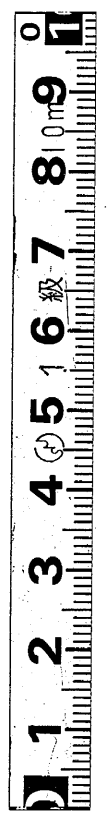


0135

64-11



AN
ESSAY
ON
MONEY AND PAPER CURRENCY.

BY
R. TORRENS, Esq.
MAJOR COMMANDANT OF THE ROYAL MARINE BATTALION
AT ANHOLT.

LONDON:
PRINTED FOR J. JOHNSON AND CO.
ST. PAUL'S CHURCH YARD.

1812.

TO THE
REV. ALEXANDER CROMBIE, LL. D.

AS A TESTIMONY OF

THE AUTHOR'S HIGH RESPECT FOR

HIS ABILITIES & WORTH,

AND AS AN ACKNOWLEDGEMENT

For many Instances of Favour and Regard,

THIS VOLUME

IS INSCRIBED BY

His obliged and most faithful Friend,

R. TORRENS.

Printed by W. Hency, Aldersgate Street.

THE following work owes its production

to the persuasive counsel of the learned

and worthy friend, to whom it is dedi-

cated. Anxious to direct to some prac-

tical and useful purpose an early in-

dulged propensity to abstract speculation,

the author solicited his advice, and was

encouraged by him to prosecute the

study of political economy in general,

and in particular to investigate that

branch of the science, which relates to

money and paper currency. What he

P R E F A C E.

THE following work owes its production to the persuasive counsel of the learned and worthy friend, to whom it is dedicated. Anxious to direct to some practical and useful purpose an early indulged propensity to abstract speculation, the author solicited his advice, and was encouraged by him to prosecute the study of political economy in general, and in particular to investigate that branch of the science, which relates to money and paper currency. What he was thus persuaded to attempt, he was by the same friendship assisted to ex-

ecute. He was furnished with important facts, and directed to correspondent conclusions. But the particular ideas, which are imparted, and the arguments suggested on any subject, are but of inferior value, compared with the enlargement of mind,—the ardour, and intelligence we derive from an unfettered intercourse with a friend, whose metaphysical acumen and intellectual attainments are of the highest rank, and in whose integrity we repose the most unbounded confidence.

The circumstances, under which the work was commenced, and has been carried on to its completion, it may not be improper to communicate to the reader. In the autumn of last year, the author formed the resolution of writing, with a view to publication, an Essay on

the Principles of Money and Paper Currency. While meditating on this subject, and about to collect, what had recently been written upon it, he was called away upon foreign service; and on arriving at his destination, and assuming the command of the Marine Battalion garrisoning Anholt, he found that the requisite attention to the detail of military duty was peculiarly hostile to those habits of patient investigation, which, on less active service, he had delighted to indulge. The execution of his work was, therefore, necessarily suspended, until the winter setting in with severity, threw around the shores of Anholt an impregnable barrier of ice: during the period of security thus afforded, he resumed with avidity his literary occupations, and with the assistance of his invaluable companion, Dr. Adam

Smith, nearly completed the abstract, and scientific portion of his work.

The application of the principles of the science of money, to the bullion market, and to English currency, was still to be made; and the author felt the necessity of descending from general reasoning to particular detail, and of becoming acquainted with the principal arguments, employed by those, who espoused the opposite side of the question.—Having obtained leave of absence for a few months, he returned to England, and in prosecution of his plan, applied the general principles, which he had previously endeavoured to unfold, to the important events, which were then passing. Whether he has been more fortunate in the execution of this, than of the former part of his work, must

be submitted to the determination of the intelligent reader. It was written with great rapidity, and under the influence of unusual ardour and emotion. It was meditated during midnight walks, and distant journeys, indited at inns, and on ship-board, and completed in the Irish Channel on board the Dorset Yacht.

These are the circumstances under which the work was executed. Whether the author has availed himself of the advantages, which they presented, or surmounted the obstacles, which they opposed, the public must decide. He desires not to shelter his errors behind the difficulties of his situation; for, if that situation has been such, as to withhold him from acquiring just political views, it should also have withheld him from obtruding ill-digested notions on the world. There

can be no possible excuse for the publication of a bad book. If he has written ill, he deserves censure; if he should have treated a difficult question with success, he will obtain the approbation of those, whose praise is fame. Firmly persuaded of the truth of all he has advanced, and conscious of no unworthy intentions, without any affected timidity, and he trusts, without presumption, he waits the judgment of an impartial public.

The intelligent reader will perceive, that, in many passages of the work, particularly in the first chapters, the author has closely followed Dr. Adam Smith. This want of originality, wherever it occurs, he conceives, will not be censured as a fault. In works addressed to the imagination, an author must study

novelty, and create the materials which he employs; but, in investigating a branch of science, it becomes necessary, to avail ourselves of the discoveries of those, who have gone before us, and to build upon the foundations which they have firmly established. The author will not deem his labours in vain, if, without having brought to light any new general truths, or extended the bounds of abstract science, he shall be found successful in applying the principles, unfolded by our great political economist; and in explaining, from the divisions of labour, the manner, in which the establishment of money and of paper currency increases the wealth of nations.

If the following pages contain any principles, or general reasonings, not found in the work of Dr. Smith, they

are, in respect to the author, original. Others may, indeed, have been long acquainted with them; by him, they have been derived from meditation—not from reading. The opportunities, which he has had, of consulting preceding writers on the subject, have been extremely few. This he does not bring forward, as an idle boast; he mentions it, as a matter of sincere regret. He feels, that, had his reading been more extensive, his views would have been more enlarged. Some publications, on the state of our currency, he has recently procured; from which, had he met with them before his absence from England, and the resumption of military duties precluded him from enlarging his work, he might have derived considerable advantage: foremost among these, he classes “The Substance of a Speech, delivered

by Lord Castlereagh, upon the Report of the Bullion Committee.” From early impressions, and too careless a consideration of some recent circumstances, he had formed a very erroneous estimate of the talents of the noble author; and when, on the recommendation of a friend, he took up the published speech of his lordship, he imagined, he should lay it down dissatisfied; but, as he read, his prejudice was vanquished, and he closed the little pamphlet with admiration and surprise.

