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LETTERS
WRITTEN TO THE
GOVERNOR AND DIRECTORS
OF THE
BANK OF ENGLAND,
IN SEPTEMBER, 1796.

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ON THE
PECUNIARY DISTRESSES OF THE COUNTRY,
AND
THE MEANS OF PREVENTING THEM.

WITH
SOME ADDITIONAL OBSERVATIONS
ON THE SAME SUBJECT,
AND THE MEANS OF SPEEDILY RE-ESTABLISHING THE
PUBLIC AND COMMERCIAL CREDIT OF THE COUNTRY.

BY
SIR JOHN SINCLAIR, BART.
PRESIDENT OF THE BOARD OF AGRICULTURE.

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1797.

PRELIMINARY OBSERVATIONS.

THE following Letters, were addressed to the Governor and Directors of the Bank of England in September 1796. They were accidentally mentioned in the House of Commons, in the course of a late debate. I am thence induced to lay them before the Public, to prevent any misrepresentation of their contents, and in compliance with the request of several respectable Members of Parliament, who wish to have an opportunity of perusing them. The reader will readily make every necessary allowance, for letters written without any intention of publication, and drawn up, rather with a view of suggesting hints for the consideration of the Directors, than of recommending any particular measure to be adopted. The author has long been deeply impressed

with the idea, that it was of the most essential consequence, to rouse the serious attention, both of the Government, and of the Bank, to meet the alarming crisis, in regard to pecuniary concerns, which was so fast approaching; he flattered himself, that the hints he had thrown out, would have induced them to take some effectual means to prevent the evils he apprehended; and if they did not relish his suggestions, that some other measures, more like to answer the purpose, would have been adopted.

It must be no small satisfaction to those, who sincerely feel for the happiness and prosperity of the public, that the unfortunate event we have all so much reason to regret, namely, the temporary suspension of monied payments at the Bank, in consequence of the Order of Council of the 26th of February, is not owing to any deficiency of solid resources in the country, but may justly be attributed to causes

which explain themselves, and which might have been avoided, had early and precautionary measures been taken. I hope that it is still possible, by wise and prudent regulations, to obviate a considerable part of the mischief which otherwise must be looked for. The shock, however, which public credit has received, will require the best talents in the state, and the united exertions of all parties and descriptions of men, to ward off the calamities which threaten us.

In delivering any opinion on a subject of such peculiar importance, persons unconnected with official men, are subject to considerable difficulties. They can only suggest general opinions, founded on common report; but ministers, and those connected with them, may command the most authentic information, and have it in their power, to recommend such steps, as their knowledge of facts, and the exigencies of the case seem to demand. It re-

quired no great wisdom to foresee, that the alarm of an invasion, and the preparations necessary to prevent it, would occasion a great demand for specie, and the hoarding up of considerable sums. If there was a sufficient quantity of specie in the country, a considerable proportion of it would probably be paid in the taxes to Government, which ought to have been placed in the Bank, as the great depot of our pecuniary capital. If there was not a sufficient quantity, which Government ought certainly to have ascertained, there was little difficulty in drawing, either in the course of trade, or by direct purchase, more bullion from the continent, and coining it here. There is indeed too much reason to believe, that the quantity of gold coined for these three years past, has been considerably less than usual. If that is the case, the calamity we deplore, may in a great measure be attributed to that circumstance. The ex-

change being in our favour, bullion might have been procured; and the expence of coinage, even under the existing expensive regulations, could never be an object sufficient to deter either the Bank, or the Government, from securing a sufficient quantity of coin for the purpose of preventing the mischiefs we now experience.

The principles on which the mint ought to be regulated in this country, I propose soon to bring before Parliament; for it is a subject, on which, fortunately, more knowledge can now be accumulated, from many intelligent individuals living at this time, than perhaps in any former æra of our history; and if I am fortunate enough to prevail upon government, to put that important branch of political economy on a proper footing, an essential object will be obtained, which may be the means of securing an abundant supply of specie in future.

