From the author

BRIEF THOUGHTS, &c.

BRIEF THOUGHTS

ON THE

PRESENT STATE

OF THE

CURRENCY OF THIS COUNTRY.

BY A MERCHANT.

W. Bannatyne

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ADVERTISEMENT.

THE following pages are extracted from a manuscript Treatise on the Principles of Banking, which the author may at some future period be encouraged to print, if these *Thoughts on the present state of our Currency* shall be honoured with any share of public notice. He mentions this circumstance at present, chiefly to account for the extreme brevity with which he has stated some fundamental propositions in the beginning of this fragment;—a defect which he could not supply, without trespassing more on the patience of his readers than he thought prudent in a first publication. As these propositions, however, are all familiar to those who have turned their attention, in the slightest degree, to the theory of commerce; and as the most important of them have been lately illustrated fully, not only in the very able and luminous report of the Bullion Committee, but in many of the excellent tracts which have since appeared, he flatters himself that he will be readily pardoned for omitting a recapitulation of principles, which may now be regarded as elementary; more especially as he trusts that nothing is here assumed, but what has been already established by his predecessors, beyond the possibility of controversy.

As the author has read only a few of the most noted publications to which the Bullion Report has given rise, he will not be surprised to learn that he has been anticipated by others in some reasonings and suggestions, which appeared new to himself when

he committed them to writing. In discussions of so difficult a nature, such coincidences ought to afford matter rather of satisfaction than of mortification, to a writer who has no other object than the attainment of truth.

Glasgow, 5th April 1812.

BRIEF THOUGHTS, &c.

In the discussions which have taken place with respect to the state of our currency, the fact of its depreciation seems to have been rendered intricate and questionable, by resting its proof too much upon the present unfavourable course of exchange.

It is at all times difficult to ascertain, whether the existing course of exchange arises from the state of the currency, or from the balance of payments between the exchanging countries; and even when known to be partly the effect of both, it is impossible to ascertain how much of it belongs to the one and how much to the other. The difficulty is still greater when the currencies of the two countries, exchanging with each other, happen both to be depreciated. What is called *the course*, may be wholly a real exchange *, if the currencies are equally depreciated: if the depreciation is not equal, it may be simply the balance of depreciation: or it may be this balance, modified by a real exchange: or lastly, it may be a real exchange modified by this balance.

The state of the exchange therefore, I apprehend, can never furnish a convincing proof of the depreciation of the currency. The one will, undoubtedly, affect the other very materially; but, before the precise state of the exchange can be known, that of the currency must be ascertained, and the amount of its depreciation (supposing a depreciation to exist), added to, or deducted from the nominal course, according as that at the time is above or below the actual par:—so that the means of proof necessarily remain defective, until the conclusion has in some other way been established.

* By the term real exchange will be understood, that course which arises from the balance of payments immediately under demand, in contradistinction to the nominal exchange produced by depreciation of the currency.

But all secondary means of proof in this case I conceive to be superfluous. The test of the correctness of any particular currency is its convertibility at par into the universal currency, bullion; and whenever it is not so convertible, it is depreciated, whatever may be the apparent state of the exchanges.

What is understood by depreciation is the bringing down the price of an article from its rated value. Now, the value of our currency, as fixed by law, is a pound of gold for forty-four and a-half guineas. The pound of gold, therefore, is the only test of the correctness of our money: and when we find that forty-four and a-half guineas, whether of specie or paper, are not exchangeable into it, the currency, without any other proof, must be held to be depreciated.

That our currency, for some time, has not been thus resolvable, and therefore is depreciated, I believe is scarcely now disputed; and that its being in this state is owing to the paper and specie, which jointly compose it, having ceased to be interchangeable, will not admit of question.

With a currency of specie, or of paper convertible at pleasure into specie, no continued difference in value between it and the precious metals could occur*. A difference, however, between our currency and the precious metals has continued for a length of time, and the necessary inference is, that this is a consequence of something wrong with the part of it composed of paper. For, if the paper part of the currency truly represented the sum of specie of which it is meant to be the substitute, (which it would uniformly do if it continued convertible into it), the whole currency, although consisting partly of paper, would retain the same value in bullion as if it were composed entirely of gold.