The Speech of Lord Castlereagh, on the Report of the Bullion Committee, is, in the estimation of the author, one of the most admirable specimens of spontaneous political reasoning, that he ever read. While it evinces an accurate acquaintance with the most important facts, it has the peculiar and

uncommon merit of unfolding principles, which are of universal application, and which may be resorted to, on all future occasions of derangement in our paper system:

Another work, relating to the present state of our pecuniary circumstances—the perusal of which, before the author proceeded to the application of his general principles, might have proved highly useful, is entitled, “An Enquiry into the State of our Commercial Relations with the Northern Powers.” This work he has become acquainted with, only through the medium of the Quarterly Review. But the sketch of the opinions of its author, which is there delineated, as well as the extracts which are given, have so striking a coincidence with the principles, which the author has endeavoured to establish

here, as also in a pamphlet, which he published three years ago, that he feels much regret, at not being able to obtain a more intimate and extensive knowledge of the facts and reasonings, adduced in support of those doctrines, which he has long regarded as vitally important.

Having mentioned one of our literary journals, the author takes this opportunity of gratefully acknowledging the favourable reception, that has been given to several little political tracts; to some of which he annexed his name, while others were published anonymously. To the Monthly, Critical, and Annual Reviews, he is under many obligations. The manner, in which they announced his first appearance before the public, was highly encouraging to a young author,

whose name had not been heard, and who came forward without any literary introduction whatever, or the slightest knowledge of any person, acquainted with the press. But to the Monthly Review, he is peculiarly indebted—because the character, which that journal gave of a pamphlet of his, printed in the country, was, he believes, the first occasion of his becoming known to the author of “An Essay on Philosophical Necessity,” and of “A Treatise on English Etymology and Syntax.”

FORT YORK, Island of Anholt,
Nov. 28th, 1811.

CONTENTS.

PART I.

CHAP.		PAGE
I.	<i>On the Origin of Money</i> - -	1
II.	<i>On the Nature and Utility of Money</i> - -	14
III.	<i>On the Effects of Increasing the Quantity of Money</i> - -	24
IV.	<i>On Diminishing the Quantity of Money</i> - -	42
V.	<i>On the Establishment of Paper Currency</i> - -	63
VI.	<i>On the Utility of Paper Currency</i> -	79
VII.	<i>Disadvantages of Paper Currency.—Depreciation of Excess.—Remedies</i> - -	96
VIII.	<i>Apparent Depreciation</i> - -	161

PART II.

CHAP.		PAGE
I.	<i>Application of the foregoing Principles to the present State of the Money and Currency of this Country</i> - -	184
II.	<i>Mr. Huskisson's Pamphlet</i> - -	194
III.	<i>On the Effects of Deranging the Paper System</i> - -	237
IV.	<i>On the Resumption of Cash Payments</i> - -	245
V.	<i>Lord King's Notice to his Tenantry</i> -	261
VI.	<i>Lord Stanhope's Bill</i> - -	278
VII.	<i>Legal Tender.—Conclusion</i> - -	284

AN
E S S A Y
ON
MONEY AND PAPER CURRENCY.

CHAP. I.

On the Origin of Money.

IN the rudest periods of society, a perception of mutual advantage must have prompted men to exchange one commodity for another. The dexterous hunter, who had killed a greater number of wild animals than his family could consume, would be willing to give his superfluous and perishing food, for a fresh supply of arrows; while he who had been successful in the chase, but who had chanced to obtain more missile weapons than he could employ, would be equally anxious for the exchange.

The interchange of commodities, as soon as it became familiar to the minds of men, would give occasion to divisions of employment. The bold and successful huntsman, devoting himself to the occupation of the chase, would barter his food with his less enterprising neighbour; while the person whose frame was less robust, would begin to perceive, that by preparing bows and arrows, and exchanging them for the wild animal of the fleet-footed hunter, he could obtain a greater number of these animals, than if he personally engaged in their pursuit. Hence in the most savage tribe, some rude divisions of labour will have place; the athletic and the bold will pursue the occupations of hunting and of war; and the timid and infirm busy themselves in some species of domestic industry. But as society advances towards improvement, the principle which gives occasion to the division of labour operates with increasing force; every person devoting himself to some particular employment, must

supply the far greater number of his wants, by exchanging the productions of his own, for the productions of his neighbour's labour; and all subsisting by the transfer of property, the nation will become mercantile.

Now as soon as the divisions of labour became tolerably well established, and individuals began to supply new wants by transferring the productions of their industry, the necessity of having some medium of exchange would immediately be felt. For if the transfer of commodities was performed by means of barter, the business of life would be exposed to the most inconvenient interruptions and delays. The farmer, for example, wishing to procure the materials of clothing for the surplus produce of his fields, might go to a neighbouring weaver, and propose an exchange of commodities. But if the weaver had already obtained as much food as he had occasion for, he would be

unwilling to agree to the profered exchange. The farmer therefore, before he could supply his wants, would be compelled to procure, by a previous purchase, some article, suppose shoes, of which the weaver might chance to stand in need. But here another difficulty might occur. The shoe-maker, already possessed of all the domestic productions for which he had occasion, might refuse to part with his shoes except for foreign articles. To the foreign merchant, therefore, the farmer would be compelled to go, in order to procure the means of purchasing the article, which was necessary to enable him to obtain from the weaver, the clothing which he wanted.

To avoid these circuitous operations, and to save the time and labour they consumed, every person would find it his interest to keep constantly by him, some commodity, which being of known value, and of universal consumption, would be readi-

ly received by his neighbours in exchange for the produce of his industry. Now when men had seen this commodity frequently employed as the means of exchanging other commodities, they would become willing to receive a greater quantity of it than was necessary for their own consumption, under the confidence, that whatever articles they might require could at any time be procured for it. Passing freely from hand to hand, its value would be universally known, and it would be employed to compute the value of all other things; and in this manner a medium of exchange, a rude species of money would be established.

Various commodities have at different times, and in different countries, been employed for the purpose of measuring the value of other articles, and exchanging them against each other. In the rude ages of society, cattle are said to have been the common medium; and accordingly we find, that, in old times, things were fre-

quently valued according to the number of cattle which had been given for them. But cattle must have been a most inconvenient instrument of commerce. The person who wished to purchase a supply of cloth, and had nothing to give in exchange for it but a sheep or an ox, would be obliged to buy cloth to the value of a whole sheep, or a whole ox at a time. He could seldom buy less, because his medium of exchange, his money, could not be divided without loss; and if he wished to purchase more, he would, for the same reason, be obliged to take double, or treble the quantity, the value of two or three sheep, or of two or three oxen. Now it is evident that an instrument of commerce so bulky, so impo-rtable and indivisible as cattle, would frequently obstruct the interchange of commodities. Finding it often difficult, and sometimes impossible to exchange by means of cattle, the surplus produce of their respective trades for the precise quantity of other articles, which they

might require, the inhabitants of the country where cattle formed the only instrument of commerce, would on many occasions be compelled to supply new wants, by combining in their own persons a variety of occupations. The divisions of employment would therefore be very imperfectly established; the productive powers of industry would be checked, and the country withheld from the acquisition of that universal opulence, which, under other circumstances, it would be capable of acquiring.

