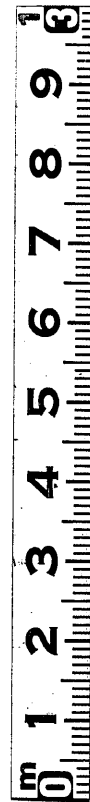


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A
LETTER
TO THE
RIGHT HONOURABLE
WILLIAM PITT,
ON THE INFLUENCE OF THE
STOPPAGE OF ISSUES IN SPECIE

AT THE
BANK OF ENGLAND:
ON
THE PRICES OF PROVISIONS,
AND OTHER COMMODITIES.

THE SECOND EDITION, CORRECTED.

By WALTER BOYD, Esq. M. P.

—redeant in aurum
Tempora priscum.—Hor. Ode ii. Carm. lib. 4.

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ADVERTISEMENT

TO

THIS EDITION.

LET no man presume against the merits of this publication, by a pre-judgment against the conduct or character of the author. He was zealously attached to Mr. Pitt, and enjoyed his confidence for many years. Let the reader observe the dates of these letters to Mr. Pitt and Mr. For-
dyce, before he pronounces that Mr. Boyd was not a man of the first abilities, or that he did not understand the subject.

PREFACE.

SINCE the following letter was written, several circumstances have occurred to corroborate the facts and reasonings which it contains.

By the return to an order of the House of Commons, it appears that the amount of bank-notes in circulation, on the 6th December, 1800, was 15,450,970l., which exceeds the sum in circulation on the 26th February, 1797, (viz. 8,640,250l.) by nearly four-fifths of that circulation. Compared with the average circulation of three years, ending December, 1795, (viz. 11,975,573) the circulation on the 6th December, 1800, exceeds that average circulation by nearly three-tenths of its amount.

But, from the mere return of bank-notes (without that of the balances on the books, for which the bank is likewise liable, and of the specie in its coffers), no accurate estimate can be formed of the positive difference between the present and the former circulation. There may be objections to the communication of any *specific account* of the specie on hand ; but there can be none to such a return as, without specifying any sums, may ascertain the *proportion* which the specie existing in the bank on the 6th December, 1800, bears to that which existed on the 26th February, 1797.

The exchange with Hamburgh which, when the following letter was written, was 31.10, is now 29.10 ; by which means the difference which then existed, of nearly 9 per cent. against our currency, is now increased to upwards of 14 per cent. If therefore

therefore a person residing on the continent, remit funds to this country, to be invested in the three per cents. at the price of 62, it is evident that by purchasing the money so remitted, at 14 per cent. discount, the real price of his three per cents. will be 53 eight twenty-fifths, or nearly 53 one-third.

The price of gold has fortunately not advanced, in the same proportion, within the same period ; the price, which, on the 11th November, was 4l. 5s. per ounce, being now 4l. 6s., which is a further advance of a little more than one-sixth per cent., thus making the whole premium upon gold 10l. 8s. 8d. for every 100l. or something more than ten five-twelfths per cent.

These circumstances, however afflicting ought not to be considered as matter of despondency, seeing the mere conviction

viii

of their having all arisen from one great error, if strongly felt, will, with the energy and resources of the country, properly called forth, infallibly lead to the means of relieving that error.

In considering the influence of the operations of the bank of England on the powers of the circulating medium of the country, I have taken no notice of the capital of that establishment, because it forms part of the public debt, which is altogether distinct from that medium.

31st December, 1800.

A
LETTER
 TO THE
 RIGHT HONOURABLE
 WILLIAM PITT.

Cleveland-Rose,
 11th November, 1800.

SIR,

ON many occasions, both before and since the stoppage of issues in specie at the Bank of England, I have, as you know, given it as my opinion, in conversation as well as in writing, that the embarrassed Circulation of the Metropolis, and the consequent distresses all over the Country, which began in 1796, and became so alarming in February 1797, proceeded solely from the particular line of conduct which the Bank of England had thought proper to pursue, from the month of December 1795 to the end of February 1797. To that conduct I have uniformly attributed the diminution of

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the Means of Circulation * which took place within that period; a diminution so disastrous in its consequences as to depreciate, in an alarming degree, the funded Property of the Country, to cramp the operations of Commerce, to check the efforts of Industry, and finally to bring on that last stage of Discredit, which reduced the Bank itself to the unheard of predicament of not being able to answer the demands of the Public for Specie, in exchange for its Notes.

This opinion was not the result of any partiality of mine for a favourite doctrine. It was confirmed by the general conviction, which arose from the labours of the Committees of both Houses of Parliament.

* By the words "Means of Circulation," "Circulating Medium" and "Currency," which are used almost as synonymous terms in this Letter, I understand always *ready money*, whether consisting of Bank Notes or specie, in contradistinction to Bills of Exchange, Navy Bills, Exchequer Bills, or any other *negotiable* paper, which form no part of the circulating medium, as I have always understood that term. The latter is the *Circulator*; the former are merely *objects of circulation*.

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The same principles which enabled me to trace to their source the calamities produced by a starved calculation, not only after those calamities had become notorious, but during their progress, and long before the measure of them was full, lead me now to suspect that the increase in the prices of almost all articles of necessity, convenience and luxury, and indeed of almost every species of exchangeable value, which has been gradually taking place during the last two years, and which has recently arrived at so great a height, proceeds chiefly from the addition to the circulating medium, which I conceive to have been made by the issue of Bank-notes, uncontrouled by the obligation of paying them, in specie, on demand.

Before the memorable 26th of February 1797, it had been the pride and boast of this country, for more than a century, that the Bank of England, which had contributed so essentially to the extension of our Trade, and to the consolidation of our Public Credit, had never, in any instance, departed from the most scrupulous observance of the obligation

(3)

obligation (which indeed formed the fundamental condition of its institution) of paying every demand upon it, in specie, the moment such demand was made. While this condition, at once the pledge of its good faith towards a confiding Public, and the proof of its private prosperity as a Company, remained inviolate, there was little danger of an excessive circulation of Bank-notes ; but, from the moment this condition was dispensed with, the danger of excessive issues became apparent. Indeed it is not to be supposed, that a corporation, whose profits chiefly arise from the circulation of its Notes, and which is exclusively directed by persons participating in those profits, has been, or could possibly be, proof against the temptation, which the licence they have enjoyed since February 1797 has afforded. That they have not resisted this temptation, seems but too probable, from the general advance in prices, which has gradually taken place since that period.

I am aware, that it may be said, that there exists no *proof* of the increase of paper to which

(5)

which I attribute the increase of price. It is precisely because no *positive proof* does, or can, publicly exist, of a fact necessarily secret in itself, that I shall endeavour, by reasoning from effect to cause, to establish the existence of that fact, or at least to render the probability of its existence so great, as to warrant my assuming it in the observations I have to submit to your consideration.

I well remember that, during the year 1796, when I assumed as a fact (from the notorious embarrassment of the general circulation of the metropolis, and the great fall which the stocks experienced during that year) that the means of circulation were greatly reduced, by the conduct which I attributed to the Bank-Directors ; and when I represented to you and others the tendency of the wretched system they were pursuing, it was answered that I was mistaken, and that the Bank had never been more liberal than during that year. But when the crisis to which that establishment was reduced in February 1797, obliged the
Bank

(6)

Bank to disclose the situation of its affairs, the truth of the fact I had assumed was completely established. From what happened on that occasion, I trust it will not be considered an unnatural or unwarrantable conclusion, that an appeal to the actual state of the affairs of the Bank would equally bear me out in my present assumption. But it does not rest upon so narrow a ground as that of a mere inference from what happened on a former occasion. It is supported, on the one hand, by a great public effect, such as naturally might be expected to arise from the fact, which I assume as the cause of it. On the other hand, it is supported by the interest which the Bank evidently has in the cause to which I attribute that effect; and it acquires additional strength from there being nothing to restrain the pursuit of that interest.

Assuming then, that a great increase of Bank Notes has taken place; since February 1797, and that such an increase could not have happened, in the same period, if the Bank had been bound to observe the fundamental

(7)

mental principles of its institution, namely, the obligation to pay its Notes in specie, on demand, I think myself warranted to infer, not only that there is the highest probability that the increase of Bank Notes is the principal cause of the great rise in the price of commodities and every species of exchangeable value; but that the one is, to a certain degree, the inevitable consequence of the other. That the augmentation of the quantity of money, or paper performing the functions of money, in a country, has a tendency to depreciate that money or paper, is a principle universally recognized. It is invariable in its operation, as the law of gravitation; and I am not absurd enough to impute to the Bank Directors the inevitable effects of an irresistible cause. It is not because the multiplication of the representative signs of money tends to depreciate that money, that I consider the increase of Bank Notes as an evil. It is because I apprehend that a multiplication of those signs has taken place, to an extent altogether disproportioned to the time in which it has been effected, and that it could

(8)

not have been produced but by a notorious dereliction of those principles of public œconomy, which no country ever abandoned with impunity.

I admit that the paper of the Bank of England, in its present state, unites, in a higher degree than any other paper, not convertible into specie, that ever was circulated in any country, all the qualities which entitle it to confidence; but if, instead of so much additional paper, not convertible, at pleasure, into specie, this country had acquired by supernatural means, and thrown into every channel of circulation, the same additional currency in gold and silver, within the same period, this influx, altogether disproportioned to the progress of the industry of the country, within that period, could not have failed to produce a very great rise in the price of every species of property, not all with equal rapidity, but each by different degrees of celerity, according to the frequency or rarity of its natural contact with money. / I do not mean that this rise would have been so great as that

(9)

that which has been occasioned by the introduction of so much paper, destitute of the essential quality of being constantly convertible into specie: but if a miracle had produced so much additional Gold and Silver, it would have required another to have kept amongst us whatever part of such additional quantity exceeded the natural digestive powers of the country. That surplus quantity would have soon found its way into other countries, to seek that employment which it could not readily have found in this. But Bank Notes possess no such quality. *They* cannot be exported, except by the intervention of Bills of Exchange on foreign countries purchased here, or drawn in other countries upon this country, and paid here; and this channel happens to be narrowed, beyond all former example, by the prohibition of intercourse with France, Holland, Spain, and other parts of Europe.

Under such circumstances, ought we to be surpris'd, that the effects of an increase of the circulating medium of the metropolis (thus operating as the elementary means

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of

of circulation, and communicating its influence to the whole Paper Circulation of the country, which turns, if I may so express myself, round it as its common center) are felt in all the articles of domestic consumption and expence, and that they are felt the most in those articles which form the nourishment of the great body of the people?

Permit me to call your attention to a circumstance of public notoriety in the history of the Bank of England, which will be found not unimportant, in illustration of the theory I have laid down.

By the statement of the Affairs of the Bank, submitted to Parliament, in February 1797, it appears that the outstanding demands upon the Bank, including the sum of 8,640,250*l.* due upon its notes, then in circulation, amounted to *£*.13,770,390. The amount of Gold and Silver, then in the coffers of the Bank, was not stated; but, in order to account for the pressure

pressure which occasioned the Order of Council, it may surely be reasonably supposed that it did not exceed *£*.1,770,390

And that, therefore, the Bank had added to the powers of the circulating medium of the country, in the space of 103 years

12,000,000

By the circulation of Bank Notes to the amount of 8,640,250

And by Credits in the Books of the Bank, which may be considered as Bank Notes, *virtually*, though not *really* in circulation, seeing all those credits might have been converted into Bank Notes, at the pleasure of the persons so credited in the Books of the Bank

5,130,140

£.13,770,390
and

and keeping (according to the supposition I go upon) only £.1,770,390, in specie, for paying such demands as might be made upon the Bank, in consequence of such notes and credits.