The depreciation of the currency, therefore, must be a consequence of the paper being disunited in value from the specie; and whether this be produced by excess of

* I suppose the currency to be in a correct standard state.

the issues, or other circumstances, the effect is to deprive us of our known standard of value.

The anomaly exhibited in the present state of our circulation, and so often referred to in proof of the paper not being depreciated, that of notes and guineas continuing to pass at equal value, is easily to be explained. It shews only that the depreciation, which has extended itself over the mass of paper, has had the effect to sink, for the time, the value of that portion of specie still circulating along with it. This has uniformly happened in every case of depreciation proceeding from excess; the value of the whole currency being sunk, in consequence of the excess of the whole quantity, the value of the specie, forming a part of this quantity, sinks for the moment with the common mass. The effect is the withdrawing the remaining specie from circulation: For, with a difference existing between the value of the uncoined and coined gold, it is impossible that the guineas should not be converted into bullion. In the actual state of our currency, it cannot, strictly speaking, be said, that guineas now form a part of our circulating medium. A few of them, indeed, may occasionally be seen in circulation, but all payments, even those of moderate amount, are effected by paper alone.

There is another depreciation of the currency which is the effect of an unfavourable course of exchange, and which, where it exists, will operate as an addition to that arising from an excess of the issues. To understand this more clearly, it may be necessary to take a view of the different manner in which this exchange acts upon a currency, when in the state of non-convertibility in which ours at present is, and when in a correct state. In both cases, its operation may be traced to its power of disturbing the supply of the precious metals accommodated to the wants of the several countries engaged in commerce.

The whole stock of bullion is, I conceive, much smaller than is generally supposed. Indeed it is difficult to see in what hands any large quantity of it is likely to rest. For being little subject to fluctuation of value,

and consequently at no time an object of commercial speculation, gold and silver, from the interest of the holder, will be passed as quickly as possible to the hands of those who are to employ them in use. The quantity of them therefore in a state of bullion, never will greatly exceed, in any country, the stock which the merchants find it their interest to hold for the supply of the manufacturers and the mint. Of course, the total stock of the precious metals in the world, can be only the aggregate amount of these different stocks, with the addition of what portion of them at any time may be in transit to the dealers.

When the supply of the precious metals proves larger than those means of employment can take off, their value everywhere necessarily falls; but, in the same degree, the value of the currencies of the different countries falls also; and a greater quantity of currency being thus required to effect the same value of payments, all extra supply of the precious metals is absorbed by a reduction of value, making room for an extension of the quantity employed as circulating medium*.

* If I am right in this view of the subject, it will follow that the effect of paper money in economising the use of the precious metals, as media of exchange, goes to economise the *value* only, not the *quantity* used; for as all, but that part of them which is taken off by manufactures, must be absorbed in the currency, the less value of coin that is required, in consequence of the employment of notes, by so much a greater bulk of the precious metals must that value be represented.

In this case, the value of the whole gold and silver which has been set at liberty in consequence of the employment of paper in the different currencies of Europe, must have been absorbed again in a reduced value of the constituent parts forming those currencies; equally affecting in this respect, in their general exchangeable value, the currencies of a mixed description, and those in which the precious metals alone were used: And this, operating in conjunction with rather an increased supply from the mines, will, I think, fully account for the rise in prices we have seen every where take place. There might, from the fall in the value of the precious metals, have been some additional consumption of them in manufactures, but not to an amount that could counteract in any sensible degree the effect it was calculated to produce upon the currency.

This substitution of paper generally in the currency, however, has, in a great measure, been peculiar to this country, and the rise of prices we have seen, has therefore been the effect only of a partial application of this measure. But were the practice to become universal, and, in consequence, the specie everywhere to be reduced to the amount necessary to act as a check upon paper, and to maintain the uniformity and correspon-

Upon the same principle, a diminution of the stock of the precious metals adapted to the wants of any country, produced by an exportation of them, will raise the bullion value of the currency of that country, and enable a smaller quantity of it to effect its payments, so that a part may be withdrawn to replace, in the home market, what the exportation is taking away.

