *The Chief Cashier's account; Third Rep. Com. Bank Affairs* 1797, *page* 227.

lic accounts; the debits and credits of which may be balanced, to a much greater extent, by this simple, but effectual process. The assessed and other taxes may be paid by checks or orders on bankers; which checks, with transfer from the country to London, would constitute the claim of government upon the private bankers, and set off, at the Clearing House, the treasury bills and other powers already in the bankers' hands, which constitute their claim upon government.

In thus carrying the produce of the taxes into effect, the security may be at least equal to the present; the expedition may be increased; and the economy and convenience will be the greatest possible.

The class which has been slowest in availing itself of any of the advantages of bills of exchange, is that of the landed proprietors. The pressure occasioned by the expenditure of seventeen or eighteen years of war, has however had the effect of giving to many landed proprietors an insight into the commodious arrangements of trade; and it is found that for rents, bills of greater amount than the rent by the interest till they are at maturity, may be

paid by the tenant, received by him from dealers in agricultural produce in Mark lane, Smithfield, or in any part of England; of indisputable credit; which may be immediately circulated; affording interest when retained and discountable when required; free from forgery and every conceivable objection. If lost or burnt, their obligation will be acknowledged, and their value will be received; and so far from allurement to a thief, he will shun them as decisive evidence of his guilt.

The revenue derived from the stamps on bills, with the inferior medium of notes, is not inconsiderable; though like all taxes, the duty on the stamps may defeat its object by being carried to excess, which, when the increase in trade is considered, may not improbably have been the case with the higher duties on bills, which, in 1810, produced a less difference than might have been expected, above the lower duties of 1807. The total amount of the duty on the stamps of bills and notes, is certainly large; an amount which, it will be observed, this medium of no intrinsic value, and because it is of no intrinsic value, can year by year pay for the privilege of legal currency, for which guineas pay not any thing, and for

which they have been on the contrary, a charge on the public income, in the heavy expenses of the mint. The duty derived from the stamps is however of little moment compared with the revenue from the trade of the country, which our paper system has so largely extended.

These things are all in a regular train. They require no impulse, and would be injured by it. The best, if not the only ultimately beneficial protection of governments to the interchanges and expedients of trade, is, to protect them in an innocent free course. All which can be desired for the circulating medium of bills, is, that its nature and value be understood. The petition of English traders on its behalf, addressed whether to the Rulers of coin at St. James's, or of notes in Threadneedle-street, will then be in the memorable words of the enlightened French merchants to their king, desirous to know in what manner he could serve their interests: *Laissez nous faire.*

Be the cash currency of this country, notes, or be it coin, the bill circulating medium will, in contracts to be entered upon, proceed alike on either, having regard to value only; and

that this medium, properly understood and regulated, is most intimately connected with our prosperity, and that it is an instrument of incalculable power to us, however that power is employed, may be rested on this plain truth, that trade could not be carried on without it in any degree commensurate with the extent to which it has been lucratively, and for the requisite national expenditure, necessarily conducted. Of itself, it is nothing; as a principle pervading and extending the powers of trade, it is every thing; and if England has a man, who thinks that the revenue can be kept up though our manufactures be at a stand, and our commerce be gone, that the cravings of the Treasury can be allayed if the Exchange is empty, let him think also on the means which must be in that case resorted to, and on the oppression and misery which they will produce. The power of this Island, beyond an extent very considerably limited, has demonstrably been raised by trade; and as it has been raised, so it can alone be supported; they will stand or fall together.

L'on arrose en vain la fleur
Quand la racine est desseché.

The course of exchange, which is guided by the effective balance, not merely of trade in-

deed, but of the general account between one nation and others, as regularly denotes such balance, as a Cleaning House common to those nations could do. No one will doubt the influence of trade in this; nor can it require to be explained, that when that sound and wholesome export trade, for the power of carrying which into effect we are so materially indebted to the bill system, shall be restored and cultivated, and not counteracted by foreign expenditure, the country will have bullion enough, and the bank will have specie enough for all who know its right application; the parting with it as they receive it, in discharge of small amounts or balances, selecting for every concern of magnitude, the better medium of bills.