Much has been written in order to ascertain the proportion between the circulating money of a country, and the value of the annual produce of the land and labour of that country. The state of the affairs of the Bank of England, in February, 1797, does not decide this point, which will probably for ever elude the researches of human ingenuity; but it shews how small the wheel of circulation is, compared with the immense revenue which it is capable of distributing, and the infinite variety and vast extent of transactions which it can carry on. The great financial and commercial operations, which had taken place in this country during a century; the creation of a debt of three hundred millions; the extension of the trade of England to the gigantic size it had arrived at; the constant anticipations of

of part of the public revenue, and the uninterrupted payment of the annuities on the public debt, during so long a period, chequered, as it has been, with so great a variety of fortune; all the astonishing effects, which the world had been accustomed to attribute to the unfathomable credit and resources of the Bank of England, had been produced (in so far as that Bank contributed to produce them) by a gradual addition to the powers of the circulating medium of the country, which, at the end of one hundred and three years, is found to amount to no more than twelve millions. But, it will be said, that the twelve millions I reckon upon, are only the amount of the notes and credits, as they stood after the great reduction of notes, which had taken place between December 1795 and February 1797, and that it would be uncandid to take the period of the greatest reduction, as a point of comparison with any subsequent period. To obviate this objection, I will take the average amount of

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Bank-notes for three years ending December 1795, viz. - - - £.11,975,573

And the credits as they stood in February 1797 (having no other data by which to estimate them) - - - 5,130,140

17,105,713

And suppose the specie, for paying both, to have been 3,105,713

Leaving thus an addition to the powers of the circulating medium of the country, of £.14,000,000

From this estimated statement, as well as from the real state, of the affairs of the Bank, (which last appears to be incontrovertible, in all respects, except as to the quantity of specie on hand, which necessarily rests on supposition) it may fairly be inferred that an addition of * 1-6th, 1-8th,

* Since this letter was written and sent, in manuscript, to Mr. Pitt, the Governor of the Bank, as I have been assured, acknowledged in the House of Commons,

(15)

1-10th, or even 1-14th, in the short period of three years, to the amount of notes and credits, which was the result of the accumulated credit of a century, under the system of unconditional conversion into specie, must, of itself, have produced a sensible effect on the prices of things in general, without reckoning upon the important difference between a smaller mass of the means of circulation, constantly convertible into specie, and a greater mass of those means, convertible only in a very small degree.

Still, it will be said, all this reasoning upon the effects of an increase of the means of circulation (however just, if the exist-

mons, on Thursday the 27th of November, that the circulation of Bank Notes has been increased one-sixth or one-seventh since the stoppage of issues in specie, in February 1797; but as I was not present, I cannot vouch for the accuracy of this report. If, however, it be accurate (and I have no reason to doubt that it is) it proves the truth of the fact which I assumed as to an increase of Bank Notes, and establishes even more, with regard to the *degree* of that increase, than I supposed necessary to produce all the effects I attributed to it.

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ence of such increase were *proved*) proceeds upon what, at best, can only be called presumptive evidence of its existence; but when, on the one hand, it is considered what important effects were produced, in 1796 and 1797, by the diminution of the means of circulation, and how justly those effects were traced to that cause, long before its existence was actually proved; and, on the other, the rise that has taken place, in the price of almost every species of exchangeable value, during the period in which the Bank of England has enjoyed the power of issuing Notes, without being obliged to pay them, it certainly will not be denied, that no presumptive evidence can possibly rest on stronger grounds. If you allow that my theory is just, and that if a considerable increase of the means of circulation, such as they are, have actually taken place, its consequences would be such as I have described them, you will, I think, likewise allow that, with the strong circumstances which warrant the suspicion of the existence of such increase, it is highly deserving of the attention of Parliament to have

(17)

have this point ascertained, by an accurate statement of the amount of all demands on the Bank of England, and of the gold and silver in its coffers. There ought not to exist any reason for withholding this information, as long as the Bank avails itself of the licence for refusing to pay its notes on demand. In the enquiry, which will naturally be ordered, into the causes of the present high prices of provisions, it must be of great importance, that the attention of Parliament should be directed to this point, and that every possible light should be afforded on the subject of circulation, as being, from its very nature, peculiarly complex and obscure.

On no subject is the human mind so apt to mistake a secondary cause for a primary one; on none is it so apt to ascribe to one object the qualities which belong to another; and to confound causes with effects.

Of this there is a striking proof in the common-place declamation upon the increase of the public debt, as forming an addition

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dition to the circulating money of the country; while the fact is, that the public debt and the currency of the country are

“ Distinct, as is the swimmer from the flood.”

The first is a portion of the value of individual industry stored up as a capital yielding an annual revenue; the second occasionally transfers a part of that capital from one person to another.—The one *produces* a revenue; the other *distributes* that revenue to the different proprietors of it.—The first is occasionally an object of circulation; the second is the common circulator of the value of all objects.

Another proof of the confusion of ideas on the subject of circulation, will be found in the ordinary complaints against a profusion of paper, as proceeding from Country-Banks, to which it has, of late, been pretty much the fashion to attribute, in part, the great rise in the price of provisions. This is clearly mistaking a secondary cause for a primary one.

(19)

The Country-Banks, it is said, by their issues of paper, create a new medium of circulation, by which they enable their customers, that is, the holders of their notes, to keep longer on hand, than they otherwise could afford to do, the various articles of production necessary for the support of man. But Country-Banks have long been in the practice of issuing notes, and the complaint, if at all better founded now, than it ever was, can only apply to such extraordinary augmentation as may have recently taken place in their circulation. Besides, these Banks are bound to observe a degree of moderation in their issues, to which the Bank of England is not now restrained. Every note which the Country Banker issues is payable on demand, either in specie, or in notes of the Bank of England. It may therefore be inferred, that no part of these issues can possibly remain in circulation, beyond what the increasing prosperity and industry of the country where they circulate, can fairly absorb or digest.

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The circulation of these notes of Country-Banks is under a controul equally salutary as that which restrained the issues of Bank of England notes, while that corporation was bound to pay, and did pay, every demand upon it, in specie; and it certainly is a most violent stretch of conjecture to suppose, that excessive circulation is more likely to arise from the issue of paper constantly payable on demand, than from that of paper not payable at all. The circulation of Country Bank-notes must necessarily be proportioned to the sums, in specie, or Bank of England notes, requisite to discharge such of them as may be presented for payment; but the paper of the Bank of England has no such limitation. It is itself now become (what the coin of the country only ought to be) the ultimate element into which the whole paper circulation of the country resolves itself. The Bank of England is the great source of all the circulation of the country; and, by the increase or diminution of its paper, the increase or diminution of that of every Country-Bank is infallibly regulated. That the operations of Country-Banks

(21)

Banks tend to facilitate speculation and enterprize, and to augment the general circulation of the whole country, is unquestionably true; but they do so, only in the same manner as the London Bankers promote speculation and enterprize in town. Both have been productive of invaluable advantages to the industry and trade of the country at large; and both, like all human institutions, may have been frequently turned to improper purposes. The balances due on the books of a London Banker to his customers, and the notes in circulation of a Country-Bank equally constitute the amount of the demands, which the public has a right to make, on the one and on the other; and the difference between the amount of Bank notes and specie reserved by each for answering such demands, and the amount of the sums due by each, is equally an addition to the powers of the circulating medium of the country; although the difference in the one case, arise from the use of open accounts, and, in the other, from the circulation of promissory notes, on demand. The effect on the general powers of
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(22)

of the circulating medium of the country is, in both cases, to augment those powers; to make a smaller sum perform the same functions, which a larger one (without the intervention of Banks and Bankers) would have been required to perform; and the effect of each, to the Banker in Lombard-street, as to the Country Banker, is to afford a revenue, which, but for their intervention, would have been lost to the community. The circulation of Country Bank-notes may be defined *Active Circulation*, as proceeding from the proper Act of the Bank which issues them: that of a London Banker may be called *Passive Circulation*, as proceeding from the operations of others, who have the power of issuing their Orders upon him.

The advances which the London Banker makes to his customers, or to the Public, in consequence of the cash and Bank-notes deposited with him, and the advances which the Country Banker makes to his customers, or to the Public, in consequence of the sums lodged with him, upon
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his promissory Notes, payable on demand, must be greater or smaller, in proportion to the abundance or scarcity of Bank of England notes or specie, at any particular time. The addition to the means of circulation, which arises from the London Banker's accounts, and from the notes of the Country Banker, is a fair, lawful, and valuable acquisition to the community. It proceeds from the voluntary confidence of the Public, founded upon the unconditional obligation to repay, on demand, the sums deposited with them, either in specie or in the notes of the Bank of England. If the great ostensible instrument of circulation consisted of coin, instead of consisting of Bank-notes, not only the London Banker and the Country Banker would do the same business they now do; but they would probably do a great deal more, on account of the superior convenience, which would be found in their services, in consequence of such a change. It seems a little hard to restrain, even in idea, such truly valuable members of society, in the free exercise of
their

their talents and credit, under a regimen of Bank-notes, which they would infallibly enjoy, even in a superior degree, under a regimen of gold and silver. If the extent of these accounts and notes be greatly increased, within the last two or three years, this can only have arisen from the increase of issues by the Bank of England, of which the former are merely collateral effects. The inconvenience, arising from an excess of Country Bank-notes, can only operate as a secondary cause. That which arises from an excess of Bank of England notes, is a radical and primary cause, which alone has produced, or can produce, any very important effects on the general circulation of the country.

But it may be said, that the great and general rise of prices, which I have been mentioning as a proof of the existence of a great increase of Bank-notes, remains itself to be proved. To this I reply, that when a fact is proved by the concurring testimony of a whole community, and when every

man must feel the conviction of its existence, it would be a mere waste of time to descend to particulars, in order to prove that fact. Every man feels, in his abridged comforts, or in his increased expences, the existence of this melancholy truth; but every man does not know that what, in vulgar language, bears the name of "Increase of Price" might, with perhaps more propriety, be called "Depreciation of Paper." Of this there is, in the present price of Gold-bullion, a very strong proof, and one which, from its nature, comes more home to the ordinary feelings and understandings of men, than any other proof whatever. "Portugal Gold in Coin" has, for these last six months, been selling in the London Market, at 4*l.* 5*s.* per ounce. It is of the same quality with our standard Gold, of which the Mint-price is 3*l.* 17*s.* 10½*d.* per ounce; and a pound of the one, like a pound of the other, when coined at the Mint, will produce forty-four guineas and a half, and no more. Therefore, if a pound of Portugal gold, be purchased at 4*l.* 5*s.* per ounce,

(26)

it will cost $\text{£. } 51 \text{ } 0 \text{ } 0$
 And only produce, in coin,
 forty-four Guineas and a half,
 of which the current value is $46 \text{ } 14 \text{ } 6$

And consequently will occasion
 a loss of $\text{£. } 4 \text{ } 5 \text{ } 6$

This is a discount which the common
 currency of the country suffers, when ex-
 changed for bullion (in all respects equal to
 our standard gold) if no less than $8\text{ } l. \text{ } 7\text{ } s. \text{ } 7\frac{1}{2}\text{ } d.$
 for every $100\text{ } l.$ or a little more than $8\frac{1}{2}$
 per cent.