In this way, an unfavourable exchange, where the currency is founded upon the precious metals, is enabled to act directly through it upon prices, and thence to induce an earlier exportation of commodities, than, as we shall afterwards see, can take place when the currency and the precious metals are disjoined.

I shall now proceed to shew in what man-

dence of the measures of the different countries, the gold and silver so disengaged from its former employment, added to the new supplies, would produce a greater change upon prices, than has been experienced since the discovery of the American mines.—What I have been stating in this note, with regard to a general rise upon prices, it must be evident, has no connection with the local rise that has taken place in this country, from the situation of its particular currency.

ner the same exchange affects a currency, not convertible into specie, and endeavour to explain by what means it still operates upon prices, although in such circumstances it does not act through the medium of the currency.

When the currency is in this state, equally as when it is in the other, gold will continue to be exported as long as the profit will pay for its exportation. And although the diminution of its quantity has not the effect to withdraw part of the currency, and thereby alter the money prices of commodities, yet in proportion as the stock of gold in the country is lessened, its own value will rise relatively both to the commodities and to the actual circulating medium. Consequently, while commodities, rated in currency, may appear to have remained stationary in their prices, they, as well as the currency, will have been sinking in actual price, when rated in bullion, the measure of the exchangeable value of both with the commodities and currencies of other countries. The operation of the ex-

change to produce its own cure, will be slower with a currency in this state than in the other, but its ultimate effect will be the same. In the precise degree in which the supply of gold in the country is abridged, the bullion value of commodities will fall, and an exportation of them to discharge the balance of debt will be encouraged.

The effect of an unfavourable exchange, then, upon a currency in this state, is the reverse of that produced by it upon one resolvable into the precious metals. Instead of raising its value, it sinks it, occasioning that other depreciation, in comparison with the currencies of other countries and with bullion, of which I have already taken notice. This depreciation, it has been seen, arises from excess in the currency, but from excess originating differently from that with which we are more generally acquainted. The one is producedby the issues of the currency exceeding the demands of circulation; the other, by a temporary rise in the price of bullion, the standard of the world, which, producing no corresponding diminution of the amount of the paper currency, lowers its relative value.

The question, whether the precious metals are at present in plenty or scarcity in the different markets of Europe, is foreign to my argument; nor can the state of their supply, either at home or abroad, affect that depreciation, the existence of which is undeniable. For, allowing that they do exist in a state of scarcity, a fact which has been attempted to be established by those who deny the depreciation, this could not occasion a difference between their value and that of the currency. If the latter were exchangeable into them, its value must rise with theirs, and a smaller portion of specie, or of paper convertible into specie, would then serve to represent and transact the exchanges and payments. The currency could not appear to retain one value, while the precious metals held another; nor could a pound sterling be different from $\frac{20}{21}$ parts of the bullion, which a standard guinea contained. I cannot indeed well conceive a more extravagant position, than

that of nominal money of account, an abstract pound possessing permanent independent value.*

Considering the fact of the depreciation of the currency then to be established by the difference between its nominal and bullion value, (a circumstance which could not have happened had the paper part of it been convertible into specie) it is fair to conclude, that its non-convertibility has afforded the means of a greater amount of it being kept in circulation than the exchanges and payments of the country require, and

* Had I seen the Earl of Lauderdale's pamphlet upon the depreciation of the currency, published since these sheets were written, it might have rendered unnecessary what I have said upon that part of my subject. His Lordship has not only proved, unanswerably in my opinion, the existence of the depreciation, but has put to rest, I hope, the extraordinary idea of abstract money retaining independent value, and consequently measuring the precious metals, in place of being measured by them. The illustration of general principles contained in his work, together with the very interesting parallel which he has traced between the present state of our currency and that which arose from similar causes in the reign of King William III. may be justly regarded as an invaluable addition to the science of political economy.

that the depreciation is a consequence of this excess.

If such be the case, the remedy must be, by withdrawing the excess, to bring back the paper to its par value, and, by restoring its dependence on specie, to prevent its future depreciation.