There is little doubt, that measures might be devised, (and a plan for that purpose, is sketched out in the following pages) which may be the means of speedily opening the Bank. Indeed from all quarters of the House, useful suggestions, and plans of relief will probably be offered, which will be considered, as they ought to be, with liberality and candour. Public credit extends its benefits to all parties, and has an equal call on their respective exertions to support it. Those who have most deeply examined, and value the blessings of our happy constitution, know well, that its very existence is involved with, and established on, that of our public credit.—

THE THRONE, THE CHURCH, THE NOBILITY, THE LANDED AND THE MONIED INTERESTS, all fell in France, with the violation of the public credit of that country. How anxiously then ought the guardians of the British constitution to

rally round this great pillar of our prosperity; more especially at a moment when we have to combat the most inveterate foreign hostility, and suffer, at the same time, all the difficulties resulting from the embarrassed state of our finances.

It is some consolation, however, to add, my full conviction, that if this country is wisely and ably governed, it may yet be extricated from the distresses in which it is involved; and that if we conquer our present pecuniary difficulties, if peace is speedily restored to Europe, and if we establish a broader basis of agricultural strength, that we may again begin, a new career of perhaps unrivalled prosperity.*

* Among the causes of our present pecuniary embarrassments, it can hardly be questioned, that the neglect under which Agriculture has been suffered to remain, is not the least important. In the course of the years 1795 and 1796, we were obliged to import above a million of quarters of wheat alone, which, at the rate of only £3. per quarter,

amounts to three millions of money. Had that sum, instead of being exported, been lying in the coffers of the Bank of England, the Order of Council would never have been necessary, and the credit of the Bank would have been unimpaired. I mention this circumstance, in order to prove, how deeply the commercial interest is concerned in our agricultural prosperity, and how anxiously they ought to support the proposed general bill for extending our cultivation, the surplus of which will be an important article of commerce, and the means of bringing in considerable wealth into the country.

TO THE
GOVERNOR AND DIRECTORS
OF THE
BANK OF ENGLAND.

LETTER I.

GENTLEMEN,

I LEARN, with infinite regret, the very general distress, which prevails in the commercial world, from the scarcity of money, and the diminution of credit; and it would give me much pleasure, could I furnish any hints, which, improved on by your judgment and experience, could in the smallest degree tend to alleviate such pressing evils. For if they are not checked in time, there is too much reason to apprehend, that they must ultimately be productive of consequences truly serious and alarming.

There is certainly more wealth than ever in the country, of a solid and substantial nature. Our lands—our houses—our shipping—our manufactures—our goods of every sort, are greater in quantity, and more valuable in amount, than ever they were before. But our distresses are owing to the want of a sufficient quantity of a circulating medium, either of paper or of specie, adequate to the increased commerce, and the increased revenue of the country; and also adequate to supply the vacuum occasioned by that exportation of money to foreign countries, which has taken place in the course of the war.

For remedying the evils in question, I take the liberty of submitting to your consideration, the following hints.

I. Would not an increase of the capital of the Bank, enable it to serve more effectually, both the merchant and the public; and would not public credit be much im-

proved, if a certain proportion of the Exchequer bills, now outstanding, were to be subscribed into the new stock? On various occasions, the capital of the Bank of England has been increased, for the purpose of relieving the country; and by giving the holders of Bank stock, the preference in the new subscription, they would have no just cause for complaint.

II. I am persuaded, were the Bank to issue *two pound* and *three pound* Bank notes, that it would be a great public convenience, and that very few of them would be exchanged into specie. Indeed less gold would be required for changing even ten pound notes, which is often done for the sake of getting two or three guineas, the whole sum in coin that may be actually wanted by the holder of the note.

III. The increased commerce and revenue of the country, certainly demand a greater increase of a circulating medium. That increase can only take place either in

specie, or in Bank paper. Specie, however, cannot be commanded when wanted; and if paper were to be issued by the Bank, *in the usual form*, it might be immediately converted into specie, and exported out of the country. Might not, however, the Bank obtain authority from Parliament, to issue a million in notes, neither bearing interest, nor convertible into specie, until twelve months after the date; or might there not be a particular sort of note, which, though *issued* on the 1st of January 1796, might be *dated* on the 1st of January 1797, and so on? in which case it could not, till the day of its date, be convertible into specie. Such notes would at once pass, *by consent*, without discount. A union, or understanding, for that purpose, among the merchants and bankers of London, might be established in a very short space of time. The merchants might be told, that the Bank would discount their bills, to any specified

amount, for the accommodation of the public, partly payable in notes dated 1st of January 1798, and partly in common convertible notes; and, if the due proportion were not exceeded, such is the want of money at the time, that the one kind of note would pass as readily as the other. If the Bank were *applied to by the merchants* to issue such notes, where could there be an objection to try such a plan, at least during the war?