If the idea of a discount upon our cur-
 rency be unpleasant, we may say, that Gold
 bears a premium in the Market; but, in
 that case, this premium must be called
 $9\text{ } l. \text{ } 3\text{ } s.$ for every $100\text{ } l.$ or something more
 than $9\frac{1}{8}$ per cent; because, if $46\text{ } l. \text{ } 14\text{ } s. \text{ } 6\text{ } d.$
 in gold, cost $51\text{ } l.$ in Bank-notes, $100\text{ } l.$ in
 gold, will cost $109\text{ } l. \text{ } 3\text{ } s.$ in Bank-notes.

I believe there is no example of Guineas
 having been exchanged otherwise than at
 par.

(27)

par. The few that are employed for the
 common purposes of occasional domestic
 circulation, pass for no more than their cor-
 responding current value in paper; and
 these few have, I believe, hitherto been al-
 ways readily found, when wanted; but,
 it must be evident, notwithstanding, that
 the *intrinsic value* of the coin of the coun-
 try, when of the proper weight, or (which
 comes to the same) of the materials of
 which that coin is composed, is, according
 to this calculation, $9\frac{1}{8}$ per cent. more than
 that of the general currency of the coun-
 try.

While such a difference exists between
 Gold in its current standard value, as coin,
 and its intrinsic value as a commodity; or,
 in other words, while the real value of Gold
 so far exceeds that of our currency, however
 composed, much of the coin will necessarily
 be melted, for the purpose of profiting by
 that difference; the common currency be-
 ing in all respects, equally effectual for dis-
 charging debts as our Gold Coin, with all
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(28)

the intrinsic superiority it possesses over that currency.

The same circumstances which raise the value of Gold in the home-market, necessarily tend to depreciate our currency when compared with the currency of other countries; and accordingly we find, that the exchange with Hamburg, which may be considered as the proper criterion, (while our intercourse with France, Holland, Spain, and several other parts of Europe is suspended) of which, according to the evidence I delivered before a Committee of the Lords in 1797, the par is 34 : 8½s. is now at 31 : 10s. which establishes a difference of nearly 9 per cent. against this country.

While such a temptation to export coin exists, it is in vain to expect that *any law* can prevent its going abroad.

I am aware that our exchanges have, at times, been as much against us, even previous to the restriction of payments in spe-

(29)

cie at the Bank, and that Gold has frequently borne a premium before that event; but these unfavourable circumstances were never of long duration: and, that they have, from some temporary cause, occasionally taken place, while no general derangement of prices prevailed, diminishes little of the force of their appearing, in common, with so many other proofs of such general derangement.

In no case is it more important carefully to attend to the circumstances, which occasion a revolution in price, than when such a revolution arises in the price of exchange, which I have had occasion frequently to remark, often happens from causes altogether different from, and sometimes even opposite to, such as might be expected to produce it. Extreme distress in the mercantile world frequently produces a great number of drawers on foreign countries, merely upon credit. This has momentarily the same effect, which would be produced upon the exchange by a large balance being due by the countries

(30)

countries drawn upon; to the country that draws. In the year 1793, during the extreme difficulties which the Merchants and Traders experienced, the exchange with the Continent became so favourable, as to render the importation of gold a very lucrative business. It was at that time very generally reported, that guineas were sent abroad, and to this alledged exportation many people attributed the reduction of discounts at the Bank, that produced the distress, which it required the interference of Parliament to remedy. The gold of this country was then guarded more effectually than any *Law* could guard it. It could not go out of the kingdom, without an immense loss to the exporter. As no *Law* could have then carried money *out* of the country, so no *Law* of any kind can, in the present situation of the exchange, prevent its going out.

Again; a great purchase abroad, of an article on which this country may ultimately gain a large sum, has the effect of producing the same apparent symptoms of unfavourable trade, as indicated by the course of the exchange

(31)

exchange, which would be occasioned by a sudden diminution of the confidence of foreigners, in consequence of any great national disaster, or in consequence of a change, real or apprehended, in the currency of the kingdom; but the effects of these distinct causes would be very different in their influence on the general prosperity of the country, and in their duration. I have thought it right to enter into this explanation, in order to shew that I have not fallen into the error, which otherwise might perhaps have been imputed to me, of having cited, as proofs of the consequence of a paper-currency, not convertible into cash, the unfavourable state of the exchange, and the premium upon gold, while both of these circumstances can be proved to have occasionally existed, during a currency of gold and silver, or (which comes to the same thing) of paper always convertible into, and therefore truly and faithfully performing the functions of, those medals. It is not merely because foreign exchanges are against us, or because bullion is very high, that I suspect there has been a great addition made to our
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currency (as there has unquestionably been an important change in its composition) but finding these strong symptoms, in common with so many others, I am fully warranted to ascribe them to the same great and general cause. An unfavourable exchange, and a high premium on bullion have existed, and may occasionally exist, from causes not only altogether different from that to which I now attribute them, but of a contrary tendency; yet so inseparably are they connected with an excess of paper-currency, that such excess cannot possibly exist without being accompanied by them. If all the other symptoms of that supposed excess had existed, and our exchanges and bullion had remained unaffected, for any considerable time, I should have doubted the truth of my theory.

While the Bank of England paid its notes in specie, on demand, if the exchange took an unfavourable turn, and it became advantageous to send gold abroad, no doubt guineas were drawn from the Bank in larger quantities than when no such unfavourable exchange existed. Many of these guineas

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were, no doubt, smuggled out of the kingdom; but the consequence of this drain of guineas from the Bank, was not only, *of itself*, a powerful antidote to the very evil of an unfavourable exchange, but it naturally led the Bank to take defensive measures against the effects of this drain, and these measures, in their turn, tended to restore the exchange to its natural level. In the present case, entrenched as the Bank is, behind the acts of Parliament which not only *authorise*, but *order*, the refusal of specie in exchange for its notes (except for particular purposes and for the payment of the notes of 11. and 21.), that establishment is not compelled to any exertions to remedy the evil of an unfavourable exchange, or to restore the equilibrium between coin and bullion. The profits of the Bank are acquired much more easily, and to far greater amount, under the regimen of restriction than under that of freedom; for we are not to expect, that the apprehension of an increased depreciation, at some future period, is to diminish the ardour of the Bank for present profits.

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With the prospect before us of large importations of grain (whether *really necessary* or not, I need not now enquire, which must add infinitely more to the pressure upon the exchange than any transaction of equal magnitude, less exposed to general observation, there is but too much reason to fear that the proportion which now exists between bullion and paper, and that between our currency and the monies of foreign countries, will greatly increase, in the next months, unless some powerful measures be resorted to, in order to counteract the effects of the present system.—On the consequences of any farther depression of the exchange, and on those of the increased premium upon gold, which necessarily must accompany it, I shall say but little. They must readily present themselves to your mind, in all the variety of shapes in which they will bear upon that part of the public resources which is destined to pay for the services, and purchase the stores of every description, whether naval or military, which a state of hostilities more extensive in its scale, and consequently in its expense, than any

(35)

any in which this country ever was engaged, necessarily requires. In every transaction, whether foreign or domestic, in which Government is the purchaser of services to be performed, or value to be delivered, any diminution of the effective powers of the money with which these purchases are made must increase their price, and consequently tend to render the sums, however ample when voted, inadequate to the purposes for which they are voted.

The ordinary revenue, as well as the extraordinary resources, of the country, for meeting the unavoidable expense of the civil government, providing for the payment of the interest on the public debt, and for defraying the expences of the naval and military services of the year, are all receivable in the notes of the Bank of England. The nominal extent of these revenues and resources (like the nominal price of services, not liable to variation, and the fixed charge of interest on the public debt) can be, and always are, accurately ascertained; but the *effective powers* of the sums destined to purchase

(36)

chase every kind of service, of which the price is not fixed, cannot be ascertained, seeing the money or currency of which these sums consist, is liable not only to variation, but to a depreciation of which it is impossible to assign the limits.

But the influence of a great depreciation of our money will not be confined to the operations of Government. Not only will Government buy all the naval and military stores which are imported from abroad at an advance, proportioned to the depression of the exchange; but the whole imports of the Country, of which the value is to be remitted abroad, must experience a similar advance. The effects of this advance on the prices of articles imported, as operating with the tendency to increase of price, which all other articles must feel at home, it is painful to consider and unnecessary to state.

I gladly turn to the more pleasing task of mentioning the *probable good* which may be fairly reckoned upon as the concomitant of
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(37)

so much *positive* evil. If the increase of prices in the home-market should fortunately not keep pace with the depression of the exchange, all our articles of exportation must feel the effects of the increased demand in the foreign markets, in consequence of the diminished value of British money abroad; and although, in many of these articles, no increase of demand can add to the quantity to be exported, in many others, this increased demand may, and, I trust, will, add to the means of supplying it. Articles imported for the purpose of being manufactured for exportation are of this description: so are all articles of home production employed in manufactures. These may be greatly extended in consequence of the increased demand which the diminished value of British money in foreign countries necessarily tends to create. How much of this probable good may be destroyed by the effects of the evil which must accompany it, or whether a probable increase of industry in any branch of manufacture proceeding from a cause which diminishes the value of the money that is to set it in motion,
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tion, ought to be reckoned upon, without at the same time, taking into the account the increase of wages which industry, under such circumstances, would have a right to expect, are questions into which I shall not now enter. It is enough to have pointed out a probable source of comfort amidst so many causes of uneasiness, without calculating the various chances by which that comfort may be diminished.

The profusion of the means of circulation which has been introduced by the stoppage of issues of specie at the Bank, has certainly contributed more than any other cause to the great rise in the price of stocks which has taken place within the same period in which a rise has happened in almost every other object of exchangeable value. This, you will say, is a very pleasing effect, and ought not to be stated among the evils of profuse circulation. It is, like every other thing, good only to a certain degree. In so far as any measure raises the value of the funded property of the country, and enables Government to borrow upon better terms than

(39)

than otherwise could have been obtained, such measure is decidedly good; but if it be founded in a circulation *radically vitiated*, and tend to raise the *nominal* more than the *real* value of the funds, and moreover diminish the *effective powers* of the sums borrowed, such measure is no longer entitled to approbation. If the supplies lately granted have not purchased the same, or any thing like the same, services to the Public which they would have purchased in the years preceding the stoppage of issues in specie at the Bank; it must be of little real importance to the Public that the prices of stocks, instead of being distinguished by the figures 52 and 53, as they were in February 1797, are now distinguished by the figures 63 and 64.

That these supplies have not purchased the same quantity of services which they would have purchased before the change in our currency took place, I may venture to assert without the fear of contradiction. If you call for proof, I may appeal to the records of Parliament, or to the testimony of

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your own mind, which, as the best informed commentator on these records, must, I am sure, be decisive on this point.

When it is considered that since February 1797, the addition to the funded debt (including what was then floating in the market in the shape of Scrip of the loan of eighteen millions, raised by voluntary subscription) is no less than 168,946,920*l.* 17*s.* 3*d.* and that, during the period in which this immense addition has taken place, the price of three per cents has risen from 53 $\frac{1}{2}$ to 64 $\frac{1}{2}$; who that ever turned his thoughts to such subjects, can have a doubt with regard to the real cause of an effect which thus runs in direct opposition to all that had been experienced from the first introduction of the funding system, until the period that produced the profusion of paper to which I attribute it? In the first four years of the war, the three per cents *fell* from 80 to 53 $\frac{1}{2}$, and, within that period, 88,840,120*l.* 14*s.* were funded. In the last four years, the three per cents have risen from 53 $\frac{1}{2}$ to 64 $\frac{1}{2}$; and yet, in this last period, there have been funded 168,946,920*l.* 17*s.* 3*d.*

(41)

Here we have a cause which, in one period of four years, produces a *fall* of 26 $\frac{1}{2}$ per cent; and the same cause, only nearly doubled in point of force, which, in another period of four years, produces a *rise* of 11 per cent. The only counteracting circumstance of importance which can be mentioned, is the Redemption of the Land-Tax, of which the operation upon the funds, to the 5th January 1800, has been that of taking out of the market, stock to the amount of 12,133,371*l.* 5*s.*

The effect of that admirable institution of a Sinking Fund of one per cent. of the capital stock created, cannot, with propriety, be stated as operating upon the funds, during the last four years, in any greater degree than during the four former years, all the loans raised in both periods having equally the same proportional Sinking-Fund attached to them.