But apprehensions are said to be entertained, that any measures taken, in the present circumstances of the country, to bring back the currency to its former state, would be attended with dangerous consequences; and therefore it may be proper, before considering the best mode of effecting such a change, to examine the nature of these fears, and endeavour to ascertain how far they are well-founded.

In the first place, it has been said, that reducing the currency to the amount necessary to bring it again to bullion value, would abridge the borrowing fund, and the means of banking accommodation.

This apprehension may easily be shewn to be groundless; because, as only that value of currency which is relative to the exchanges and payments can circulate in a

country, an addition to the numerical amount does not add to its value, nor therefore to the value of the artificial or paper capital founded upon it. The mistake has arisen from confounding the currency with banking capital, the issues and transfers of which being usually made in currency, an idea is entertained by many, that the means of banking accommodation must be limited to the sum of notes in circulation.

The currency, whether of specie, or of paper supplying the place of specie, is, under our money system, banking capital. But it is a part only of this capital which is employed as circulating medium;—that part varying in its proportion to the whole, according as the supply of banking capital at the time, varies in relation to the sum of currency required for the uses of circulation. The two are in their capacities and natures different, and regulated in their application by separate and opposite circumstances. The circulating medium being regulated both in its amount and employment by the demands of circulation, never can continue in a state of scarcity or overabundance. The banking capital, on the contrary, depending altogether on the amount of wealth, relatively to the means of its employment, may remain for a length of time in either of these states.

In consequence of the interval of credit which occurs between the issue of the currency by the banker, and its return to him in repayment of the loan, an opportunity is given of sending more of it into circulation than the occasions of the country may require. But this term of credit affords, at the same time, a latitude for diverting the extra quantity to other uses; for converting it, for instance, into bullion, and by that means into the situation of ordinary circulating capital; and the credit belonging to each separate issue resolving into a credit for an average period upon the whole, this diverted application of the surplus currency is permanently maintained.

Although, therefore, each loan be issued in circulating medium, there is no correspondence preserved between the aggregate amount of capital upon loan, and the sum of it retained in money for the uses of circulation. Nor is it possible that there should;

the extent of employment for capital being indefinite, while the demand for circulating medium is limited, not only by the amount of exchanges and payments to be effected, but also by the opportunity and degree of knowledge possessed of the means of economising its use.

There have been attempts to estimate the proportion which the circulating medium of a country ought to bear to the value of its exchanges and payments. But no such estimate can be satisfactorily made; the proportion between the two necessarily varying with circumstances. We may form some idea of the extent of this variation in different situations, by comparing what takes place in the ordinary payments in the country, where each payment requires a corresponding amount of circulating medium, with those in London, which the bankers there contrive to effect, with a sum, not exceeding, in some instances, the twenty-eighth part of the amount transferred*. Although the currency of a coun-

* See evidence given by Mr. William Thomas before the Bullion Committee.

try, therefore, must always be relative in its amount to the exchanges and payments, it is clear that the proportion requisite to effect these, will be greater or smaller, according to the knowledge of the means of sparing its use, and the opportunities of employing them.

It has been stated by very eminent authorities in political economy, and assented to in the Report of the Committee, that the proportion between the currency of a country and its payments, varies with the state of general confidence; and that, from an increased rapidity of circulation taking place when confidence is high, the same amount of circulating medium performs an additional number of operations. But it may well be doubted, with our extensive provision of banking establishments, and the means which these afford of disposing of our spare currency, whether this be really the case.

What we understand by circulation of the currency, is the transfer of it from one person to another, in loan, in the purchase of commodities, or in the payment of debts.

But in none of these transfers is there a movement of currency, except to effect a movement of capital; for nothing can give it motion independent of capital, although by means of mutual exchanges of debts, the latter may be transferred without the intervention of the circulating medium. In as far as the use of currency can, by such exchanges or other means, be economised, so that a smaller relative quantity can be made to perform the daily payments, the powers of this part are said to be increased, although, in fact, it is only the call for the larger quantity that has been removed.