IV. The last point I shall take the liberty of alluding to, relates to the state of the coinage; that of gold in particular. While we continue to make our gold coin so much finer than that of other nations, and almost give *a bonus* to the smelter, by demanding nothing for the expence of the manufacture, it is impossible that our coin should not either be exported abroad, or smelted down at home; and we must, of consequence, experience all the evils resulting from a diminished cur-

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rency. Has the Bank ever seriously taken that point into its consideration, and represented it to his Majesty's Government?

I thought it my duty to trouble you with these hasty observations, on subjects deeply interesting to us all, and should be happy were these hints to prove in any respect useful for obviating evils, of a nature so likely to prove in the highest degree prejudicial to the interests of the country.

I have the honour to be,
with great respect,

GENTLEMEN,

your faithful

and obedient servant,

JOHN SINCLAIR.

Whitehall, 15th September, 1796.

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LETTER II.

GENTLEMEN,

UNDERSTANDING from Mr. Thornton, that you propose taking my former letter under your consideration, in the course of this week, I think it right, more fully to explain my ideas upon one point, namely, the proposed alteration in the coinage, as it is certainly one, which requires to be considered in every possible point of view, before it can be adopted.

I shall first state the objections which may be urged against the proposed measure; and, secondly, the advantages which may be expected from it.

OBJECTIONS.

I. That it would affect the prices of goods at home.

Answer. Much must depend upon the amount of the tax. If it is only five per cent. it would probably make no differ-

ence, more especially if it were at first restricted to gold coin. Articles bought with silver would not in that case be effected by it.

II. That it would affect the foreign exchange.

Answer. This however is not probable, at least whilst the proposed alteration is restricted to our gold coin; for, I believe, our exchange, in general, if not altogether, depends upon the state of our silver money, and not our gold. That is a subject, however, respecting which I have no pretensions to be possessed of any particular information, and indeed I understand, that there are very few in this country, who are deeply conversant in it. The only publication, which, I believe, explains it in a complete and satisfactory manner, is one, I think, called "Krusen's Hambro' Comptorist," in two volumes quarto; a book of such merit and utility, that the city of Hamburgh have given the author a

pension for writing it. I would strongly recommend it to you, Gentlemen, to have that valuable publication translated, and printed at the expence of the Bank, or by private subscription. The city of London ought now to be, what Amsterdam formerly was, the center of all the pecuniary negotiations of Europe, which it never can be so thoroughly as it ought to be, until the subject of exchange is pretty generally understood by our merchants, which might soon be the case, were this book translated. We must till then principally rely upon foreign merchants, who make fortunes from our ignorance of the nature of exchanges.

III. That it would favour counterfeiting.

Answer. This, however, is not the case. The finer the gold the more easy it is to work, and consequently to counterfeit it. The more alloy there is, the finer is the impression, and consequently it is the more difficult to imitate. The more the

alloy in the real coin, there is evidently less profit to be obtained by the false coiner.

ADVANTAGES.

I. The profit to the Exchequer, by saving the expence of the manufacture, and gaining a certain sum additional. It is incredible the sums which have been thrown away, since the Revolution, by not attending to that obvious circumstance. The principal sum that might have been thus obtained, with accumulated compound interest, would now have amounted to a sum, that would stagger the belief of the most credulous.

II. Mixing a greater proportion of alloy would not only make it less profitable to counterfeit, as has been already observed, but would also be a great check upon filing and sweating, and also on melting it down for the various purposes of manufacture.

III. Being harder, in consequence of the greater quantity of alloy, the coin would not wear so fast.

Lastly, There would be less temptation to export it, for it would not pass for so much in foreign countries, as it would do here; and if it were exported, it would soon come back again. Smith, in his *Wealth of Nations*, observes, that the money of the French, always came back in consequence of that circumstance; and here it may be worth remarking, that that respectable author recommends imposing such a duty upon coinage, as would at least defray the expence of the manufacture.

Before I conclude, I must take the liberty of mentioning one other point.

I understand that it would tend much to encourage the importation of foreign coins, both of high and of low intrinsic value, if those whose value approached our own, were allowed to pass at a fixed rate, and if the others were sold as bullion according to their real value. Both Amsterdam and Hamburgh carried on an

immense trade with those *species*, as they are called, which are disposed of as merchandize by weight and standard. We should now endeavour to transplant, so valuable a branch of trade, from Amsterdam at least, to this country.

