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J. F., Esq;

O N T H E

Conduct of the Banks.

W I T H

REMARKS on a late Pamphlet,
intituled, *Considerations relating to the
late order of the two Banks established
at Edinburgh, by which they have recalled
one fourth of their Cash-accompts.*

By Patrick Murray
5th Lord Clibank

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L E T T E R

To J—— F——, Esq;

DEAR SIR,

THE last time I had the pleasure of being with you, the conversation turned on the measures lately taken by the Banks, in consequence of the present unusual demand for money.

That happy talent, by which you never fail to engage every one in company to speak their thoughts with freedom; induced me, then, to express my opinion without reserve; and if I, now, take upon me to put my sentiments on this intricate subject in writing, it is entirely owing to a Pamphlet lately published, and reprinted in the Magazine, in which some principles are advanced with regard to the conduct of the Banks, that seem to me very ill founded.

To

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To prevent the impression this Pamphlet might make on such people as are not in the habit of employing their thoughts on these kind of speculations, I have ventured to advance some ideas of mine, in the following pages; and as the subject is more perplexed than entertaining, I must beg the favour of such as are not provided with a competent stock of patience, to save themselves the trouble of going farther.

Bank-bills can never be received as specie, but from a persuasion, that they can be exchanged for it on demand.

Therefore, if it shall ever happen, that a Bank shall make the smallest difficulty, or hesitation, in making payment of the specie their Bills express, such Bills may, perhaps, be considered as securities, but not as ready money*.

It is therefore essential to the existence of a Bank, to be able at all times to answer their

* What happened to the Old Bank 30 years ago, and even to the Bank of England in the year 1745, is no exception to this rule; the former confessed their Bills to be no more than securities, and paid interest on them; the latter was supported by an universal association, to prevent money from going to the Rebels.

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their Bills on demand; but as their profits consist entirely in circulating Notes beyond the extent of their specie, it follows, that, if every body shall have an interest to turn their Bank-bills into ready money, a Bank must carry on a losing trade.

This I take to be nearly the case with the Banks of Scotland at present, when the vast premiums given for money at London, put such as have it to spare under a strong temptation to send their money there.

This, however, is an unforeseen accident, and it is to be hoped will not be of long continuance; but if we could suppose it permanent, there can be no doubt, that it would be the interest of the Banks to leave off trade.

The present call for money from England, is different from any other extraordinary demand. In the case of a scarcity of corn, it can be computed how much cash is required to supply that deficiency, and the Banks may provide themselves accordingly; but in the present case, the demand is unlimited, and no provision the Banks can make, can be of use: On the contrary,

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contrary, if they were to find a treasure, suppose of a million, it would only serve to increase it, because this demand arises from a profit on carrying money to London as a commodity, and not as the balance of trade.

If, in the present exigency, the Banks were only to consult their own particular interest, they ought to call in all their debts, and bills, and to suspend their traffic till it could be carried on to advantage. By this step, they would at once save themselves, and serve the Public, by depriving it of the means of sending more money to England than it could afford, or could contrive to do without the artificial assistance of paper credit; but as such a step might occasion a very great convulsion, the measures the Banks have lately taken, are to be highly commended.

By restricting their Cash-accompts, they lessen their circulation; and by opening books for receiving Loans, they, in effect, call in their Notes without violence, and obtain a delay in making payment of them, till money can be brought in to answer them. At the same time, they serve, or rather

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rather save their country, by putting it out of the power of individuals to employ the credit of the Banks, in draining it of the small remains of specie yet left; for if Banks are of use, by increasing circulation for the purposes of beneficial industry, they must be destructive in proportion, if their credit is to be employed in carrying on a losing trade.

The prudence and expediency of this late conduct of the Banks, are so self-evident, as to require no explanation.—My chief motive for delivering my thoughts on this occasion is, to take notice of some opinions thrown out in a late pamphlet, intitled, “Considerations on the order of the Banks for calling in one-fourth of their cash-accompts;” in which opinions, I have the misfortune to differ from the Author.