Bullion being thus by choice and interest economised, it will find its proper use, an insignificant part in wrought plate and in trinkets, the bulk in export at those periods when any foreign powers, having products of the first necessity to us and refusing all other returns, shall take this in preference; and in preference they will take it, so long as governments and laws inferior to those of the English constitution, shall admit of their seeing

nothing better. While it is eating itself up with them in interest, we have the grain which it has procured: they have the golden counters, and we have the naval stores. I do not overlook, nor do I under-rate, the intrinsic value of gold; but I consider the nations who use it as circulating medium, to be children in commercial, and general economic science; and if it is in request for hoarding, I more pity their condition. With reference to real gain, wealth and power, their coin is as unproductive, as our paper has been, and as it is ever ready to be, the contrary.

By increasing the facilities of trade, the bill system, which we have cultivated, contributes so largely, in ordinary times, to render the balance of trade and the course of exchange in our favour, that it is truly productive of gold to us; and gold, no longer necessary for circulation, assumes, in the present times, the character of a most important article of commercial intercourse; a character not allowed to it as coin, but belonging to it as bullion, the end and object of which is, by its export, to supply ourselves, as we have occasion for supply, with the different articles of necessity. Piled in the stores of the Bank, it is a subject

of curiosity, resembling the arms in the Tower, and convertible like them at any moment to our defence, whenever a bad harvest, or similar case of extremity, may require it for the national use.*

The resources of the medium by which principally, the circulation of gold coin was voluntarily disused by us, have been created and directed by the ingenuity and contrivance of commercial men; if the measures of government have accelerated its progress, they have done so incidentally; and its bearings upon national economy, have certainly "come little "under the observation of the public." This gigantic and wonderful machine is still very inadequately appreciated. The effects which it has accomplished, great as they are, are little compared with the progress in power and usefulness of which it is capable. It possesses in its own nature, the certainty of improvement, which the remains of old errors or the rising up of new ones may impede, but cannot destroy; and which will go forward to more

* In a country liable, even by distant possibility, to a defective harvest, it is indispensable to have a reserve, if not of grain, at least of gold to command it.

important and beneficial effects, so long as the principle which sets it in motion shall remain. Let those erroneous opinions give way, which consider this system of circulation dangerous to our welfare, and containing the seeds of our destruction. Let its merits be known, and their developement be called forth by just appreciation. Let no one suppose that it has the means of bringing to light any hidden principles, or of cultivating or extending its powers by unnatural and unfounded encouragement. Let its abuses be resisted; and above all, let those restrictive monopolies, and those restrictive privileges terminate, which it is possible may exist even in this advanced and enlightened period of commercial sentiment; and let no regulations be added, which have even a remote tendency to diminish the independence, decrease the numbers, or paralyse the activity of those deserving members of the British community, who, in their different commercial capacities, create and keep alive this best medium of circulation.

FINIS.

POSTSCRIPT.

It may be satisfactory to those of my readers who have not perused the Evidence before the Bullion Committee, if I annex a brief account of the operation of the Clearing House, taken from *Mr. Thornton, page* 55. "The following custom," he observes, "now prevailing among the "bankers within the city of London, may serve to shew "the strength of the disposition which exists in those who "are not the issuers of bank notes to spare the use both "of paper and guineas. It is the practice of each of these "bankers to send a clerk, at an agreed hour in the afternoon, to a room provided for their use. Each clerk "there exchanges the drafts on other bankers received at "his own house for the drafts on his own house received "at the houses of other bankers. The balances of the "several bankers are transferred in the same room from "one to another, in a manner which it is unnecessary to "explain in detail, and the several balances are finally "wound up by each clerk into one balance."

Liverpool: Printed by G. F. Harris's Widow and Brothers.

0445