I have many apologies to make, for venturing to trouble you on subjects, with which you are so much more conversant than I can pretend to be; but you will ascribe it, I am persuaded, to its real motive, an ardent desire to contribute, by every exertion in my power, to promote the interests of the country.

With much respect,

I have the honour to be,

GENTLEMEN,

your faithful

and obedient servant,

JOHN SINCLAIR.

Whitehall, 26th Sept. 1796.

CONCLUSION.

HINTS RESPECTING THE MEANS OF RE-OPENING THE BANK OF ENGLAND, AND RE-ESTABLISHING THE PUBLIC, AND COMMERCIAL CREDIT OF THE COUNTRY.

THERE are various modes by which a nation can carry on its commercial transactions, as, by barter, by means of unstamped bullion, and by other articles which may be allowed to pass current as money, for example, the leather money of Sparta; but the usual modes are, by specie, or by paper, or by a mixture and union of both. The last is the climax of perfection in regard to the carrying on of pecuniary transactions, and beyond which it is impossible to go. It is to that fortunate union, that the commercial and financial prosperity of this country may justly be attributed.

In regard to coin being the only repre-

sentative of property, or, as some call it, the circulating medium; such a plan is not for the interest of a country not possessed of the precious metals within itself. If we require a circulation of sixty millions in money, and have no mines of gold and silver of our own, we must export sixty millions worth of goods in order to procure them; whereas, by having one half in specie, and the other half in paper, thirty millions worth of goods are saved, which would otherwise have been exported and thrown away, for procuring merely a medium of commerce.

Having nothing but paper money in a country, is attended with disadvantages of a different nature. In the first place, it is extremely difficult to limit the quantity of paper to be issued, and to keep it within due bounds. The coining of paper money is too great a power to be intrusted either to individuals, or to those who govern a nation. It is also liable to forgery. In a state

connected with other commercial countries, it is necessary that it should have money that will not only pass within itself (for which, to a considerable extent, paper may be sufficient,) but also some species of money, according to the acknowledged value of which it can traffic with other nations. In Sweden, and in several of the States of America, where paper money has been tried on a great scale, they have found it absolutely necessary to confine it within narrow bounds, or totally to prohibit it; and the consequence of issuing assignats in France, ought to be a warning to us, to avoid splitting upon that rock on which our neighbours have suffered.

The true plan, therefore, is, that under which this country has so long prospered; namely, that of having a due proportion of coin and paper, the one convertible into the other at a moments notice, according to the pleasure of the holder; and this

and this leads me to state the plan of arranging measures, for opening, without a moments unnecessary delay, the Bank of England, which, besides other advantages, will prevent our being inundated with paper, (which must be the necessary consequence of the Bank's continuing shut for the circulation of specie, and open for that of paper); and we shall thus be enabled to look our enemies in the face, and re-establish our weight and credit on the Continent.

The plan I take the liberty of submitting for that purpose, may be considered under the following heads. I. How to remove the suspension on the Bank. II. How to fill up the vacuum occasioned by any decrease of Bank notes. And, III. How to prevent the risk of such calamities in future.

The necessity of suspending the payment of cash at the Bank, can only be attributed to its having too large a proportion of paper in circulation, compared to

the amount of its specie. The notes in circulation, let us state, for the sake of round numbers, at ten millions.* Let us suppose that the Bank could be re-opened, if instead of ten, it had only five millions of notes in circulation. It has been proposed that Government should repay the Bank its advances to that amount; but from the situation of the public, the payment of so large a sum, in addition to all the other demands upon it, cannot be expected; though the more it can pay, the more it will enable the Bank to assist the merchants with discounts. But it will answer exactly the same purpose, if the Bank were to increase its capital to the amount of ten millions, to be paid one half in Bank notes, which would

* It is supposed, that the Bank notes in circulation do not exceed nine millions, and that there are from three to four millions due by the Bank to the Accountant General, and to private individuals on drawing accounts, making a total of from thirteen to fourteen millions. But I thought it right to state the amount of Bank notes rather high, than otherwise.

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thus be taken out of circulation, and the other half, in Exchequer bills, and other Government securities. The sum would be subscribed in one day, as Bank stock bears an interest of seven per cent. *This dividend the public ought to guarantee, during the continuance of its charter, as its advances to the public has undoubtedly occasioned its present difficulties.* It would also be necessary to give the proprietors of the old stock, in proportion to their respective interest, a share in the new subscriptions. By adopting this plan, the Bank of England might be opened in the space of a few weeks.