Mr Thornton is of opinion that "the quantity of circulating paper, that is, of paper capable of circulation, may be great, and yet the quantity of actual circulation may be small, or *vice versa**." But the amount of the currency circulating in a country must, at all times, be relative to the amount of the exchanges and payments to be performed, and it is only by maintaining

* Inquiry into the nature and effects of the Paper Credit, &c. page 46.

the relative proportion between the two, that the correctness of the circulating medium, as a measure of value, is to be preserved. For if we are to suppose the currency of the country to be the same sum, circulating at one time slowly, and at another time more quickly, according to the state of public confidence, this sum could not bear the same relation, in these different circumstances, to the exchanges and payments, nor its parts continue to serve as a correct measure of their value.

If I rightly understand what is meant by the expression, a slow circulation of the currency, it is, that a part of the existing supply stands still; in other words, that the exchanges and payments of the country, at such time, are transacted by a part only of the sum in circulation. This, if it ever can take place, must be of very short duration. For the part of the circulating medium that thus stood still, being superfluous, and unprofitable to whomsoever it might rest with, would immediately, under another form, seek employment as ordinary capital.

Indeed, when specie is hoarded, or when

in times of difficulty and distrust, the banker considers it necessary to enlarge the portion of capital he retains in his hands for meeting his payments; the sums so hoarded, or retained, being capital in money, a corresponding amount of currency is withdrawn from actual circulation. It is not therefore that circulation is retarded, but that currency is withdrawn; in consequence of which, the part remaining, having an amount of operations to perform which formerly occupied the whole, rises in exchangeable value as much as if that which is hoarded had ceased to exist.

By the quickest circulation no more can be meant, than that the whole currency is kept in constant activity. Beyond this, no acceleration is possible, as its movements must correspond with those of the capital which it is employed to transfer. It can move no quicker; nor does it ever move slower: for if a portion of it were sufficient to effect the whole transitions of capital, a state of the currency must be supposed which cannot occur. It must be conceived that an amount of it continues in circulation, different from what the demand requires.

If we follow the currency in its daily course of circulation, we will not find that the same sum performs a greater number of operations at one time than at another. It comes into circulation, generally from a bank, in loans of the banker's capital, or transfers of the capital of others held by him. He who receives it exchanges it for commodities, discharges a debt with it, or deposits it in his bank-account. But in whatever way it is thus used, or whatever number of exchanges it may have an opportunity of intermediately effecting, it in general is returned into the hands of a banker on the very day in which it has been issued. I speak here chiefly of that description of circulating medium which is applicable to large payments, and to which Mr Thornton's theory more particularly refers.

There will, it is true, be a difference in the number of payments, which similar sums of money, issued at the same time, may effect, owing to some of them falling into a train of successive payments. But

this is to be ascribed, neither to accelerated circulation, nor to any particular state of public confidence. It is a circumstance altogether accidental, and equally likely to occur at one time as at another. In fact, from all payments of considerable amount ending in mutual transfers between bankers, there is rarely an opportunity for a sum of money to perform a succession of payments between the time of its leaving and that of its returning to a bank.

The notes which individuals keep by them for daily expenditure, may often remain for a time inactive, or, on leaving the hands of the holder, pass through a number of successive exchanges before reaching a bank, so that, as Mr Thornton has stated "one guinea may," in that case, "effect ten payments in one day, while another effects only one payment in ten days." But it is not distrust that keeps back the one, or confidence that multiplies the operations of the other. The influence of distrust upon this part of the circulating medium is most likely to be, that persons will then keep fewer notes in their pockets: For he who experiences difficulty in providing for his larger engagements, will be disinclined to all superfluous appropriation of funds for smaller occasions. Upon this ground, it seems probable, that the amount of this description of notes in circulation is smaller at such times than at others.

But although the state of public confidence does not affect the movement of the circulating medium directly, there can be no question with regard to its influence upon it indirectly, through the medium of capital. When confidence is high, and speculation afloat, we know with what rapidity capital of every description circulates. This necessarily calls forth a corresponding movement of circulating medium, and augments its quantity.