A knowledge of these conveniences seems at length to have determined all nations in employing the metals as the medium of exchange. For this they are admirably calculated: they can not only be kept without waste, and without expense, for any length of time that may be necessary; but they can be divided into any number of parts, and reunited without loss. Hence the person who possesses the

metals, if general consent should have rendered them the medium of exchange, can always proportion their quantity to the precise quantity he wants, and thus make what purchases he pleases.

But though the metals are so admirably adapted to purposes of commerce and circulation, their utility, as a medium of exchange, as the money of a community, was in the early periods of society limited by two very considerable inconveniences; the trouble of weighing and assaying them. As a small difference in the quantity of the precious metals, makes a great difference in their value, weighing them, with proper exactness, becomes an operation of much nicety, and if performed previously to every purchase, would very much obstruct the exchange of commodities, and thus prevent the divisions of labour from being thoroughly established. Ascertaining the fineness of the precious metals, is an operation still more difficult and tedious,

and cannot be performed without exposing them to the action of proper solvents. To do this previously to every purchase, would be impossible. The trader therefore, while bullion continued to be the sole instrument of exchange, must have been compelled to guess from external appearance, the fineness of the metals which he received for his goods. This would expose him to the grossest impositions, and often compel him to receive, instead of a pound of pure silver or gold, an adulterated composition of the cheapest materials, which had, however, in outward appearance, been made to resemble these metals. While the profits of the merchant continued in this manner at the mercy of every knave in the community, it must have been impossible for him to have carried on any very active or extensive operations. The free exchange of commodities must have been obstructed, and the productive powers of labour reduced to that languid state which is ever the consequence of

individuals supplying their wants by combining in their own persons a variety of occupations.

These inconveniences attendant on bullion being the sole instrument of trade, gave occasion to the establishment of coined money. In all countries, which have made any considerable advances towards improvement, it has been found necessary to ascertain, by a public stamp, the fineness and weight of those pieces of the precious metals, which are commonly employed in the market to purchase goods. The first public stamps that were impressed on the current metals, seem to have been intended to ascertain their fineness or purity, and to have resembled the sterling mark which is at present affixed to plate and bars of silver, or the Spanish mark sometimes affixed to ingots of gold. By this mark, base, adulterated metals were excluded from the market, and the merchant, no longer exposed to the risk of receiving,

instead of gold and silver, compositions of cheaper materials resembling those metals, would acquire confidence and ability to extend his speculation; while commerce and industry would be encouraged through all their branches.

But the difficulty of weighing the metals with sufficient exactness still continued, until a public stamp was devised, which covering both sides of the piece, and sometimes its edges too, ascertained not only its fineness, but the quantity of metal it contained. In this was effected the last improvement of which coined money seems susceptible; and from its superior utility and convenience it speedily became, in every country where it was established, the universal instrument of commerce. At first the name, or denomination of the coin, expressed the quantity of metal which it contained. In England, for example, the pound sterling contained originally a real pound weight of silver of

known fineness ; and a penny, a real penny weight, the twentieth part of an ounce, and the two hundred and fortieth part of a pound. This relative value between the different denominations of our coined money still continues, but the denomination has long ceased to express the quantity of metal which our coins contain. The injustice of princes and sovereign states, has, in every country, led them to abuse the confidence of their subjects, by gradually diminishing the quantity of gold and silver, on which the public stamps were impressed. But though the debasing of the coin must have been when it took place highly ruinous and unjust, yet little or no inconvenience is at present felt, in consequence of the denomination of our money no longer expressing the real quantity of metal, of which that money is composed. If the stamps, affixed by the authority of the state, to the gold and silver pieces which are circulated through the country, certify faithfully, that these pieces are of

certain fineness and weight, it is of small importance whether the weight of each piece be implied in the name. All that the public good requires is, that in the daily and hourly operations of trade, the time and expense of weighing and assaying the precious metals shall be saved. When public stamps assure us, that the pieces circulating in the market, no matter by what name they are called, contain a quantity of gold or silver of known weight and fineness, this is effectually done ; and this being done, trade and industry have received all the encouragement which they are capable of receiving from the establishment of coined money.

CHAP. II.

On the Nature and Utility of Money.

WHAT has been said, in the foregoing chapter, respecting the origin of money, will guide and assist us, in enquiring more at large into its nature and utility. *Money, then, is a general term, standing for any article possessing intrinsic value, and rendered, by general consent, a criterion for computing the value of other articles, and the medium of exchanging them.* These properties, the possessing of intrinsic value and the being rendered the criterion of value and the medium of exchange, constitute the essence of money; and in these, every article which has been employed as money, from the most barbarous to the most polished times, has equally partaken. According, indeed, to the degree of im-

provement, and to the extent of mercantile transactions, the articles constituting this medium of trade will be more or less convenient; but in the essential properties, which we have mentioned, they all must have agreed. Cattle, the money of ancient times, possessed a high intrinsic value: in cattle, we read the value of the armour of the ancient heroes was computed; and by means of cattle all purchases were made. The shells of the Indian, the iron bars of the African, and the nails which are said to be used as money in some parts of Scotland—all perform similar functions; and functions precisely similar are, though with greater facility and convenience, performed by the coined money of the European states.

But though money is a general term, including in its acceptation many particulars, it is not always used in its most extended sense. When a merchant tells his foreign correspondent that he will pay him

money, the meaning of the term is here limited to bullion—the commodity which general consent has rendered the criterion of value, and the medium of exchange, in the great commercial republic; and, when he engages to discharge a domestic debt in money, the signification of the term is still further limited, and implies only the coined metal of the realm, which general consent and the law of the land have, in this country, made the criterion for computing the value of other commodities, and the medium of exchanging them. Thus money, with respect to the civilized, commercial world, means gold and silver; with respect to any particular nation, it means the nation's current coin.