But it may be said, that, of the sum of 168,946,920*l.* funded in the last four years, 56,445,000*l.* are provided for out of
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the Tax on Income, and consequently are not to be considered as an addition to the permanent debt of the country.—This part of the public debt is certainly distinguished by circumstances of a very peculiar nature, considered, as they affect the country at large; but they do not, in my opinion, bear much upon the question respecting the price of stocks; because the sum of 56,445,000*l.* (of which the interest and final extinction are to be defrayed out of a specific burden which the country is to bear for that purpose,) forms, nevertheless, a part of the general capital of three per cent. stock, and consequently adds to the pressure upon the market as much as any other portion of that stock. It feels in no greater degree than any other portion of the same stock the effect of the general influence of the purchases of three per cent. stock, which the Tax on Income may furnish the means of making after discharging the interest and expence of management of that portion of the public debt. That such a sinking-fund would be sensibly felt, in time of profound peace, I readily acknowledge; and I am equally willing

(43)

willing to admit, that its influence in supporting the price of stocks may have been important; but if that influence had only contributed essentially to prevent a *farther fall*, I should consider *that* as fully all the effect which such an influence could have produced. But, that it should have had the effect of contributing, in any very great degree, to the *rise* of 11 per cent. in the price of the whole funded property of the country, in direct opposition to the natural effect of so vast an increase of that property, is, I must say, so infinitely beyond the operation of any cause which existed before the period in which it took place, that we must conclude it has been produced by a cause which never existed in any other period. But it will be said, That the price of Stocks does not necessarily depend upon the proportion between the quantity of them in existence, and that of the money in circulation, nor upon the operations of Sinking-Funds of smaller or greater extent; but that it is liable to be, and frequently is, very much influenced, by circumstances of a political nature, as well as by the greater or smaller

(44)

smaller portion of general confidence in the good faith and prosperity of the country, which happens from time to time to prevail. I readily admit the full force of the observation; and, if there had been any important change, within the last four years, in the political, financial or commercial situation of the country (except the increase of Paper-Money and its consequences) I should readily have allowed to such a change all the operation that could be supposed due to it.

This is all I shall say on this part of the subject, which I feel it to be impossible to treat, as it deserves to be treated, without departing from that line of enquiry which I proposed to pursue in this address.

I have endeavoured to shew that the system of Paper-Money, not convertible into specie, at pleasure, tends to diminish the value of the annuities which the country grants in borrowing. It may not be amiss now to consider briefly the influence of the same system on the interest which the country

(45)

country has bound itself to pay to its creditors, on the whole public debt. This is the point of view, of all others the most interesting to a country, so long distinguished by its high sense of honour in all its engagements with its creditors. If we contemplate the probable future depreciation of paper as it may affect the creditors of the state, we are well warranted to conclude, that the profusion of paper, which has blown up the nominal value of the capital of the public debt, is fraught with the seeds of the destruction of real public credit. This depreciation of paper the creditors of the public now feel, perhaps even without suspecting its existence, in common with every other class of people; but when it becomes more palpable (as it infallibly must, if the present system is persevered in), the odium which it must entail upon the country, standing, in this respect, in the character of a debtor, paying a real debt with a nominally equal, but really inferior value, is rather to be deprecated than described. If such a period should arrive, the public creditors will be justly entitled to charge their debtor with having

(46)

having "kept his promise to their *ear*, and broke it to their *hope*." If a period should arrive when a dividend of 100*l.* in Bank-notes will not exchange for more of the conveniences of life than 50*l.* did a few years ago, will not the person receiving such dividend, be entitled to charge this country with having failed in its engagements as effectually, as if an Act of Parliament had ordered a guinea to pass for two-and-forty shillings? Is your mind made up to receive such a reproach? Have you estimated the extent of its consequences? Can you look forward, with indifference, to the *possibility*, nay to the *probability*, of its being, one day, directed against your Administration? I trust you cannot. I gladly cherish the hope that you will not shut your ears to the voice of *truth*, although it proceed from a quarter, neither distinguished by favour nor fortune; but that, freed from the fascination of a paper-system, you will, while it is yet in your power, make one great effort to rescue the country from an impending calamity, not the less dangerous for being little suspected.

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It may be said, that the circulation of the notes of the Bank of England is not enforced by *law*, but rests entirely upon *confidence*. This is a refinement which, upon examination, will be found not to possess much solidity. The Bank of England is authorized by law to refuse the payment in specie of the most important description of its notes. The public had been accustomed, for upwards of a century, to receive these notes in all payments; and, not estimating, as it deserved, the important change which the Legislature introduced, when it permitted the Bank to *issue*, and *not to pay*, their notes, the same public readily took these notes, when destitute of the quality which originally gave, and ultimately must support, their value, with the same confidence, as when they possessed that quality. But there was little choice left to the public, even if there had been (as, I believe, there was not) any latent principle of distrust. The paper of the Bank of England formed the principal means of circulation in the metropolis. That paper, when deprived of the original condition of its circulation,

(48)

circulation, received from Parliament a sanction, much stronger than it ever enjoyed when that condition was inviolate. The whole revenue of the state was receivable in it. The annuities on the public debt were paid in it. The opposition of individuals to a system, so powerfully protected, would have been nugatory; but the effects of that system are nearly the same as those which would have resulted to the community at large, from a plain and positive law, obliging all persons to receive Bank-notes, as cash. The true test by which to try the truth of the assertion, That the circulation of Bank-notes is *free*, not *forced*, would be to withdraw the authority under which the Bank refuses to pay them in specie. If, in that case, public confidence continued to repose as securely as it is now supposed to do, then indeed might their circulation be justly said to rest on *confidence*; but the very circumstance of continuing the power of refusing the payment proves incontestably that *authority* or *necessity*, not pure, un-mixed *confidence*, forms the basis of the circulation of Bank-notes, in their present state.

(49)

state. But some of the ardent friends of the present system scruple not to assert that the Bank has never, for a moment, lost sight of those rules of conduct, during the suspension of issues of specie, by which they were regulated, in their prosperous days, before that suspension took place. If this be true, it affords the strongest possible reason for abandoning a restriction which, in this case, must not only be altogether unnecessary, but, to give it no harsher epithet, is certainly derogatory to the dignity of the Bank. But while this restriction continues; while the circulating money of the country consists of paper, not unconditionally convertible into specie, and of which the issues are under no other controul than that of the corporation whose profits depend upon them, it is impossible to stifle the suspicion, that these issues may have been extended much beyond the limits by which they would have been bounded, had the Bank continued to be subjected to the salutary obligation of paying its notes on demand. While this salutary obligation existed, every Bank-note was a true and faithful representative

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tative of Gold and silver; and, while it preserved this legitimate title of confidence, the public had no right to enquire into the extent of the circulation of Bank-notes; but the case is widely different indeed, when that legitimate title to confidence is suspended, and when an unprecedented rise in the prices of all the necessaries and conveniences of life, as well as of every species of exchangeable value, indicates some great and general principle as the cause of such a revolution. Can you, Sir, or any man, assign any cause sufficiently general in its effects and powerful in its operation, to account for a change so general in the prices of all, or very nearly all, articles of necessity, convenience and luxury, as well as of every species of property or exchangeable value, within so short a space of time, except the one to which I attribute it? I by no means pretend that the high price of grain (which the general voice seems to attribute to the effect of an unfavourable season) is *solely* occasioned by the general cause of excess of paper circulation, not founded, as all paper circulation ought to be, in the

(51)

precious metals. I only contend that, if there be (as is alledged) a *real scarcity* of grain, the effects of this scarcity must be very much increased by the *general cause* which I conceive to have produced the *general rise* of the price of every thing. Your mind must look down, with scorn, upon the stale and inadequate causes of the high price of provisions which have been assigned for it by some men, more distinguished by their station than by their acquirements. You well know that *partial causes* never can produce *general effects*. You cannot fail to have sought for a great and general cause for the solution of the phenomenon which excites the general wonder. That phenomenon, I again assert, in all probability, arises from an increase of the representative signs of money, totally disproportioned to the time in which it has been effected, and to any progress which the industry of the country can possibly have made, within that time: and such an increase never could have existed, but for the rash attempt to extend the empire of credit beyond

(52)

beyond those limits which the eternal laws of nature had marked out for it.

A great rise has taken place in the price of every species of exchangeable value during the short period of two years. The public mind is on the rack to discover the cause of this rise, of which the most alarming effects are manifested in the great article of bread. One says, that there is a *real scarcity of grain*, owing to an uncommonly bad season; last year, and a scanty crop, this year. *How* this knowledge was acquired, I am utterly ignorant; but as it comes from a noble Duke, high in the administration of the internal affairs of this country, it is to be presumed that it was not promulgated on slight or doubtful grounds. This, however, I must be permitted to say, that if there did exist sufficient reason to believe the scarcity to be *real*, the influence of that cause cannot have lost any of its force by the extraordinary publicity given to it.

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(53)

Another says, *There is no scarcity*; but a set of forestallers and regraters have monopolized the grain of the country, and sell it out at such prices as they think proper to fix, from time to time. He invokes the severity of the laws against those offenders, with all the illiberal virulence of the dark age which called such imaginary offenders into existence. He deplores the repeal of the good old code which delivered over such offenders to the wholesome chastisement of penal statutes, and seeks, in the common law of the land, for the means of restoring the spirit of those statutes which so long disgraced the jurisprudence of England. The age we live in is, fortunately, too enlightened, for such exploded notions to gain much ground; but as they have the passions and prejudices of the lower orders of the community strongly on their side, they must, particularly when sanctioned by station and fortune, tend greatly to increase the evil of scarcity and of dearth, as well as to excite a spirit of sedition of the most dangerous tendency, in the people. While I thus avow myself the irreconcilable

(54)

able enemy of all such public œconomy as professes to produce *plenty*, by means which lead directly to *want*, I am not the less persuaded that excessive circulation of paper must give rise to much speculation in grain as well as in every other article: But to attempt to check *Speculation* by punishing *Speculators*, is, of all the crude and impracticable fancies that ever was formed, the most hopeless and unprofitable. To draw the line between fair and honourable mercantile pursuits, and that illiberal and extorsive conduct which is too often practised under their name, requires a hand of such infinite delicacy, a touch of such exquisite nicety, as cannot fairly be expected in the ordinary practice of any Court of Law. In the same proscription which might be honestly intended for the ungenerous and unworthy advantages which individuals may, and do, take, of the general distress, in all probability would be involved, the fair, honourable, praise-worthy pursuits of those who, while they are promoting their own interest, actually administer to all the essential comforts of the community. To punish *Speculators*
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(55)

then, I consider altogether a vain and fruitless attempt. It must tend to check the efforts of enterprize and industry, which is certainly not the intention even of those who join most loudly in the cry against forestallers and regraters—Their object is to punish *improper speculation*; but they do not consider, that any *Law* which human wisdom can devise to repress the one, may, nay must, be, in a great degree, destructive of the other. But although I am of opinion that *Law* neither can, nor ought to attempt to, *regulate* speculation, I know and believe that it is perfectly within the province of the Legislator to withhold all *improper* support to speculation of any kind; and therefore that it is the duty of Parliament no longer to authorise even the possibility of an extension of the means of circulation beyond those limits which the experience of a century (in perfect unison with the purest theory, as well as with every principle of good faith and common sense) had sanctioned with its approbation. The paper circulation of the country never was, nor could be, dangerous from the speculations it gave
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(56)

rise to, as long as the great primary wheel, which set it in motion, turned upon an axis of Gold and Silver, because the obligation to maintain that axis in a proper state of strength, formed a salutary and effectual check upon any excess in the circulation it had to support. To interfere in the exercise of the rights which the Bank of England, or the London Bankers, or the Country Banks, or the Farmers, or the Corn-Dealers, or any other class of Traders justly possess over their own credit and industry, would be impolitic, unjust, and unavailing; but to restore the currency of the country to its pristine purity, to confine it within those limits which good faith and good sense equally point out for it, is not only proper and practicable, but indispensably necessary, in order to prevent the numberless calamities which the uncontrolled circulation of paper not convertible into specie, must infallibly produce. To bring back the circulation of Bank-notes to the original condition of their circulation, is merely to correct an abuse which never ought to have existed. This would not
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(57)

be a novelty. The present system is a novelty, and one of the most dangerous tendency *.