This Pamphlet sets out with some positions, that seem to me not quite consistent with themselves, and less so with experience.—“Notes, he says, have served all the purposes of money; and as a less quantity of circulating specie became thereby necessary, the money itself as a
“valuable

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“ valuable commodity, has been sent to
 “ other countries, and, in return for it,
 “ goods, or the materials of manufactures
 “ brought home.

“ The actual specie cannot go out of a
 “ country, after the establishment of a
 “ Bank, more than before it, unless it be
 “ sent as the value of something brought
 “ back in return.

“ When, upon any occasion, the specie
 “ itself is necessarily wanted to be brought
 “ back, the stock which was before pur-
 “ chased by it, must always be able to com-
 “ mand it, if a little time is allowed.”

So far is this from being the case, that it
 will be difficult to point out any one article
 of importation into Scotland, that can bring
 money back again, the materials for the
 Linen-manufacture, and tobacco excepted:
 witness, clothes, furniture, toys, wine, por-
 ter, India goods, battery-ware, horses of
 parade, &c. &c. and I hope I may be al-
 lowed to add, absentees.

But the chief point aimed at in this
 Pamphlet, is to convince us, that it is the
 duty of the Banks to borrow large sums in
 England, for the single purpose of bringing
 down the exchange.

Admitting

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Admitting that the method here propo-
 sed, could be of real benefit to the country,
 I cannot see with what appearance of justice
 it can be required of the Banks to sacrifice
 themselves, even for so laudable an end;
 but it seems to me self-evident, that if the
 Banks had been so ill instructed as to have
 had recourse to this expedient, instead of
 lessening the evil, they would have aug-
 mented it.

The high rate of exchange is a certain
 proof that the balance is greatly against us,
 and that more money goes out than comes
 in; but this high exchange is the effect of
 the demand from England and not the cause
 of it.

If the Author of this Pamphlet wanted
 to send money to London even at the dis-
 advantage of 3 *per cent.* exchange, can any
 body imagine he would drop his scheme,
 because the Banks, by bringing down specie,
 enabled him to get his money remitted
 2 *per cent.* cheaper? On the contrary, if the
 exchange was 10 *per cent.* against us, that
 is, if 100 pounds at London could not be
 had without paying 110 pounds for it here;
 it is more than probable, that such a high

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rate of exchange, would put an effectual stop to the present flow of money to England, since that flow arises chiefly from a view to profit.

This, and indeed every artificial method of lowering exchange, while the cause remains, can only serve to deceive ourselves, and is as absurd, as it would be for a man yellow with the jaundice, to think of curing his distemper by painting himself white; or for one worn out with infirmities, to fancy he could recover his health by drinking spirits.

The Pamphlet proceeds by telling us, that the English make a practice of bringing down London Bills, and selling them here at a very high premium.—Surely they could find no body to buy their Bills at that disadvantage, unless there was a very great call for money to England, and, as was said before, the buyers of such bills would not be restrained from sending up their money, if the Banks were to furnish them with bills at a cheaper rate.

The disease, then, lies in the disposition people have to send up their money, and not in the means of conveying it.

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This last argument or proposal, amounts to neither more nor less than this,—The Banks ought to borrow and bring down 100,000 pounds, to hinder a few English dealers, from getting 1 or 2 per cent. extraordinary on London bills.—Perhaps too, to give our own dealers the opportunity of getting something by sending the money back again.

It is most certain that the nominal rate of exchange has gone far beyond its natural course even in times of extremity; for it is equally certain, that the exchange between London and Edinburgh ought never to exceed 1 per cent. viz. the expence of insurance and carrying the money up, and in strictness it does not exceed 1 per cent. at this juncture. If we pay 3 per cent. it is because of the difficulty, or rather impossibility of getting specie for Bank-bills: 3 per cent. is not considered as the difference between specie in London and equal specie in Scotland, but as the difference between specie at London, and Scots Bank-bills; for when a Bankier insists on 103 pounds in Scotland for 100 pounds at London, it is because he expects to be paid in bank-notes,

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notes, and considers such notes, from the difficulty of converting them into specie, as *2 per cent.* worse than cash: This, it must be confessed, is equal to a discount of *2 per cent.* on Bank-notes.