Having thus shown what money is, we are now prepared to enquire into the nature and extent of the benefit it confers. Money was established to obviate the difficulties which arose in exchanging one commodity for another, and to give

facility to the operations of trade and commerce. Without some article of known value, by which to compute the value of other articles, and circulate them from hand to hand, exchanges would have been extremely limited, and the divisions of labour very imperfectly established. If we wish, therefore, to ascertain the utility of money, we must previously enquire—What benefit is conferred by trade, and the divisions of employment? for it is only by promoting these that money can add to public wealth.

Certain philosophers of great reputation, have maintained that agriculture is the only source of wealth, and that commerce being only a transfer of articles already in existence, cannot increase the quantity of those things which supply our wants, and gratify our desires. But this is a narrow and an erroneous view of the subject. Undoubtedly, the bare *operations* of trade—the mere *act* of giving one commodity for another,

cannot augment the wealth of a country. But, then, it is the *expectation* of being able to obtain one commodity in exchange for another, which induces men to devote themselves to particular employments. Interdict trade, and every person will be obliged to supply his wants, by combining, in his own person, a multiplicity of employments, and the divisions of labour will be at end. As it is trade and commerce, therefore, or the exchanging of one commodity for another, which gives occasion to the division of labour, all the additional wealth, which the divisions of labour confer upon a country, is to be referred to trade and commerce as its proper and original source.

Now the additional wealth, conferred by the divisions of labour, is so great as nearly to baffle calculation. As our wants and desires are very various, the labour which supplies them must be very various also. If a man attempted to fa-

bricate for himself all the articles necessary to comfortable existence, half his time would be expended in shifting his tools and adjusting his materials: distracted with the multiplicity of employments, he would become expert at none. But when a person devotes himself to a single trade, his time is no longer lost in shifting from employment to employment; and, from habit and experience, he acquires, in his particular calling, a degree of dexterity and skill truly astonishing to those, who, living in remote villages, have never witnessed the effects of a perfect division of labour.

But there is a territorial division of employment, which augments the wealth of a country in a much higher degree than the mechanical division which we have just described. Nature, by giving to different districts different soils and climates, has adapted them for different productions. One tract of land is pe-

cularly fitted for the growth of grass; another seems as exclusively destined for the production of corn. In one country the vine grows luxuriantly, while the animals which feed upon its pastures have but a poor and scanty covering; in another country, the grape ripens but imperfectly, while the fleeces of the animals it feeds, furnish the materials of clothing in abundance. Now it must be obvious to the most inattentive observer, that, by the establishment of a territorial division of employment in these districts, and in these countries, the productions of the earth will be multiplied to an almost incalculable extent. If we sow corn on the arable land, and feed cattle on our pastures; if we cultivate the grape beneath a congenial sky, and breed sheep where their fleeces will be abundant; then shall we enjoy more corn and cattle, more wine and cloathing, than if we reversed the order of nature--ploughing up our meadow lands, and laying our arable

grounds under grass; turning our vineyards into sheep-walks, and our sheep-walks into vineyards. But it is evident that, without trade and commerce, we should be unable to establish these territorial divisions of employment, which so greatly augment production. If the holder of pasture land could not exchange his cattle for corn, he would be compelled to counter-work the intentions of nature, and grow corn in grounds peculiarly adapted for grass. And if the owner of a vineyard could not obtain, in return for his surplus wine, the woolsens of which he might stand in need; he would be under the necessity of converting a portion of his vineyard into pasture lands for sheep.

And now, from this statement, it is to be hoped, that the manner in which money augments the wealth of a country, will be sufficiently understood. In the

first place, it saves all that time and labour, which, while the intercourse between man and man was carried on by barter, must frequently have intervened, before a person could be supplied with the article he wanted. In the second place, it encourages exchanges, facilitates the operations of trade and commerce; and thus allows the divisions of labour, whether mechanical or territorial, to be more thoroughly established. By the first operation, it disengages labour from an unproductive employment, and allows it to take a more useful direction. By the second, it increases to an astonishing degree, the productive powers of the labour already usefully employed: it assists every man in availing himself of the dexterity and skill which he may have acquired in any particular calling, and promotes the cultivation of the earth, in a manner suitable to the climate and soil of different dis-

tricts, and of different countries. And, by both these operations, money increases to an extent not easy to be calculated, the wealth of the community in which it is established.

CHAP. III.

On the Effect of increasing the Quantity of Money.

MONEY being the instrument by which one commodity is exchanged for another, every fluctuation to which it is liable must produce a corresponding effect upon the market: and the increase, or diminution of its quantity, the rapidity or tardiness of its motion, and the changes which, from time to time, its value may undergo, are circumstances that must, at all times, more or less, operate on industry and wealth. But of all the changes to which this instrument of commerce is liable, the increase and diminution of its quantity are the most important--I, therefore, propose,

in this and the following chapter, to examine their effects at some length.

Let us suppose, for the sake of illustration, that a number of persons, possessing collectively half a million of money, settle in the country, and bring their treasure with them. Now these persons will not suffer their money to lie idle, and unproductive in their coffers; they will employ it in procuring articles for their immediate consumption, or they will lay it out in a manner that will bring in profit. If the money be employed in procuring articles for immediate consumption, the demand for these articles must be increased, and consequently their price advanced. All the persons, therefore, employed in preparing and bringing them to market, will receive a benefit. The trader who supplied them to the consumer will have a brisker sale, and better price for his goods; and will be enabled to fulfil with greater punctu-

ality, his engagements with the merchants and manufacturers, from whom they were procured. The merchant and manufacturer will, in consequence, be anxious to replace the articles which went off so profitably; and this will occasion a fresh demand for labour, enhance its price, and thus improve the condition of the people.

If the money brought into the country by these new settlers were laid out in a manner that would bring in a profit, the effect would be equally beneficial. The value of every thing is regulated by the proportion, which exists between the supply and the demand. If, while the demand for any commodity remains unchanged, we effect an augmentation in its supply, the value of that commodity will immediately be reduced. The half million of money thrown upon the market as so much capital, would necessarily reduce the value of money; or, in other

words, would raise the money price of all other commodities; and the rise of prices would produce all the benefits to trade and industry, which have already been described. If indeed the money were intended to produce a profit, and therefore brought to market as so much capital, it would be even more beneficial, than if employed to purchase articles for immediate consumption. For, as capital, it would give *immediate* employment to labour; while, if laid out in the trade of consumption, it would only increase the demand for labour *mediately*, and in consequence of an increasing value given to commodities in general.