113

The opinion of a third person is, That the scarcity and high price of Bread-corn pro-

• If I believed (as some people do) that the resumption of payments in specie at the Bank of England would embarrass Administration, I should not contend for that resumption. To recommend *any measure* which might have the effect of weakening the efforts of this country in the struggle it has to maintain, as long as such struggle is judged necessary, (whatever opinion I may individually entertain of the means of sustaining, or of the duration of, that struggle) would be altogether inconsistent with the ideas of public spirit which I have ever held. It is because I feel the most complete conviction that the real resources of this country are now, and always have been, too solid and extensive to require the aid of forced paper-money, that dangerous quack-medicine, which far from restoring vigour, gives only temporary artificial health, while it secretly undermines the vital powers of the country that has recourse to it.—It is because I am intimately convinced that the resumption of payments in specie at the Bank, *by the manner of carrying it into effect*, may be rendered perfectly consistent with the truest interests of Government, of the Bank itself, and of the public at large, that I thus press the necessity of that resumption.

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(58)

ceed from a great addition made to the population of the country. How such a cause should so suddenly produce an effect of such magnitude, does, I own, exceed my comprehension. At what period the seeds of this extraordinary increase were sown, I cannot even guess; but it is necessary to suppose that there must have been some one or two years of uncommon fecundity, in order to account for the extraordinary addition to our population which, in this particular year, has so greatly enhanced the price of corn. The progress of population, like the growth of the individual, is so gradual and imperceptible as to escape the notice of the most vigilant observer, otherwise than in its effects; and as in the growth of an individual, it can never happen to any parent to be surprized with a child of two years old all at once starting into the dimensions of one of twelve, so, in my humble opinion, it is not probable that it should happen to any country to find its population had, in one or two years, made such an extraordinary shoot as only could have been expected in half a century; and yet such a

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(59)

shoot it must have made, if an increased population be admitted as the cause of the very high price of provisions in this particular year.

By a fourth, the high price of provisions is placed to the account of the war. This is a good general head for carrying all doubtful points to, all unappropriated disasters, all stray calamities, and incidental disappointments of every description. I shall not touch upon this extensive subject further than to say, that I see nothing in the mode of *conducting this war*, during the last two or three years, which ought to occasion any result affecting provisions different from what almost all other wars, and this very war, during the first four years of its duration have generally produced. Whether the mode by which the means of carrying on the war have been raised, have or have not contributed to the high price of corn as well as of every other necessary of life is quite another consideration, and belongs to the general object of this enquiry, which is to consider the influence of the present paper-currency

(60)

currency on the prices of commodities in general. It is sufficient, for the present purpose of estimating the credit due to the assertion, that the high price of grain is occasioned by *the war*, to say, that no such conclusion is warranted by what has happened in other wars.

It has been reserved for me to assign, as the cause of the general rise, which almost all things have experienced, within the last two or three years (and which grain, as the article that comes most frequently in contact with money, feels the soonest and the most) the existence of a great Bank, invested with the power of issuing paper, professing to be payable on demand, but which, in fact, the Bank which issues it, is not obliged to pay.

Now, Sir, let it be supposed, for a moment that the celebrated author of the Enquiry into the Causes of the Wealth of Nations were alive, and that his opinion were asked with regard to the cause of this revolution in prices: Let it be supposed, likewise, that

(61)

that he had been truly informed of every thing of importance that had happened, during the last four years of the Loans that had been raised, the Taxes that had been laid, the Land-tax that had been redeemed, the Increase of Exports and Imports that had taken place, and, above all, the system of Finance which had been established, by way of throwing upon the present generation a great share of the burden which formerly used to be entailed upon posterity; but that the circumstances of the stoppage of payments in specie at the Bank, and the consequent power of *issuing*, without being obliged to *pay*, Bank-notes, had been carefully kept from his knowledge. What would the opinion of that great man be, respecting the four first great assigned causes of the high price of grain, and of their effect on the general rise of the prices of all other objects of exchangeable value? May it not be presumed that he would say, That a scarcity of grain produced by a bad season is an obvious and a natural cause of the increase in the price of that article; but that the occasional high price of grain does not necessarily

(62)

rily produce an advance in the price of all other commodities. In proof of this, he would refer you to the prices of Grain of the years 1795 and 1796, which, on an average will I believe, be found not much lower than those of 1799 and 1800;* although they were not accompanied with the general rise of all other commodities and objects of exchangeable value, which distinguishes these last two years. I need not say, what every line of his valuable work tends to show, That he would deprecate all interference on the part of Government, (whether directly, in the form of prohibition and restraint, or indirectly, through the channel of Courts of Law) with the free exercise of the industry of every man, in his own way, and that he would treat with contempt the justly exploded doctrine of the consequences of Fore-stalling and Re-grating.

May it not be supposed, farther, that he would say, That any effect from an encreased population must, like the cause which pro-

* See Appendix, A.

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(63)

duced it, be *gradual*; and that no such effect could be so sensibly felt in the short space of one or two years?

He certainly would not admit that the war, though it necessarily must tend to the waste of many articles of provision, and involve the country in great expence, had produced an effect on the prices of commodities, which no former war, or even a former period of the present war, had ever produced. He would find none of the assigned causes, which are *partial*, equal to the effects, which are *general*. He would naturally proceed to enquire, Whether some important cause might not have diminished the value of Gold and Silver. He would begin to suspect some astonishing increase of the *quantity* of those metals, or of their *powers*. But, although he might consider such an increase perfectly practicable in a period of twenty or thirty years, he would know that no such immense increase could take place in the short space of three or four years, either of the metals themselves, or of their powers, by the circulation

(64)

circulation of paper payable in those metals, on demand, the only species of circulation which he did or could recommend. At this period of his enquiry, let it be supposed that he is informed of the stoppage of the issue of specie at the Bank of England, since the 26th of February 1797, and of the permission which the Bank has since enjoyed, of issuing, *ad libitum*, without being bound to pay, its notes, professing to be payable, on demand.

Would he not say that this cause is, of itself, adequate to all the extraordinary rise which had taken place? Here, he would observe, that "Circulation is not only carried on by a new wheel," but that the wheel is altogether of a different sort of materials from those of which such wheels used to be made. He would say, that not only the currency of the country had been changed from a *certain* to an *uncertain* standard, but that the *quantity* of it, in all probability, had been greatly augmented by the issuing of paper, without the obligation of paying it on demand; and that thus the prices

(65)

prices of all objects of exchangeable value necessarily feel the influence of a *positive* degradation of the *standard*, and of a *probable* augmentation of the *quantity* of money in the country, any one of them amply sufficient to account for a considerable rise, but both united, adequate to still greater effects than any that had already been produced. He would recommend to those who are entrusted with the great interests of the country, to examine, without delay, whether or not the Directors of the Bank of England had yielded to the almost irresistible temptation to which they had been exposed; for he would consider, that, in all probability, those Gentlemen, far from thinking it their duty to *withhold* the advances solicited from them, may have thought they were rendering a meritorious service to the country, by *lending liberally*, on good security, the paper-money which Parliament had invested them with the power of coining.

How indeed should the Bank-Directors ever have supposed they were doing mischief,

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chief, by supplying amply with their notes the various channels of circulation (in the form of advances on loans, anticipations of the revenue, discounts to merchants, and all the endless variety of ways through which their paper comes into general use), when the executive Government of the country has, within these eight months, actually bargained with them for the loan of three millions of that paper-money, as if they had been three millions of coin, or of notes payable in coin, on demand, and that Parliament has, in consideration of the loan of that paper-money, for six years, without interest, prolonged the exclusive charter of the Bank of England for 21 years after the expiration of its present charter? With the impression upon their minds, that every fresh addition to their circulating paper was a new service rendered to their country, and with the still more powerful and certain conviction that it was, at the same time, an addition to the sources of profit to the Bank; to suppose they would be restrained by the suspicion that they were doing mischief, when thus promoting what they may have

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considered both as a public and a private advantage, would be to expect from them a line of conduct utterly incompatible with the ideas which led to the system of issuing paper not payable on demand. If they had justly estimated the tendency of such a system; if they had thought, as it became the acting guardians of public credit to think, on that subject, they would have spurned the boon which they accepted; they would have remonstrated against the idea of a parliamentary prohibition to issue specie in payment of their notes, as a measure big with the principles of danger and ruin, instead of sheltering themselves under it, as they have done, for upwards of three years. By accepting the indulgence which that prohibition gave them, they afforded an infallible standard for ascertaining the depth of their conceptions.

From the first dawn of the idea of suspending the payment of their notes, as a matter of supposed necessity, to the meridian blaze of wisdom which discovered in that suspension, a mine of wealth for the

Bank

(68)

Bank and the country, the transition was natural and the interval, which divided them, small. Are you, Sir, quite sure that this idea was exclusively *theirs*? Did you not, on the contrary, in February 1797, when all your care, as a Statesman, ought to have been to prevent any violation of public faith, admit the dangerous and delusive idea that the paper of the Bank of England, if once unfettered by the condition of being payable on demand, would amply supply the deficiency of currency, then so loudly complained of, and furnish such abundance of the means of circulation as would facilitate loans and anticipations of the public revenue, give new life to trade and manufactures, and, above all, tend to raise the price of funded property, and, as a necessary consequence, insure to your Administration the constant support and unbounded devotion of the Money interest? For the real credit and honour of that Administration (to which I have never ceased to be a friend, although I have often had occasion to lament, and, in some instances, been the victim of,

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its errors) I wish you could answer in the negative.