Under every view, then, of the nature of currency and the course of its circulation, we may conclude, that the same relative amount of it, supposing the means of economising its use to continue the same, will at all times effect the same amount of exchanges and payments. If this be the case, the difference in the quantity of circu-

lation between one time and another, is not a difference of its movement, a slower or quicker circulation, as has been supposed, of the same amount of currency; but a difference in the amount itself, which becomes smaller or greater according to the diminished or increased circulation of capital.

If, then, an increase in the currency beyond the usual amount, when there is no similar increase in exchanges and payments, be only to employ a larger sum to represent what was formerly represented by a smaller, it will follow that an extension of paper currency, farther than the circulation could have absorbed, if the notes had been convertible into gold, can add nothing to the loans from bankers to merchants. A greater nominal sum may be lent, but it will be exchangeable into no greater value of commodities.

The extra issues, it is true, come into circulation at first as additional capital; but as capital of a particular description—capital in an article, the demand for which is limited, and any surplus quantity of which, from its nature, is not marketable elsewhere. The surplus, in consequence, continues to press unremittingly in the market, until it reduces the value of the whole sum circulating to that of the sum that could have circulated had the means of interchange between it and bullion remained open.

Although the first borrowers may be able to effect payments with this currency at par, its value begins immediately to sink. The surplus not being able to find employment as currency, is constantly returned into the hands of the different bankers. But they, being already furnished with the supply of notes wanted for their transactions, push out the extra notes again in loans to their customers. In consequence of these extra issues representing, for the moment, extra capital, there is a temporary facility of borrowing; but the consequent reduction of the value of the currency does not, as has been stated by some writers, proceed from this capital being thrown into the market, the effect of which could only be to sink for the time the rate of interest, but from its

unceasing return as currency to be pressed against commodities.

After each return, it comes to represent a smaller value than it did before, that is, a larger sum of it is required, in exchange for the same amount of commodities: and this reduction proceeds by a succession of these operations, until the whole sum in circulation has ceased to represent extra value. The depreciation remaining concealed through the whole of these transactions, from the circumstance of the currency being considered as the measure of value, the articles against which it is exchanged are conceived to rise in price.

It is clear, then, that no permanent addition to the borrowing fund can be obtained from excess of the currency; of consequence, no diminution of it can take place from a reduction of the numerical amount of the currency, when in excess, to the sum corresponding to its actual value.

A currency in excess, far from furnishing extra capital to be lent out, lessens in the degree of its excess the value of all that is so employed, and therefore the amount of real accommodation afforded to the public. For although the stock of the banker, and sums deposited with him, and indeed all lent capital, will, after the excess, continue, upon the books of the parties, in numerical amount what they were before; they become diluted, if I may so express myself, by the excess. Being transferable from, and to, the lenders, by means of the currency, and in these transfers being measured only by it, the exchangeable value of any sum of those capitals, compared with capital in other commodities, must, as the currency falls in value, fall with it. The public, therefore, in place of losing, would gain accommodation by restoring the currency to its former correct state, and the banker would profit no less by the change. The interest upon the paper to be lent by him, in this case, would be equal in intrinsic value to the greater numerical sum of interest derived from the loans made by him in the other; while the whole of his real capital, before depreciated, would be restored to its original value *. The Bank of England alone, in this respect, experiences no change of circumstances from the currency going into a state of excess, or returning from that to a correct state; and this from its revenue being at all times convertible at the market number of years' purchase of the day; its capital, expanding and contracting in correspondence with the expansion and contraction of the income derived from it, maintains a uniformity in actual value which no other banking capital can do.

The only other objection to restoring the currency immediately to its natural state, which seems of much consequence, is the danger apprehended from the demand for gold, in case our foreign expenditure should continue as great as at present, and the exclusion of our commerce from the Continent should still deprive us of the means of discharging our debts by a direct exportation of commodities.

* The case is still stronger with a banker who issues no paper, and has had no compensation for his depreciated capital and income, in the interest upon his excessive circulation.