To this position, that an increase in the quantity of money has a peculiar tendency to enrich a country; it may perhaps be objected, that wealth does not consist exclusively in gold and silver; and that bringing into the country half a million's worth of other useful commo-

dities, would confer benefits, precisely similar to those, which have been attributed to the importation of half a million in money.

I mean not to assert, that wealth consists exclusively in gold and silver. I do not mean to deny, that the importation of useful commodities, to the value of half a million, would confer a benefit on the country; but I assert, and can prove, that the benefit thus conferred, would differ materially, both in extent, and in nature, from that which would result from increasing to a similar amount, the circulating coin. If persons, whose wealth consisted in money, settled in the country—their first operation would be *to buy*; but if persons came among us whose wealth consisted in commodities, their first operation would be *to sell*. These opposite operations would produce opposite effects. The one would increase the *demand* for articles of consumption,

the other would increase the *supply*; the first would advance, the last would lower prices. The former would give a spur to trade and industry, the latter would produce some temporary embarrassment, both to the merchant and to the manufacturer.

As it may, to persons slenderly acquainted with this abstruse subject, appear somewhat paradoxical to say, that inconvenience and embarrassment can arise from adding half a million's worth of useful commodities to the wealth of a country, I must here detain the reader by a brief explanation.

Let us suppose, that a number of foreign landholders take up their residence in the country, and that instead of having their rents remitted in money, they receive them in useful commodities: let these commodities be woollen cloths, and let their value be half a million

sterling. Now, before these foreign landholders could furnish themselves with the comforts and luxuries of life, it would be necessary for them to bring their woollen cloth to market. This would necessarily increase the supply, and reduce the price of this article. The cloth-merchant, who had laid in his stock of goods while the price was high, would now find himself undersold by the more recent purchaser; and, unless he possessed considerable capital, would probably be ruined. The master manufacturer, too, who had procured his materials during a period of higher price, now that the market was overstocked, would be unable to obtain an adequate return--- the weavers, the spinners, and the growers of wool, would all sustain a diminution of their profit, and a reduction of their hire. Nor is this all. Demand ever regulates supply. While the effectual demand continues unchanged it will be found impossible permanently to in-

crease the quantity of any commodity. We have now as much cloth as the inhabitants of the country can afford to purchase. Throw annually on the market a quantity of foreign cloth; and a quantity of British, to an equal amount, will cease to be produced; and the labour and capital employed in preparing it will be thrown out of the employment.

However, the injury would not be so great, as at first sight might appear. Labour and capital form no part of the annual consumable revenue of a people; they are only the sources, from which that revenue is derived. If the foreign cloth is equal, in every respect, to the cloth brought to market by the labour and capital it has thrown out of employ, then our wealth will sustain no diminution, though our industry may. Without the intervention of a certain portion of our capital and labour, we have as great a quantity of consumable commo-

dities, as when the whole of our labour and capital was employed.

But further; the labour and capital disengaged by the importation of foreign cloth, will flow into other channels. These channels will be marked out by the effectual demand; and, by this supposition, no alteration has taken place in this demand, except what may arise from the incomes of the foreign landholders. These landholders, when they have disposed of their cloth, will possess a demand for the various necessaries, and luxuries of life; and to the supplying of them, the labour and capital thrown out of employment by the importation of the foreign cloth, will be directed. Thus, a change will be effected in the direction of our industry; and this will, at first, be attended with considerable loss. For the workmen will be less expert in their new employment, than in their old; and the master manu-

facturers must suffer from shifting their capital from one business to another. But whatever revenue the labour and capital, in their new employment may create, will be a clear addition to the wealth of the community, and an addition, occasioned by the importation of the foreign cloth. For without diminishing the quantity of cloth in the market, a part of the labour and capital which formerly brought it there, is now employed in supplying other articles of wealth--these therefore are clear additions to the revenue of the community.

From these illustrations it appears, that bringing annually a quantity of useful commodities into a country, though at first attended with some embarrassment to trade, and diminution of industry, confers a considerable benefit on the society. But how insignificant is this benefit compared with the great, the unmixed advantage which

would flow, from bringing into the country an equal value in the precious metals. Let the foreign land-owners draw their rent in gold and silver; let them annually receive half a million in money, instead of in cloth, and we shall immediately perceive the very different effect which would be produced on trade, on industry, and wealth. This money, without increasing the supply, would increase the demand for all the comforts and luxuries of life. The capitalists and labourers, therefore, who were instrumental in preparing and bringing them to market, would obtain an increase of profits and rise of wages. The increase of profits would enable the trader to augment his stock, and to extend his speculations; the rise of wages allow the journeyman and labourer to become in time, masters in their respective trades; and both, by occasioning a gradual accumulation in the funds for the maintenance of labour, would put

a greater quantity of industry in motion, and increase the necessaries and comforts of life, until the country was enabled to subsist the former number of inhabitants more abundantly; or else to maintain a greater population.

To all this it may be objected, "that the increase of the quantity of money, and the consequent diminution in its value, would injure the creditor as much as it benefited the debtor; that if it enabled the latter to make good his engagements, to carry on his trade more briskly, and consequently to put a greater quantity of industry in motion, it would in the same degree diminish the capital of the former, and oblige him to throw labour out of employ. Thus if a wholesale merchant has, at twelve months credit, advanced to his country customers, goods amounting to a sum of money worth 1,000 quarters of corn, and 1,000 yards of cloth; and if money should,

before the time of payment arrives, so increase in quantity and fall in value, that the sum due to the merchant will purchase no more than 900 quarters of corn, and 900 yards of cloth; then it is evident, that his capital will be less by 100 quarters of corn, and 100 yards of cloth, than if no alteration had been effected in the supply and value of money. The country dealers, indeed, procuring for a smaller quantity of goods, the sum necessary to make good their engagements with the merchant, will be able to carry on a more extensive trade, and will have a larger demand for the conveniences of life, but whatever benefit they thus receive will be at the expence of the merchant. His capital, his demand for the luxuries of life will be diminished, and the encouragement which trade and industry receive on one hand, will be balanced by a check on the other."

This objection is plausible--but a slight examination will convince us, that it is neither solid, nor conclusive. If the quantity of money, which is due to the merchant, and which was formerly worth 1000 quarters of corn, and 1000 yards of cloth, be now worth no more than 900 quarters, and 900 yards, then it is self-evident, that, so far, the merchant sustains a loss: but, when we take a more extended view of the question, we find that, for this loss, he receives ample compensation. In the first place, when a great wholesale merchant gives country dealers goods upon credit, he calculates upon the probability, that some of those dealers will be backward in their payments, and that others will be, from misfortune or imprudence, rendered altogether unable to make good their engagements. Now an influx of money, giving a brisker sale, and improving the price of all commodities, would render the backward prompt in their payments,

and enable many of those, who were on the verge of bankruptcy, to retrieve their affairs. Hence, the number of bad debts due to the merchant would be diminished, and he would be indemnified for the reduced value of money, by receiving a greater sum.