When I call to mind the conduct pursued by the Bank of England, for a considerable time previous to the suspension of the payment of its notes, there appear in it many circumstances which almost warrant the suspicion that, instead of really dreading that suspension as an evil, they rather looked to it as an advantage. At what particular period the idea of turning this real calamity into an imaginary benefit, was first conceived it is impossible to ascertain; but it seems natural enough to conclude, that it must have speedily followed that of the supposed necessity of suspending the payment of Bank notes. If this be true, it will account for that line of conduct which the Bank pursued for many months previous to the 26th of February 1797. For, if it had been really in contemplation to reduce the means of circulation to that extreme scarcity which might prepare the public mind for the introduction of any system, however exceptionable, that should promise relief,

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the Bank of England could not have acted more consistently than they did, in order to produce such an effect.* Be this as it may, I am well warranted to maintain that, unless the stoppage of the issues of specie at the Bank had been considered as a source of future facility and advantage (whether the idea originated with the Directors, or with you) not only the Bank would have pursued a different line of conduct *before* that event, but the whole of the measures which followed would have had a different tendency from that which they evidently had. Instead of endeavouring to repair the edifice of public credit, thus shaken in its principal pillar; instead of accelerating, by every possible exertion, the resumption of the unconditional payment of its notes, the great object which engrossed the attention of the Bank appears to have been, to accustom the public to the more convenient doctrine of such payment being altogether unnecessary. †

* See Appendix B.

† Was the rise of the exchange with Hamburgh from 36 to 38 : 5, which took place in the last ten months

(71)

In answer to all this reasoning, it may be said, that the censures I now bestow so freely upon a great public measure, taken upwards of three years ago, are mere *ex post facto* observations, and that they are, therefore, less entitled to attention than they would have been if they had been urged at the time it was taken. To this I would reply, that, in so far as an individual (whose opinion on matters of Finance had, in more countries than one, been considered of some weight) could interfere in a measure of this sort, I did at the time testify, in the most unequivocal manner, my decided disapprobation of the measure. On the 26th of February 1797 (the very day on which the Order of Council for suspending the payments in specie at the Bank, was issued, and while I was altogether ignorant that any step had actually been taken) I learned, that it was

months of 1797 (and which certainly was not effected without the knowledge and co-operation of the Bank) intended to shew how much better every thing went on under the system of Restriction than under that of Freedom; the device was not without ingenuity. It is only to be regretted that it had not rested on a better foundation.

(72)

in contemplation to resort to some extraordinary measure or other in order to put an end to the run upon the Bank. Ignorant of the nature of the measure proposed, but apprehensive lest it should, in any degree, tend to the establishing of a paper-currency, not constantly convertible into cash, I wrote a letter, describing in the strongest language, the apprehensions I entertained, and painting, with all the force I could give to words the fatal tendency of any measure of that kind. *This letter I addressed to a friend, who had, on many occasions, conveyed my ideas to you, and improved them with his own; entreating that he would not only shew you my letter, but support the doctrine it contained, with all that superiority of understanding for which you yourself, in common with the rest of the world, knew him to be distinguished. This friend did accordingly call upon you early the next day; but, not finding you at home, he carried my letter to a friend of your's, deservedly high in the estimation of his country, and to whom as the official organ of the House of

* See Appendix C.

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Commons, the subject of it could not be uninteresting. What his observations were, upon the perusal of it, I shall not now mention. Whatever they were, they came too late; for the Order of Council was then in general circulation. Why I did not, on any future occasion, take any public opportunity of manifesting my opinion, you can be at no loss to discover, when you recollect the cruel circumstances in which I was then placed, and those, still more dreadful, which have since occurred to annihilate my commercial existence in this country*. The doctrine which I now hold I have always held; in my greatest prosperity, as in the adversity which now overwhelms me; and it is no slight proof of the purity and solidity of the principles which any man professes, that the greatest possible change of fortune makes none in those principles.

* If this were the place to treat of any thing personal to myself, it would not be a difficult task to show how much the misfortunes, which have befallen me in this country, have been connected with the great interests of the public.

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But it will perhaps be said, that the result of the labours of the Committees of both Houses of Parliament, was a general conviction, that the Trade and Finances of the Country required a more extended circulation than that to which the mistaken conduct of the Bank had reduced it; and that there was no better mode of obtaining that extended circulation, than by exempting the Bank from the condition of paying, on demand, the notes they might issue. Was this doctrine worthy of a great and enlightened country? Was it worthy of a Minister who had staked his fame upon his just conceptions of public faith, and public prosperity? Were there, indeed, no other means of extending the circulation of the country than by the rash and fatal resolution of authorizing a paper-currency not convertible into specie? Was not this *cutting*, instead of *un-tying* the Gordian knot of the then existing difficulties? *Innovation* has been the great danger against which your administration has laboured, and in many respects with success, to defend this country. But

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is there, in the annals of history, any innovation more remarkable or more dangerous than this was? Can any two things be more essentially different than the circulation of paper, constantly convertible into specie, and that of paper, so convertible, only at the pleasure of the Corporation which issues it? —But, it will be asked, *How* could the circulation of the country be supported at all, after the extremity to which matters had been brought, on the 26th February 1797, *otherwise* than by the stoppage of issues in specie? To this I answer boldly, By the operation of *well founded confidence alone* upon the public mind, of which so unequivocal a proof was given by the Meeting at the Mansion House which immediately followed the stoppage; by pursuing the same measures, under a system of uninterrupted issues of specie, which it is probable the Bank really did pursue, under that of restraint, for a considerable time after the stoppage took place; by treading back those steps, which, from December 1795 to February 1797, had led to the very discredit

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that occasioned the stoppage.* By pursuing this line of conduct, the pallied circulation of the metropolis would, in a very short time, have recovered that activity and vigour of which it had been deprived by the starving system practiced for upwards of fourteen months; and if it had regained only what it had thus been deprived of, in all probability it would have maintained that ease and plenty of currency which existed before that starving system was introduced. It might indeed have been inadequate to the purposes of buoying up the funds, in opposition to the natural effect of an immense increase of debt, and of administering to the various schemes of speculation to which an excess of currency naturally gives birth; but, in all probability, it would

* See the evidence of Henry Thornton, Esq. and mine before the Committee of the Lords on the causes which led to the Order of Council of the 26th of February, 1797. The remarkable coincidence between the opinions of two persons, who were not then even known to each other, on a subject so abstract in its nature, struck many of the friends of both parties.

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have been found perfectly sufficient for all the sober purposes of rational enterprise and well-directed industry.

When I observed that our exchanges with foreign countries, instead of *falling* in value, upon the stoppage of the issues in specie (as might naturally have been expected), *rose* greatly above their natural level with those of other countries, I concluded that this was the salutary consequence of the circulating medium of the country (although no longer possessing its original purity) being restored to that abundance from which it had been most unnaturally and improperly reduced, and I gladly indulged the hope that as long as the circulation should not much exceed the limits it had retained, in December 1795, the inconveniences arising from so radical a change in its *composition*, might, in a great degree, be obviated.

I rejoiced to see the great principle of Gravitation (which gives to forced paper its tendency to depreciation, as to the stone in
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the air, its tendency to fall) *suspended*, as it were, in favour of this Country; but I well knew that the principle itself could not be *destroyed*. In all the various stages of improvement, which the financial situation of the country has appeared to experience (and great and flattering indeed they have been), I have found it impossible to check the risings of dissatisfaction and distrust in my mind. When I saw the value of the founded property of the country rise full ten per cent. at the end of seven years of war; when I saw the heaviest taxes, that had ever been levied upon the subject, paid, if not without a murmur, at least without much apparent difficulty or reluctance; when I saw the amount of our exports and imports increase beyond all former example, I rejoiced most cordially in all these symptoms of national prosperity; but when I remembered that the Bank of England did not pay its notes on demand, I trembled for the safety of the edifice on which that prosperity rested.*

* See Appendix D.

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(79)

I have thus discharged what I felt to be a duty I owed to my country, by calling your attention, as the confidential servant of your Sovereign, more especially charged with the care of every thing that concerns the prosperity and happiness of his people, to what I conceive to be an evil of no ordinary magnitude. I am aware that there are, in my personal situation, circumstances which, while they are unfavourable, in the extreme, to the consideration of any subject of a public nature, and particularly of one so important and intricate as that on which I have ventured to address you, tend, at the same time, to diminish much of the force which the same observations would possess, if coming from any person not so situated. But, on the other hand, I have the consolation, peculiar to the very circumstances in which I am placed, of knowing that no opinions or arguments of mine, which are not in themselves just and solid, can possibly make much impression upon the public mind; seeing they are altogether unsupported by those adventitious circumstances of situation which so frequently give value

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(80)

to opinions that otherwise would possess none.

I am not insensible of the consequences which may result to myself personally, from thus attacking a measure so generally supported by the friends of your Administration, as well as by the "countless multitude" of persons whom either interest, or habit, or policy, or necessity has attached invariably to the views of the Bank of England. But these considerations have not been sufficient to repress the still stronger sense of that duty which, in all situations, and at all hazards, every good subject owes to the country that gave him birth.

I have the honour to be,

SIR,

Your most obedient

Humble servant,

WALTER BOYD.

(81)

POSTSCRIPT.

29th November, 1800.

SIR,

WHEN I stated in my letter of the 11th instant (sent to you on Wednesday the 26th) the peculiar obscurity of the subject of circulation, I little dreamt that so early and striking a proof would be afforded of the truth of what I then advanced.

In all the newspapers of yesterday that I have seen, the report of your speech in the House of Commons, on Mr. Tierney's motion for going into a Committee to consider of the State of the Nation, makes you say, (what I have great difficulty to believe you ever said) by way of proving that there was not a redundancy of the circulating medium, "that Exchequer bills bore a premium, instead of being at a discount." It appears to me altogether incomprehensible

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that this circumstance, which naturally offers itself as a symptom of an excess of that medium, should have been adduced by you as a proof of the reverse. After viewing it in every light, I find myself obliged to suppose, either that the newspaper report of your speech is incorrect, or that you had not sufficiently considered the argument you then used.

Exchequer bills are payable in Bank-notes. They bear an interest of $3\frac{1}{2}$ d. per centum, per diem; and as no possible doubt can be entertained of their being punctually paid, in Bank notes, when due, it is perfectly natural, that the holders of Bank-notes should exchange, for bills of that description, the Bank-notes not immediately necessary for their current payments.

Exchequer-bills form no part of the circulating medium, or ready money of the metropolis. They are, like every other species of *negociable* paper, objects, which that medium, or ready money, circulates. The circumstance, therefore, of their bearing a premium

(83)

premium does certainly indicate a great abundance of the money or medium of circulation, since it is thus employed in purchasing them, *notwithstanding that premium*. If a scarcity of Bank-notes (or, in other words, of the circulating medium) existed, Exchequer-bills, instead of bearing a premium, would assuredly be at a discount. It does therefore appear incomprehensible how a premium upon Exchequer-bills should be considered as no proof of a redundancy of Bank-notes, while a discount on Exchequer-bills would infallibly be the consequence of a scarcity of Bank notes. When Exchequer-bills bear a premium, their price is high. When grain rises to a certain pitch, its price is likewise high; but it certainly never entered into the conception of any person to suppose, that the high price of grain was a proof of there being no superabundance of money. It is, on the contrary, very natural to infer, from the high price of grain, as from the high price of Exchequer bills, and of every other object of exchangeable value, that money (or its representative sign) is abundant in the extreme

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These considerations cannot surely have escaped your attention, and therefore I must suppose that your argument has been misstated; for it would be a supposition altogether unworthy of the Finance Minister of this country, to imagine (however other men may be mistaken on such points) that he should have fallen into so palpable an error as to advance, in the great Council of the nation, in support of a conclusion, an argument which directly militates against that conclusion.

If I had been able (consistently with my feelings, under the peculiar circumstances in which I was placed) to attend my duty in Parliament on Thursday, I should not have had to trust to newspaper report only for what fell from you, in the debate of that night, and you would, consequently, have been spared the trouble of this second address.

I have the honour to be,
 SIR,
 Your most obedient
 humble servant,
 WALTER BOYD.

APPENDIX.