But the demand for gold, arising from these circumstances, will not be less in the one state of the currency, than in the other. In either case, the supply can be had only in exchange for commodities; and as the actual value of these commodities in exchange must fall as the demand for gold proceeds, no additional means, or even facilities for procuring gold are obtained by keeping the currency in its present state.

With regard to the distress to be brought upon the bankers by this demand for gold, supposing their notes convertible into specie, no person acquainted with the nature of circulating medium, and the principles which, when left freely to operate, uniformly regulate its supply, can entertain serious apprehensions. The worst which could happen would be, to oblige the bankers to lessen the quantity of their paper, so as to keep the currency rather above bullion value, and thence preclude all temptation to convert the former into the latter;—in fact, to induce them to withdraw voluntarily that amount of their paper, which a demand

upon them for specie would otherwise drive from the circulation.

Were a currency wholly of specie to be acted upon by a demand for gold, such as we are supposing, it would speedily reduce itself in quantity to its proper proportion to the stock of bullion; and I know of no principle on which paper employed to represent this specie should be retained in greater quantity. But leaving this out of the question, it is clear that, if the bankers only take care that the currency be not increased beyond what the circumstances of the time prescribe, they can no more be affected by a demand for gold, than by that for any other commodity.

There is another cause which produces sometimes a call upon bankers for specie; distrust of circulating paper, the usual effect of temporary alarm. This demand cannot, like the other, be stopped by a diminution of the currency, from an excess of which it has not proceeded, and by a sudden diminution of which, the panic, and consequently the distrust, would probably be increased. The obvious and best remedy, in this case, is a general combination to stop the progress of alarm, and re-establish lost confidence. Declarations by the principal inhabitants, of their unabated trust in the notes of their bankers, and of their willingness to receive them in payments, cannot fail, if the paper be deserving of such support, to restore its credit. Any other remedy than this may depreciate that currency, the value of which it proposes to preserve, and can never be necessary where the banking establishment truly rests upon capital, and has had its operations directed by judgment and discretion. If the liability of bankers to demands of this nature is to be held as a reason against restoring our currency to its natural state, it must follow that, during all periods of war, it will be proper to protect them in like manner: and if such is the condition upon which we are to continue the employment of paper, it would perhaps be better for the country to relinquish its use entirely, and revert to a currency of specie. Nothing can compen-

sate to a commercial nation the evil of having its exchanges and payments measured by a standard which is daily altering in its dimensions.

It appears extraordinary that, because our bankers, during a moment of alarm, could not, without hazard to themselves, continue to occupy with their paper their usual proportion of the circulation, they should therefore have been enabled to possess themselves of the whole; and, instead of issuing more guardedly the ordinary currency founded upon capital, that they should thenceforth have been empowered to issue unlimitedly one founded upon credit alone. It seems never to have been considered, that bankers are properly lenders of capital, and that although in this country they have been in the practice of lending also their credit as capital, this was done with safety to the public only so long as that credit was convertible into capital at the pleasure of the holders. Besides, the credit thus lent, being embodied in the sign of our measure of value, its convertibility into capital was no less indispensable to the preservation of the quality of the sign, than to the security of the public in the loans. Both objects have been abandoned, and a power has been committed to irresponsible individuals of varying the measure of our daily transactions, according as their particular views or interests may lead them to enlarge or curtail the sum of currency in circulation. It will soon be a matter of astonishment, how, in so enlightened a period, a great commercial country should have fallen into such an error.

Having, I hope, succeeded in shewing, that there is no ground for apprehension, either with regard to the banker's safety, or the effect to be produced upon the fund applicable to banking accommodation, from restoring our currency to a sound state, I shall proceed to examine by what means this may be accomplished with the least hurt to individuals, while the process for effecting the change is going on.

We know that by reducing the amount of circulating paper, its value would be raised.

Were such a reduction effected as should bring down the amount to what would continue in circulation after it was convertible into specie, bank notes would again become equal to bullion; and if the reduction were pushed farther, the value of the currency would rise above that of bullion, and have the effect of inducing bullion to be sent to the mint to be converted into currency.