No doubt, it is the business of the Banks to keep up their credit, and this cannot be done while their notes sell at discount; but it is certain, the methods they have taken are the most likely to produce that effect, and nothing could so effectually ruin their credit, as to carry on a trade, equally pernicious to themselves and their country, by bringing down sums from England, to be sent up again as soon as they arrived.

Let us suppose the Banks to have followed the advice of the Pamphlet, and, without abridging their cash-accompts, to have borrowed 100,000 pounds in England.

The expence of bringing this money down could not have been less than *1 per cent.* within a few weeks after its arrival, it would necessarily, when assisted by the cash-accompts, have found its way back again, at *1 per cent.* exchange.—Thus, *2 per cent.* at least, must have been sacrificed by this commerce; and the Banks would
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have been liable to the reproach of making themselves the instruments of carrying it on, though no earthly purpose could have been answered by it, except putting a little money in the pockets of a few remitters; and saving *2 per cent.* to a set of men employed in sending their fortunes out of their native country.

I cannot help being of opinion, that paper-currency ought only to be employed in considerable transactions; and among the many concurring causes which may have given occasion to the present scarcity of money, the introducing paper among our low manufacturers, and into all minute payments, by the circulation of small notes, has had no inconsiderable share.

The inferior manufacturers, and tradesmen, are to be considered as the springs or fountains that supply us with money; they ought always to be kept pure, and should never be suffered to flow with any thing but specie; was that the case, we should have a constant resource, on extraordinary occasions, and that resource might be the better depended on, that it would take time, and some difficulty, to draw money together,

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ther, when divided among a multitude of people: It is they bring in, and indeed form all our wealth; and, to enable them to preserve it, they ought to remain unacquainted with paper and all its mysteries: By introducing small notes among them, an easy opportunity is given to remitters to pick up all the specie that ought to circulate among them, for the permanent support of the nation, and even of the Bank, and paper-credit.

It is a received maxim, that the circulation of paper, must ever bear some proportion to the specie in a country to answer it. If this maxim is true, nothing can be so ill judged as for a Bank to employ its paper, to diminish that very specie which is the means of its support, and on which its own credit depends. It is like cutting off the branch on which one stands.

Twenty-shilling notes might be justifiable, when a Bank was first introduced, in order to make paper familiar, by accustoming people, insensibly, to that sort of circulation. Perhaps too, our wealth, and means of acquiring it, were at that time so much inferior to what they are at present, that twenty

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ty shillings were as hard to be come at, as five pounds are now. In the present flourishing state of our manufactures, it is an error to suffer such small notes to supply the place of specie; we feel the bad effects of it at this time; and at all times it will fix the exchange against us, since it will ever be a profitable trade, to carry out specie, where it is not made use of, and is seemingly unnecessary: Thus, by acting as a perpetual drain, it must, on every extraordinary occasion, expose us to all the inconveniencies of a total want of cash.

If no Notes were to be struck below five pounds, ready money would be required for all inferior transactions, and could never be wanting in a country, whose exports exceed five hundred thousand pounds a year.

No private Banker in England circulates notes below ten pounds; and even Bank-notes are seldom seen in the country-transactions of that kingdom. This keeps cash in the remote parts of the country, and it is that cash, that supports their paper on every important occasion.

The chief use and conveniency of Banks arises from the facility of conveyance, the security

security

security against robbery, false coinage, and the examining and counting every particular shilling; to employ Bank-bills, where none of these advantages are requisite, is the abuse of them, and ought to be restrained.

I therefore recommend it to our Banks to call in all their twenty-shilling notes, and to issue none, for the future, below five pounds. The consequence will be, that as soon as a manufacturer shall amass five pounds, he will become impatient to get a note for it; he will consider this, in some respect, as realising; and as such a sum will appear to him an object of importance, he will naturally chuse to have the best note for it, and will then learn to distinguish between one note and another. This will effectually knock all inferior Banks on the head, and the Edinburgh Banks will then become the sole instruments of serving their country, and of restraining the destructive traffick of sending money out of it as a commodity; and by being thus useful to the public, they will increase their own profits and reputation.

Ellis

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