A. (See page 62.)

MONTHLY AVERAGE PRICES of Wheat, per Quarter, in England and Wales, calculated according to the Weekly Averages, as given in the London Gazette, for the whole of the Year 1795, and to the end of October 1796; and for the whole of 1799, and to the end of October 1800, being two periods of twenty-two months each.

	Returns	s.	d.		Returns	s.	d.
1795.	Jan.	4	56 6	1799.	Jan.	4	49 6
	Feb.	4	51 4		Feb.	4	49 11
	March	4	59 11		March	4	50 4
	April	4	62 2		April	4	53 5
	May	5	64 10		May	4	60 10
	June	4	70 1		June	5	63 11
	July	4	84 5		July	3	65 11
	August	4	108 4		August	5	72 11
	Sept.	4	79 0		Sept.	4	75 5
	Oct.	5	76 9		Oct.	4	83 6
	Nov.	4	83 9		Nov.	5	89 9
	Dec.	4	86 3		Dec.	4	93 10
1796.	Jan.	5	91 10	1800.	Jan.	4	94 8
	Feb.	4	93 6		Feb.	4	101 11
	March	4	100 0		March	5	107 11
	April	5	84 3		April	4	111 11
	May	4	75 7		May	5	120 2
	June	4	80 2		June	3	126 7
	July	5	80 11		July	4	134 10
	August	4	75 11		August	5	103 5
	Sept.	4	64 5		Sept.	4	105 10
	Oct.	5	61 4		Oct.	4	103 2
	General average		77 2		General average		87 3

(86)

B. (See page 70.)

THE following papers will serve to establish incontestably three great points alluded to in this Letter, viz.

1. *The reality of the existence of the scarcity of money in 1796, even at so early a period of that year as the 2d of April;*
2. *The purity of the principles upon which a remedy for that scarcity was devised, and*
3. *The perfect correspondence of the doctrine relative to the operations of the Bank of England, and those of the London Bankers, as laid down in the report of the 5th of April, 1796, with the doctrine laid down in the preceding letter to Mr. Pitt of the 11th of November, 1800.*

RESOLUTIONS of a Select Meeting of Gentlemen interested in, and acquainted with the principles of, internal Circulation, held at the London Tavern, on Saturday, the 2d of April, 1796.

Sir Stephen Lushington, Bart. in the Chair.

Resolved,

(87)

Resolved,

1. That it is the opinion of this Meeting that there has existed for a considerable time past, and does exist at present, an alarming scarcity of money in the City of London.
2. That this scarcity proceeds chiefly, if not entirely, from an increase of the commerce of this Country, and from the great diminution of mercantile discounts, which the Bank of England has thought proper to introduce in the conduct of that establishment, during the last three months.
3. That it is the opinion of this Meeting that the interruption of Commerce, by cramping the circulation, from whatever cause, is highly injurious to private credit and the interests of the public at large (more especially in time of war) inasmuch as the revenues and resources of the country must suffer thereby.
4. That it is the opinion of this Meeting that the present scarcity of money threatens the most serious calamities; inasmuch as no Merchant, Trader or Manufacturer, can depend upon converting into Cash any of the Bills of Exchange, which

(88)

which he receives in the ordinary course of his business ; and that such Bills being the natural means, by which the British Trader has been always accustomed to provide for the discharge of his engagements, there is the greatest reason to fear, that a longer suspension of this natural and indispensable resource, may be productive of the most fatal consequences to public and private credit.

5. That it is the opinion of this Meeting that the extraordinary reduction of the Discounts of the Bank of England does not proceed from any distrust or doubt of the solidity of the Bills presented there for discount, no suspicion of any house, except one that failed, having transpired (so far as has come to the knowledge of this Meeting) during the period of full three months that the scarcity of money has prevailed.

6. That it is the opinion of this Meeting that the circumstance of the existence of so unexampled a scarcity of money during so long a period, without any failure of note (except the one above alluded to) is a very strong proof of the general solidity of the transactions of the trade of this Country.

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(89)

7. That it is the opinion of this Meeting that the measure adopted by the Bank of England, may have been deemed necessary and proper by the Directors, under the present circumstances of that establishment, and that therefore it is not probable that any representation from this meeting to the Directors of the Bank would be attended with any effect towards the relief of the trade of this Country.

8. That it is the opinion of this Meeting that if means can be devised for augmenting the Circulating Medium of the Country, so as to restore it to what it was previous to the late Resolution of the Bank of England, for diminishing their discounts, without infringing the exclusive privilege of Banking granted to the Bank of England, and without violating any principle of public faith or confidence, it is the duty of every friend to the trade of England to give such a measure the most steady and vigorous support.

9. That a Committee of seven persons be named (four of whom may be empowered to act) to digest the outlines of a plan in conformity to the ideas suggested in the eighth resolution ; and that they do report the same to this
N Meeting

(90)

Meeting on Tuesday morning at half past ten o'clock precisely, previous to its being communicated to the Chancellor of the Exchequer.

10. That the following Gentlemen be named a Committee for the above purpose:

The Chairman,
Walter Boyd, Esq.
Sir James Sanderson, Bart.
Mr. Alderman Anderson,
Mr. Alderman Lushington,
John Inglis, Esq.
J. J. Angerstein, Esq.

11. That a copy of these Resolutions, signed by the Chairman, be transmitted this evening to the Right Honourable the Chancellor of the Exchequer, and that the Chairman do at the same time request a conference with him on Tuesday, the 5th of April, between the hours of twelve and four.

12. That the thanks of this Meeting be given to the chairman for his zealous conduct on this occasion.

13. That this Meeting do adjourn till Tuesday next, the 5th of April, at half past ten o'clock.

Report

(91)

Report of the Committee, drawn up by Mr. Boyd, and approved by the Meeting of the 5th April, 1796.

YOUR Committee are of opinion that, in order to place in the clearest point of view possible, the proposal they have to submit to your consideration on the subject of a remedy for the present alarming scarcity of money, it will be proper to consider previously the nature of what is understood in England by the word *money*, or, in other words, what the circulating medium of this country consists of.

It is a well-known truth, that the specie of this country is not equal to the purposes of circulating the whole value of the national industry and commerce in their present extended state. The Gold and Silver that would be necessary for that purpose, were any thing to reduce our circulation to mere specie, could not be procured without giving as the value of it, such a portion of the national industry as would equal the addition made to the powers of the specie by the use of paper currency. If twenty millions were the total amount of our specie, and forty millions were necessary to carry on the circulation of

(92)

the trade and industry of the country ; unless the deficiency of twenty millions could be supplied by paper currency, it would be necessary either to barter twenty millions of the produce of our industry to procure the balance, or to reduce our trade and industry to half their extent.

By the happiest exertion of the good sense of the country, in combining the effects of confidence with those of capital, the *powers* of our specie have been carried much beyond the limits fixed by its amount. By the wise introduction of a paper currency, *constantly convertible into Gold and Silver*, that currency has justly acquired all the powers which Gold and Silver possess.

The circulating medium of this city consists chiefly of Bank of England Notes, for converting which into gold and silver, when called for, the Bank keeps a large quantity of coin in its coffers, though not the full amount of the notes in circulation. The difference between the amount of the notes in circulation and the specie kept for paying them, is a clear addition to the powers of the money of the country. This is the first great augmentation, which the circulating

(93)

circulating medium of the country receives from the combined powers of Confidence and Capital ; But this is not the only one.

The sum of money which every Merchant, Trader, or Manufacturer, and indeed almost every man of whatever description, finds it necessary to keep altogether unemployed, to answer the various calls of business and expense, is generally deposited, not in his own strong box, but in the hands of his Banker ; and this Banker, from being the depositary of a great number of such sums, finds, from experience, that the whole of these sums cannot, according to the natural course of things, be all wanted at once ; but, on the contrary, while he possesses good credit, that a part of these deposits will fully answer all the calls that can be made upon him. He therefore employs a part of these deposits in discounting Bills of Exchange, by which means he draws a revenue from what, in the hands of his customers, would have been a dead unproductive fund. The sum he thus employs is another clear addition to the powers of the money of the country.

The ready money, which Bankers keep by them to answer the calls of their customers, consists

(94)

sists chiefly of Bank of England Notes, and it is a matter of curious consideration to observe the effects which the circulation of Bank Notes, and the deposit of Bank Notes with Bankers, have upon the general circulation of the country. The following supposition will illustrate their effects. If the Bank should make it a rule to keep in coin, one-third of the whole amount of their Notes in circulation, and the amount of their notes should be forty-five millions, the amount of their coin would, of course, be fifteen millions. Therefore there would be, in this case, an addition to the circulating medium of the country of thirty millions. But if twenty-one of the forty-five millions of notes are deposited with Bankers, and these Bankers keep one third of the notes so deposited to answer the demands which may be made upon them, there will be a further addition to the powers of the circulating medium, of fourteen millions; so that, in fact, the effect to the general circulation of the country will be precisely the same as if the Bank had circulated forty-five millions of notes, and kept only one million of coin for paying them. No Bank could ever be so imprudent as to keep so small a balance with so large a circulation, and yet, by the combined effects of Confidence and Capital, and the

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the intervention of the Bank, and a number of private Bankers, not only the same effects are produced to the country, but they are produced without any risk or imprudence.

Thus it appears that the chief gains of private Bankers are not (as has been often erroneously supposed) what the public Bank would gain if they did not exist, but, on the contrary, what, but for them, would be absolutely lost to all the world.

These observations upon the combined effects of the two great Engines of circulation in this country lead your Committee to consider whether it may not be practicable to introduce another with perfect safety, in order to supply the present deficiency occasioned by the diminution of Bank Notes.

The respect for the faith of parliament, which ought to be preserved inviolate, as well as your instructions, confine the researches of your Committee, on this occasion, to such measures as shall neither infringe the privilege of exclusive Banking granted to the Bank of England, nor violate any principle of public faith or confidence. Narrow as your Committee feels the ground marked

(96)

marked out for their researches, they are not without hopes that they may be successful.

The first object of enquiry seems to be, to ascertain in what the privilege of exclusive banking granted to the Bank of England consists. By exclusive banking are we to understand dealing in Discounts? Surely not, seeing every mercantile House, however numerous its partners, is in the daily exercise of this right. Is dealing in Bullion the privilege that is not to be invaded? this cannot be the case, seeing every Merchant, every company of Merchants, are at perfect liberty to deal, and to deal in it every day.

Does the exclusive privilege consist in the purchase of Exchequer Bills and other Government securities? No, this field is open to all the world.

In what then does it consist?

The privilege of exclusive banking enjoyed by the Governor and Company of the Bank of England as defined by the Acts of Parliament under which they enjoy it, seems to consist in the power of borrowing, owing, or taking up money

(97)

money on their bills or notes payable on demand. No other body politick or corporate, nor any persons united in covenants of partnership exceeding the number of six, being permitted to borrow, owe, or take up money on their Bills or Notes payable on demand, or at any less time than six months from the borrowing thereof. In proposing therefore any new species of paper to supply the present deficiency in the quantity of circulating medium, it is indispensibly necessary that such Paper should not be payable sooner than in six months from the date of issuing it. But paper payable in six months can make no addition to the circulating medium of the country, unless means can be found to give such paper all the qualities of ready money. This, in the opinion of your Committee, may be accomplished by the following means.

Let a board consisting of twenty-five members be constituted by act of Parliament for the support of credit, to act without fee or reward.

Let this Board be authorised, to issue promissory Notes payable in six months from the respective dates of issuing them, together with interest at the rate of $1\frac{1}{4}$ d. per day per 100l. on 1l. 18s. per centum per annum, upon receiving
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(98)

the value in gold and silver, Bank of England notes or in bills of exchange, having not more than three months to run.