It is in this way that we must endeavour to retrace our steps, being careful to avoid such precipitation as would throw the whole alteration of the currency on the transactions of a short period. By a slow gradation, the rise of circulating medium and consequent fall of commodities may easily be diffused over such a succession of contracts, that its effects will be imperceptible on each.

The process by which this may be accomplished is simple. It is necessary only, that the bank of England shall continue to withdraw paper, in proportions to be fixed by Parliament, until the value of the currency rises to that of bullion; that it shall, in this gradual manner, reduce its circulation to that amount which could not have been exceeded had its notes continued to be convertible into specie, and to which it must at once be brought back whenever the restriction is taken off. A million of paper withdrawn every three months, could not, I apprehend, be materially felt upon any of the transactions taking place in that period.

It has already been shewn that the actual accommodation afforded by banks would not be diminished by this reduction of the currency. But to remove all fears in the mercantile body, upon this head, the reduction might, as recommended in the report of the Committee, be made, in the first instance, wholly upon the advances to Government, to whom it can be of no importance whether the loan be temporarily from the bank, or permanently, as at last it must be, from the public. By this means, even the numerical amount of funds at present applicable to commercial loans would be maintained.

The withdrawing of the Bank of England's surplus paper will necessarily be followed by a correspondent reduction of that circulating in the country. For the whole of the engagements of those who deal with country banks being, by established practice, payable in London, the currency into which these are resolvable must fix the value of that which those parties otherwise employ, and a correspondence in value between the two being established, a relation in quantity is a necessary consequence.

Having by these means restored the currency to its standard quality, and our measure of value to a correspondence with that of other countries, the next object will be to secure its uniformity permanently, by making the paper again convertible into specie at the pleasure of the holder. The delaying of this last step, until the other has been accomplished, will have the effect of removing any difficulty as to its execution; for the public mind will then be relieved from the unnecessary apprehension of danger, produced at present by the difference existing between the value of the currency and bullion. Besides, by this gradual procedure, all premature discussion respecting the description of paper proper to be continued in circulation will be avoided; a difference of opinion with regard to which might retard the attainment of the essential point, the restoring the currency to its standard value, to which the adjustment of this question can only be of secondary consideration.

I shall now conclude these remarks, by briefly recapitulating what, in the preceding pages, I have attempted to establish.

1*st*, That the currency of this country is depreciated; not being exchangeable at par into bullion, the foundation and common standard of all currencies.

2*d*, That this has proceeded from the paper part of the currency being disconnected from that composed of specie; for had they continued interchangeable, neither could have fallen from the value of bullion, into which, in that case, they might have been immediately converted.

3*d*, That the depreciation is produced by

excess of the paper; its non-convertibility into specie admitting of a greater quantity being continued in circulation, than the exchanges and payments of the country require.

4*th*, That the effect has been to give us a measure of value, and medium of payment, daily altering in its dimension, the greatest evil to which a commercial country can be subjected; and that there is no means of removing this evil, but by withdrawing the excess, or of preventing its after recurrence, but by restoring bank notes to their former state of convertibility into specie.

5*th*, That these important objects may be effected without that inconveniency to our merchants, or hazard to our bankers, apprehended from the present state of our commercial relations: because, with regard to the first, as excess in the currency can yield no continued accession to banking capital, the withdrawing of that excess can take nothing from the means of banking accommodation: And with regard to the second, if bankers are prudent enough to keep the amount of the currency accommodated to the wants of circulation, no temptation to convert their notes into specie can be either permanent or dangerous.

6th, That a demand upon bankers for gold, proceeding from panic and general distrust, is a risk which the issuers of paper currency ought occasionally to expect, and always to be prepared to meet; that against such a demand no protection prejudicial to the usefulness of the currency will be wanted, if our banking establishments truly rest upon capital, and are conducted with discretion.

7th, That the change to be effected upon the value of the currency may be accomplished without being much felt during its process, by making the reduction of its quantity progressive, and extended over a lengthened period; and that all cause of apprehension from the paper being again rendered convertible into specie will be removed, by delaying this part of the measure until the exchangeable value of the currency has risen to that of bullion.

THE END.

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