But again; an increase in the quantity of money, would enable our merchants to obtain a better price for all the goods he had on hand, and for all those, which, previous to the fall in the value of money, he had ordered from the domestic manufacturer, or the foreign merchant. These improved prices would not only assist him, in discharging whatever money debts he might have himself incurred to his home correspondent, but would, without any injury to his countrymen, enable him to fulfil, upon easier terms, his engagements with foreign merchants, and give him the power of making more advantageous and extensive purchases in

the foreign market. Thus, whatever injury he might sustain, from having the money debts, which might be due to him, reduced in value, would be amply, and more than counterbalanced, by the advantages which an increase in the quantity of the precious metals would confer. His correspondents would be rendered more punctual in their payments--the number of his bad debts would be reduced. He would not only be assisted in defraying his own home money debts, but, at less cost to his country and to himself, he would be enabled to make good his engagements to foreign merchants, and to extend his purchases in the foreign market. Thus, in consequence of an increase in the quantity of money, commerce would become more active, and, in all the departments of industry, the productive powers of labour would be increased.

But there is no unmixed good. Though

the mercantile creditor, no less than the mercantile debtor, would be benefited by an increase in the quantity, and consequent diminution in the value of money, yet all annuitants---all persons who lived upon fixed incomes, would, from this cause, sustain an injury. If I am possessed annually of 100 pieces of gold, and these pieces, in consequence of the influx of the precious metals, lose a portion of their exchangeable value, then I can no longer procure for them the same quantity of the conveniences of life; and, while my nominal income remains unchanged, my real wealth is diminished. This, it is to be feared, is an unavoidable evil; but, fortunately, it is greatly overbalanced by the benefits, which accompany it. The number of persons who hold annuities and fixed incomes, bears so small a proportion to the whole community, that any inconvenience they may suffer, from a fall in the value of money, sinks into insignificance,

may, entirely vanish, when compared with the universal opulence, the general diffusion of happiness arising from augmented trade, and the rise in the wages of labour, which the increased quantity of money is instrumental in producing. Besides, the annuitants or persons of fixed income, finding their places in society perpetually sinking, will be prompted to some species of exertion, in order to avert the evil; and thus the number of idle individuals, who add nothing to the general stock of the society, will be diminished, and industry will receive a two-fold stimulus.

CHAP. IV.

On diminishing the Quantity of Money.

DIMINISHING the quantity of money would produce, on the trade and industry of a country, effects diametrically the reverse of those which have been described in the foregoing chapter. The exchangeable value of every article of human want or desire, is, as we have already shown, determined by the proportion, which exists between the demand and the supply. If, while the demand for any commodity continues undiminished, we effect a diminution in the supply, then the price of this commodity will necessarily rise. This holds good with respect to money, as well as every thing else that is the fruit of human industry, or the object of human

desire. Let a number of persons, possessing annually half a million in the current coin of the country, retire into a foreign land, and take their treasure with them, this reduction in the supply of money would instantly increase its value. The manufacturers and merchants, who had furnished the emigrators with the comforts and luxuries of life, would now be obliged to look for new customers; but, in order to obtain these—in order to induce consumers to quit the houses with which they formerly dealt, it would be necessary for the manufacturers and merchants to hold out some advantages—to reduce the price of their commodities. Other dealers, to retain their customers, would be compelled to do the same, and, from the competition of the sellers, the same quantity of money would exchange for a greater quantity of goods Let us now proceed to examine into the effect which this rise in

the value of money would have on trade and industry.

In the first place, it is evident, that, as the value of money rises, the price of every other commodity must fall. If twenty shillings, which could formerly purchase only two yards of cloth, can now purchase three yards of equal goodness, then cloth has suffered a depreciation, and it will require three yards of it to obtain the same sum which two could formerly obtain. The question, therefore, to be discussed is, What effect will be produced on trade and industry by a general fall of prices.

It is evident, that, when commodities fall in price, the profits of the manufacturer and merchant, who produced and brought them to market, must sustain a diminution; nay, so far from being able to obtain a profit, it may happen

that many of the traders throughout the country may be obliged to dispose of their stock for less than the original cost. This would trench upon their capital; and, if it did not render them completely insolvent, would at least make it more difficult for them to make good their engagements, both to domestic and foreign creditors, and limit their future purchases, both in the home and foreign market. A general stagnation would be felt; the manufacturer would find it impossible to give employment to the same number of hands, as formerly; a diminution in the demand—a reduction in the price of labour, would ensue; industry, in all her branches, would receive a check; subsistence be supplied less abundantly, and the sum of human misery increased!

Objections, in some degree analogous to those, which we anticipated and obviated in the preceding chapter, may here, perhaps, be urged. It may be said, that

sending out of the country half a million in other commodities, would be as injurious as sending away half a million in money, and that the increased value of the precious metals would be as beneficial to the creditor, as detrimental to the debtor.

To the first of these objections I reply, that sending out of the country half a million of commodities would diminish the supply of commodities, and raise their price; and that the rise of prices would give encouragement to trade and industry, and quickly replace the articles that had been withdrawn; while a diminution in the quantity of money would lower prices, discourage industry, and interdict production. The second objection is as easily obviated.--The diminution in the supply of money, which enhanced the value of the creditor's merchants' money-debts, would, at the same time, produce a universal commercial

embarrassment, that would render his correspondents less punctual in their payments, and increase the amount of his bad debts. Besides, all the stock he might have on hand--all the goods he had previous to the fall of prices, ordered from the home manufacturer, or foreign merchant, would lose a portion of their value, and perhaps not sell for their original cost. Thus, whatever benefit he might receive on one hand, would be more than counterbalanced by disadvantages on the other. The only persons whose circumstances could be improved by a diminution in the quantity of money, and consequent rise in its value, would be the holders of annuities and stated incomes: these might enjoy a temporary accession of wealth, amidst the general bankruptcy and pauperism of their country.