As a proof that this plan is not only practicable, but that its effects may be depended upon, I beg leave to refer to an account of an operation on similar principles, which took place about a century ago, extracted from the History of the Revenue of the British Empire.

“ In consequence of this inquiry, and

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“ in order to clear the market of part of
 “ a load then so much in disrepute; not
 “ without hopes also, by such means, of
 “ restoring the credit of the nation, then
 “ at the lowest ebb, an act was passed,*
 “ for enlarging the capital of the Bank of
 “ England, by ingrafting upon its stock
 “ new subscriptions, four-fifths of which
 “ were to consist of Exchequer tallies,
 “ and the remaining fifth in Bank notes;
 “ and Government agreed to allow inter-
 “ rest, at the rate of eight per cent. upon
 “ such tallies, until they were paid off.—
 “ The term which had been granted by
 “ the Bank was also prolonged to the 1st
 “ of August, 1710; and during the con-
 “ tinuance of the corporation, no other
 “ bank or fellowship of that nature was
 “ to be erected, suffered, or countenanced,
 “ by act of Parliament. It was expected
 “ that £3,600,000. would have been in-
 “ grafted; instead of which, the subscrip-

* 8 Will. cap. 20.

“ tions amounted only to £1,001,171. 10s.
 “ But even this operation, though on a
 “ smaller scale, was attended with consi-
 “ derable advantage: for about £200,000.
 “ in Bank notes, and £800,000. in tallies,
 “ being thus sunk by the new subscription,
 “ the credit both of the Bank and of the
 “ public began to revive; notes without
 “ interest came to be on a par with specie;
 “ money began to circulate on very mo-
 “ derate terms; and the exchange with the
 “ Continent, from being very unfavourable,
 “ was soon brought to an equality.”*

By following the same plan, upon the present occasion, similar effects may be expected.

The only objection to this measure is, that five millions of paper, representing property, being thus taken out of the market, some means must be contrived to fill up the vacuum. One mode might

* Hist. of the Revenue, Part 3. p. 241.—See also Life of Halifax, p. 40. It appears that the whole plan was contrived and conducted by that judicious statesman.

be to procure an additional quantity of specie, which however cannot at once be obtained; another, to issue *state notes*, or Exchequer bills, on an improved plan, to that amount; but though that would be a productive resource to the government, yet such is the risk of entrusting ministers with the power of coining paper, that hardly any advantage can compensate for the mischiefs it might occasion. It would soon be found, that state notes would be rapidly multiplied beyond all reasonable bounds. The plan, therefore, that I would prefer, would be, that of licensing the bankers of London, and other large towns, to issue notes to that amount, finding proper security to Commissioners appointed by the public, like the Exchequer Bill Commissioners, and permitting the notes issued by such licensed bankers to be received in the payment of taxes during the war. This, with the credit to be derived

from the security given, would enable them to discount the bills of the merchants, and to keep up the pecuniary circulation of the country.

In regard to the third point, that of preventing the risk of such calamities in future, the only mode is, by altering the principles on which our coinage has been conducted, so as to check its being either smelted at home, or exported to other countries.

The great object however is, to open THE BANK OF ENGLAND, and to enable it to carry on its pecuniary transactions, to the extent which its resources will admit of, on the solid principle of giving either coin or paper, in the option of the applicant. Until that is done, neither public nor private credit, nor agriculture, nor commerce, nor manufactures, nor the income of the nation, can go on prosperously. That Bank was the pivot on which

depended the commercial prosperity, not only of this country, but of every other. The failure of any great mercantile house, in any part of the continent, it is well known, has always been felt by the whole commercial world, wherever they were situated; and it is only by restoring the credit of the Bank, that center of universal commerce, by increasing its capital, and enabling it to confine its circulation within due bounds; and, above all, by separating for ever the Government and the Bank, so that the latter shall not be a mere political engine, for the coinage and circulation of paper, under the controul and direction of the other, that we can ever expect to see this country restored to its former enviable situation.— Whilst a fatal suspension hangs over the payments of the Bank, it will not be in our power to carry on the war, *if it must continue*, with that vigour and energy

which becomes so powerful a country ;
whereas, the re-opening of the Bank of
England, from the effect it must have on
the councils of the enemy, would be the
harbinger of peace.