These promissory notes will be readily taken in payment by all Bankers, Merchants, and others, if the board be provided with a fund of ready money for exchanging such of them as may, from time to time, be presented for that purpose; nay, they will be preferred to cash, in as much as, while they remain idle, they will in fact be producing a small interest.

This ready money fund will easily be provided by the voluntary deposits of the Bankers, Merchants, and others, who will be happy, in order to promote the general good, (particularly when it can be done not only without loss, but even with advantage to themselves) to carry a part of their ready money to this Board, and receive a return in the new notes at six months date, which new notes, from the establishment of the fund for exchanging them, as they may be presented, will to all intents and purposes, perform the functions of money, and thus replace the bank notes so carried to the board. But, while, by the establishment of this Board, a new species of paper is introduced facilitating the general circulation

(99)

circulation, care must be taken that the operations of this new board do not tend to destroy any part of the present circulating medium, which consists chiefly of bank notes.

For this purpose it is proposed that the Ready-Money-Fund, to be kept by the Board for exchanging the new notes, as they happen to be presented, shall consist of Bank of England notes and not of specie; the grand object of the establishment of this Board being merely to supply the deficiency of the circulation, as now performed by the bank of England, and not, by any means to diminish that circulation.

The establishment of this Board cannot, with any colour of reason, be construed into an infringement of the charter of the Bank of England;

Because,

1st. It is not a Bank established for the benefit of individuals, and interested in rivalling the Bank of England, but a Board erected for the express purpose of furnishing to trade, a temporary assistance which the Bank of England do not find it convenient, or perhaps do not think themselves

(100)

themselves sufficiently authorised under their present powers to give.

2d. The notes which it is proposed this Board should issue will be not only different from those of the Bank of England in one essential point, that of bearing interest while unpaid, but their tenor will be perfectly conformable to the law laid down in the acts of parliament which grant to the Bank its exclusive privilege.

3d. So completely removed is the proposed establishment of the Board from all idea of in-croaching upon the exclusive privilege of the Bank, that the Bank itself could not more carefully guard its privilege or preserve its advantages than the present proposal does.

Not a single note of the Bank of England will be forced out of circulation by the proposed Board, beyond what the Bank itself chooses—the circulation which will arise from the establishment of the present Board will be precisely what the Bank of England does not afford—it will not be *part of the present circulation of the Bank*, which will be transferred to the Board, but a *new* circulation founded upon, and so perfectly favourable to, that of the Bank, as that Bank

(101)

notes are therein considered, as the specie of the country* and the new notes only as paper-currency.

4th. The establishment of this Board, is only resorted to, on the spur of a moment, as an expedient for remedying a great national evil which threatens ruin to private credit, and which therefore must materially involve the general interests of the country.

** The interview with the Chancellor of the Exchequer did accordingly take place; and the Committee there learnt that it had been proposed by the Bank-Directors as the best remedy for the scarcity of money, that the floating debt should be funded—The Minister said, that he would first try what this would do towards removing the scarcity of money; and, that if it should answer the purpose, the establishment of a Board for the support of credit would be unnecessary.

* It had not then entered into the contemplation of the writer of this report, that Bank-notes, here considered as equivalent to specie, were, one day, to be deprived of their *only title*, to that equivalence.

(102)

The floating debt was funded, by means of the Loan of 7,500,000l. which was contracted for on every liberal terms, upon the prospect held out to the contractors, of a total change of system on the part of the Bank. How this prospect was realised, the distresses of the city in the end of May 1796, can testify.

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(103)

C. (See Page 72.)

Monday Morning, 2 o'Clock.
27th February, 1797.

MY DEAR FRIEND,

THE more I think, the more I am alarmed at declaring Bank-notes a legal tender, because although the condition of their being still payable in coin, softened down very much my repugnance to the measure, I see that the inevitable consequence of such a law will be to create a very great run upon the bank, and that it will lead to the dreadful crisis of the bank itself being dispensed with paying them in coin. Should such a period arrive, I should deplore it more than any calamity that can befall this country; because, not only from my reflections on the nature of money and credit for a great part of my life, but also from what passed, under my eyes in France in the year 1788,* (not a full year before the revolution), I am warranted to say that all the absurdities of the doctrine of transubstantiation are really nothing to the monstrous principle, that a sterile piece of paper is equal to gold. As long as it can be converted into gold, it truly deserves the name, and performs the

* The Writer was then established as a Banker in Paris,
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(104)

functions of, money. The moment it is forced upon the public, without that precious quality, it becomes a violated engagement, whose value is liable to the greatest depreciation. The effects of a forced paper-currency on our exchanges with foreign countries, on the prices of goods and property of every kind, it is needless to enumerate to you. You cannot be ignorant of them. They lead to all the convulsions which a free and happy country ought to deprecate, as the greatest of evils

In the year 1788, the Paris bank * was run upon. I was active in bringing coin from Flanders, and in throwing funds into the bank by every possible means. The run continued eight or ten days. The bank kept its ground, and all the coin which had been carried away was brought back again. For this time the true principles prevailed, and the bank was saved: but a few months had not elapsed until a second run was made, which lasted only a single day, because the bank-directors, with unpardonable folly, secretly solicited an order of council

* The *Caisse d'Escompte*, a public Bank, divided into shares with a capital of 100,000,000*l.*, *livres tournois*, equal to 4,375,000*l.* sterling, and having in circulation notes to the amount of nearly as much more.

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(105)

for making their notes a legal tender, and dispensing with their paying them. The very night this order was solicited, a meeting of bankers was held, and the apparent ease which a forced circulation of notes offered, led them to agree that this was the only measure for saving themselves and the country—two individuals, one other banker * and myself excepted, who expressed the most unequivocal opposition to the project.

On no occasion did I ever take so warm a part against any measure; and I take God to witness, I did so from the most intimate conviction that ruin must inevitably be the consequence. I lived to see all my predictions realised, and the authors of the scheme curse their blind infatuation, which had led them to propose a measure which most assuredly paved the way to that ruinous system of paper which swallowed up so many fortunes, and destroyed all the sacred respect for property in that country.

I don't say that the surmise I had from the city, of the measure in contemplation, ought to excite all these gloomy apprehensions. I hope, and believe, that I exaggerate things: but I

* Mr. Perregaux.

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(106)

do assure you, that I think such a step as even what we talked of to-day, is big with such infinitely important consequences as to render the utmost caution and circumspection necessary before any thing is resolved upon. Depend upon it, that a step of this sort cannot be of a *neutral* kind. It must produce *great effects*, and therefore it ought to be well weighed.

Fear is apt to grasp at any thing that looks like safety; but on that account, the counsels of *Fear* must be cautiously avoided. *Principles* must be resorted to, and above all, the natural tendency of the human mind ought to be carefully considered. This tendency ought to satisfy every man that the run upon the Bank has a much better chance of being stemmed by associations, and the exertions of public-spirited men, than by any *Law* which in the least degree encroaches upon the free and voluntary circulation of their Notes.

I am sure you will acquit me of any sinister intention in thus throwing out my ideas to you on this subject at so *late* *, or rather at so *early* an

* Written in the night between Sunday the 26th, and Monday the 27th February.

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(107)

hour. The fact is, that such a measure would probably produce a temporary ease in the general circulation, and of course give *me* greater ease as to *my own* transactions: but I should ill deserve the place I hold in your esteem, if I withheld my opinion from you on a subject of this momentous kind.

As it was whispered in the city on Saturday, that the Speaker had been taking some part in this business, I regret exceedingly that I have not the honour of being particularly known to him, because I should have taken the liberty to wait upon him on this occasion; but as you have frequently occasion to see him, you may show him this letter, if you think proper. I shall go early to the city, in order to be able to attend the House in the evening.

I am always, my dear Friend,

Your's most faithfully,

WALTER BOYD.

John Fordyce, Esq.

(108)

D. (See Page 78.)

IT may be said, that the great increase of our imports and exports, and the considerable addition made to the funded property of the country, within the last four years, fully justify the increase of the circulating medium which has taken place within that period. If the great increase of the public debt, and of our imports and exports be considered as evidence of a similar increase, in every branch of the national industry, the observation would be entitled to some weight; but I doubt much if any man can be found hardy enough to maintain this to be the case, and at the same time able to support his opinion with arguments or evidence. The addition to the public debt is not a *new* capital, acquired by the country within the period in which that addition has been made. Only a very small part of it can possibly have been acquired within that time; and therefore the great proportion of it must have formerly existed, under various other forms, many of them, in all probability, more favourable to the productive powers of industry than when they were converted into part of the public debt.

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(109)

The real increase of the wealth and industry of the country, within so short a period as four years, must have been great beyond what the most sanguine imagination can suppose, to have added, by natural means, either four-fifths or three-tenths to the primary circulator of that wealth and industry; and if, by artificial and exceptionable means, the powers of that circulator have been augmented greatly beyond what they would have been if no such means had been resorted to, the consequence must, of necessity, be that augmentation in the prices of commodities, which now bears so hard on all those classes of society whose revenue does not vary with those prices.

The total amount of the official value of all Imports into Great Britain, for the years 1794, 1795, and 1796, was £. 68,213,103.

The total amount of the official value of all Exports, for that period, was £. 84,390,336.

And the total amount of the official value of both Imports and Exports, for that period, was £. 152,603,439.

Making an annual average of £. 50,867,813.

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(110)

The total amount of the official value of all Imports into Great Britain for the years 1797, 1798, and 1799, (supposing the Imports from India to be the same for 1799 as for 1798) was £. 78,817,655.

The total amount of the official value of all Exports for the same period, was £. 98,499,485.

And the total amount of the official value of both Imports and Exports, for that period, was £. 177,387,140.

Making an annual average of £. 59,129,046, which, compared with the average of three years ending in 1796, is an increase of a little more than one-sixth of that average.

Admitting, for the sake of argument, (what I am very far from admitting, in point of fact) that an increase of Imports and Exports under any circumstances, and particularly under the peculiar circumstances of the present war, implies a similar increase in all the other branches of national industry; and that such increase of Imports and Exports required a proportional augmentation of Bank-Notes; still, even in this

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(111)

view of the subject, it will be found, that the increase of Bank-Notes greatly exceeds that of Imports and Exports, the increase of Bank-Notes being, according to one mode of estimation in the proportion of four-fifths, and, according to another, in the proportion of three-tenths of their former amount; while the increase of Imports and Exports has only been in the proportion of one-sixth of their former amount.

Thus the very principle upon which an increase of Bank-Notes is defended, with the greatest appearance of success, is decisively against the *degree* of that increase; but a reference to the period of three years immediately preceding that which has just been considered, will show that the *principle itself* (though incontestably true with regard to the whole productive powers of the country) is, and must be, *fallacious*, when applied to *any one* branch of the national industry, as indicative of the progress of all the others.

The amount of the average Imports and Exports for three years ending in 1793, was £. 42,204,410.

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(112)

The amount of the average Imports and Exports for three years ending 1796, was £. 50,867,818. The average increase, therefore, was £8,663,403, or nearly one-fifth of their former amount.

The average-circulation of Bank-Notes for three years ending in 1793, was £. 11,500,043.

The average circulation for three years ending in 1796, was £. 11,844,216.

The average increase therefore was £344,173, or only somewhat more than one-thirty-third part of their former amount.

It was originally intended to have given comparative statements of prices in 1796 and 1800; but considerations of public expediency have determined me to drop this part of my purpose.

THE END.