The poverty and distress consequent in a diminution of the circulating medium,

the prosperity necessarily connected with an influx of the precious metals, and the want of precision and ambiguity of common language, have all contributed to the popular notion that wealth consists in money. This notion is erroneous. The term wealth is a general term, standing for any article which supplies our wants, or gratifies our desires. Gold and silver, indeed, when considered as articles useful and desirable to man, constitute a species of wealth; but they have no exclusive title to that denomination, any more than corn, or cloth, or any other commodity of necessity or convenience. And when the precious metals are considered as the instrument of exchange, they form no part of the annual income of the community; they are only the agent by which that income is increased and distributed in its proper proportions. In this point of view, gold and silver resemble a high road, or navigable river, which, by facilitating exchanges, and

perfecting the divisions of employment, increases, to an incalculable extent, the mass of wealth,—the quantity of consumable commodities.

But, though the opinions respecting the manner in which money enriches a state, have been in the highest degree erroneous; yet, that poverty and distress follow a diminution of the circulating medium, and that affluence accompanies its increase, are lessons so uniformly and forcibly impressed by experience, that princes and legislators have ever been sufficiently solicitous to retain the precious metals in their respective countries. For several ages, it was a leading feature in the policy of European states, to prevent their treasure from flowing into foreign channels. The statute books of most countries are crowded with regulations and restrictions, which have this object professedly in view. In Spain and Portugal in particular, the utmost

anxiety was shown to render the treasures of the new world exclusively their own; and the exportation of the precious metals was either restrained by heavy duties, or prohibited under the severest penalties.

These restrictions were liable to strong, nay, to insuperable objections. They not only fettered the hands of the conscientious merchant, and so far checked the establishment of divisions of employment, but they were perpetually evaded by the illicit dealer. No sooner did the penalties against the exportation of gold and silver increase the quantity of these metals beyond the measure of the effectual demand, than their value fell, and a temptation was held out for sending them abroad. The smallness of their bulk, in proportion to their value, enabled the smuggler to evade the laws; and, in spite of the prohibitions of the legislature, and of the utmost vigilance

of the magistrate, it was found that no accumulation of treasure could be effected.

Finding it impossible to increase the quantity of money in their respective countries, by prohibiting the exportation of gold and silver, statesmen and legislators next endeavoured to attain this desirable end, by regulating the balance of trade. When a country exports to a greater value than it imports, a debt becomes due to it from foreign states, and this debt must be payed in gold and silver. On the contrary, when imports exceed exports, then a debt becomes due to foreigners, which must, in like manner, be discharged in the precious metals. In the former case, specie is brought into the country, and the balance of trade is said to be favourable; in the latter, specie is sent abroad, and the balance of trade is said to be unfavourable. It therefore became the great ob-

ject of political economy, to prevent, by restraints and prohibitions, the importation of foreign goods ; and, by bounties, drawbacks, and commercial treaties, to encourage the exportation of the products of human industry. But these complicated regulations were just as ineffectual, as the direct restrictions against the exportation of the precious metals. They restrained, and in a thousand ways shackled, that mutual exchange of commodities, which multiply the powers of industry and the wealth of nations ; but in no country did they produce an accumulation of the precious metals. Indeed, unless the commerce of import is totally prohibited, it does not seem within the compass of possibility, to regulate the balance of trade in a manner that will, for any length of time, occasion an influx of gold and silver. Let us suppose that England, by encouragements on one hand and restrictions on the other, has so increased her exports beyond her im-

ports, that the other nations of Europe become her debtors, and balance their accounts by an annual transmission of the precious metals. Now, as the supply of these metals is thus increased, their value will sink, until they will bring a better price in the foreign markets than at home. But when this occurs, no possible vigilance on the part of government can prevent their flowing out of the kingdom. If a guinea, which in London is worth only one and twenty shillings, will fetch five and twenty in Paris, then, in defiance of the most rigid regulations and active police, interested individuals will send it to that place. All the sanguinary laws of Spain and Portugal were inadequate to keep the treasure of these countries at home, when the constant supplies, poured in from the new world, rendered the value of the metals lower in these, than in the neighbouring states, and gave individuals an interest in exporting them.

Prohibiting the exportation of gold and silver, and all the complicated regulations respecting the balance of trade, being found, both from reason and experience, equally inefficacious in producing an accumulation of money, we may, without the hazard of refutation, conclude that the quantity of specie brought into any country, and retained there, can never, for any length of time, exceed the measure of the effectual demand. A sudden influx of money will, as we have seen, improve prices, and promote production; and the wealth, thus brought into existence, will occasion a new demand, both for a medium to circulate it, and for gold and silver ornaments. But when this new demand has been supplied, all the money, beyond what is necessary to meet it, which might have been brought into the country, will be sent abroad, and all the power of the state will be unable to retain it. Hence, the encouragement, which an influx of money gives to in-

dustry, is necessarily of a sudden and transient nature. In a flourishing and prosperous state, the additions made, from time to time, in the volume of circulating medium, resemble the periodical overflowings of a fertilizing river, which aid for a season the efforts of human industry,—then, rapidly subsiding, are, by revolving events, renewed.

But, though governments cannot cause an accumulation of money beyond the limits of the demand, yet, by very rigid regulations, they may be able to create a new and artificial demand for the precious metals. If a country encourage the exportation of its own productions, and prohibit the productions of other countries from being imported in return, then the merchants of this country would have credit on foreign merchants, while foreign merchants would have no demands on them. Now the credits, which one country has against another, are re-

gularly brought to market, and, like any other article, rise and fall in value according to the proportion, which exists between the supply and the demand. This demand is created by the sums, which one country has occasion to remit to another; and, as the country, that prohibited imports, could have little or no money to remit to others for the credit, she might have upon them, there would be little or no demand. These credits, therefore, would necessarily fall in value. Let us suppose, that this fall amounted to ten per cent. and it will follow, that ninety ounces of gold will purchase a credit upon a foreign country for an hundred ounces; foreign merchants, therefore, will be stimulated to export specie, in order to purchase up their depreciated bills, which, when brought home, will furnish so ample a profit. In the country, therefore, which prohibits importation, and thus reduces the value of its credits upon other countries, a new

and artificial demand will be created for the precious metals, and its specie will rapidly accumulate.

Here it may be objected, that the specie thus brought into the country will speedily overstock the market, and sink in value; and that, when it so sinks, individuals will find an interest in exporting it, and it will flow out of the country as rapidly as it came in.—To this objection the answer is short. In order to create an artificial demand for the precious metals, importation must be prohibited: therefore, however cheap they might become, it could not be the interest of individuals to export gold and silver; because, if they did so, they could obtain no return. Leave commerce free, and every commodity will have a tendency to find its level price; and money, in particular, from the ease, with which it can be transmitted from place to place,

will every where preserve a nearly uniform and steady value. But a country that exports, and at the same time rigidly prohibits importation, must be in the constant receipt of gold and silver, and, being unable to exchange it with other countries for an equivalent, may accumulate money to almost any amount she pleases.

Then, accumulation would improve prices, encourage industry, and have a tendency to produce all the benefits formerly described; but then these benefits would be dearly, very dearly purchased. For the interdiction of imports, by which they were procured, would be hostile to the divisions of employment, which are the great sources of national prosperity; and, by encouraging which, money can alone augment our wealth. The country that refused to receive the produce of other countries, could not avail of herself the skill and dexterity

she might have acquired in any particular occupation, and would be unable to cultivate her territory in a manner suitable to her climate, and her soil. The order of nature would be every where inverted, and the earth would refuse to produce half the wealth which she is capable of yielding.

To illustrate this general principle by a particular example, let us suppose, that the country prohibiting exportation, had acquired peculiar skill and dexterity in fabricating silks, and in making gold and silver ornaments; but that, from the habits of her people, and the absence of coal-mines, she was less successful in the manufacturing of hardwares. Now it is evident, that, by confining herself to the occupations in which she is calculated to excel, and exchanging her surplus silks and ornaments with a country, that had, in the manufacture of hardwares, con-

siderable acquired and natural advantages, she could obtain a much greater quantity of knives, forks, and other articles of this kind, than if she attempted to fabricate them for herself; and it is equally evident, that, by refusing to receive goods from this other country, she would be under the necessity of diverting her labour and capital from the manufacturing of silks and ornaments, and compelled to render unavailing the skill her population had acquired in these occupations, and to break up her looms and spinning engines, at great expense, to procure fuel, and to erect the founderies and the forges, and the split-mills, and all the complicated machinery necessary to enable her manufacturers to work successfully in iron.—Again, if the country prohibiting importation be peculiarly adapted for the production of corn and of wine, it is evident, that, by seconding the operations of nature, and ex-

changing her superfluous wine and corn with some other country, that abounds in colonial produce, she will obtain a much greater quantity of the luxuries of life, than if she attempted to force, in her own soil, the productions of the tropics. It is equally evident, that, if she refuse to import from a country possessing colonial wealth, she must, if she would enjoy sugars, convert her corn-fields into plantations of beet; and, if she would consume coffee, stub up her vineyards, for the purpose of cultivating that plant.—The loss of produce, the waste of labour, and the destruction of capital, which such preposterous proceedings must occasion, it is unnecessary to dwell on. All the attempts which have been made, during the darkest ages, to accumulate and retain the precious metals, the unjust and sanguinary laws against the exportation of gold and silver, the absurd and impotent regulations respect-

ing the balance of trade, were wise, liberal, and humane; and inflicted on the deluded people that submitted to them, injuries comparatively slight, when contrasted with the barbarous policy, that would increase the quantity of money, by interdicting importation.

[Faint, illegible text, likely bleed-through from the reverse side of the page.]

CHAP. V.
On the Establishment of Paper Currency.

THE principle, that demand regulates supply, is, like every other general principle, liable to certain limitations. A short examination will be sufficient to convince us, that, though the quantity of money can never, for any length of time, exceed the demand, yet it may very frequently fall short of it.

When we say, there is an effectual demand for any commodity—we mean, that there are in the community, persons desirous of possessing it, and, at the same time, capable of paying the wages of the labour, and the profits of the capital necessary to prepare and bring

it to the market. Now it is evident, that demand must precede supply; that the desire to possess, and ability to purchase, must exist previously to its being the interest of individuals to prepare commodities, and bring them to market. But, as preparing commodities, and bringing them to market, often require very circuitous and tedious operations, demand may exist for a considerable time, before there is a supply to meet it.— Nay, the desire to enjoy any article may cease—the power of purchasing may be lost, before the industry, necessary to produce it, can be put in motion. Hence, we see that, where there is any uncertainty or fluctuation in the demand, the supply may frequently fall short of it. A brisker flow given to trade, or an addition made to the exchangeable commodities of a country, may, at any time, occasion an increased demand for the precious metals, in order to carry on the operations of a more active commerce,

or to give circulation to increasing wealth. But before the additional quantity of specie, which the community wants, and can afford to pay for, can be procured, mines must be opened, or foreign voyages performed. Now while these tedious operations are carrying on, the demand for the precious metals will exceed the supply; and if, in the mean time, the brisker flow of trade subside, or the additional wealth be lost, then it will no longer be the interest of individuals, to bring into the market a greater quantity of specie; the workings of the mines will be discontinued; the foreign voyages interrupted,—and an increased demand for money will have existed, and have ceased, without having ever been met by a corresponding supply.

But the impossibility of keeping the supply of the precious metals, at all times, up to the level of the effectual demand, will probably be better understood, if,

from general, we descend to particular illustration. Let us suppose, that a merchant discovers, that he can obtain a considerable profit, by throwing provisions and clothing into a distant market, and that he has, in his warehouses, property equal in value to the specie, which is necessary to carry his speculation into effect. Here, then, an increased demand for money is suddenly created; but a corresponding increase in the supply cannot be so suddenly obtained. The gold and silver circulating in the country, being already absorbed in the ordinary operations of trade, our merchant will find some difficulty and delay in converting his stock into cash, or borrowing the sum, for which he may have occasion. The new demand for money, which he has created, will, no doubt, enhance the value of the precious metals, and render it the interest of individuals to import them: but, before the industry, necessary to effect this importation, can be put

in motion, the market is, in all probability, lost; and the merchant, seeing his prospect of advantage fade away, is no longer desirous of borrowing money, or solicitous to turn his stock suddenly into cash. Thus, after continuing for a certain period, the increased demand for money ceases, without having effected a similar increase in the supply.

The impossibility, not only of accumulating money beyond the measure of the effectual demand, but of accommodating the supply of the precious metals to the sudden and temporary augmentations, which the demand may, from time to time, experience, would naturally suggest the propriety of employing, on commercial transactions, a substitute for gold and silver. The substitute, which most readily presented itself, was paper credit. Traders, desirous of purchasing goods, and possessing the necessary capital for doing so, finding it impossible

to call in their debts, or to turn their stock into money, with sufficient promptness to carry their speculations into effect, would endeavour to procure the articles they wanted, by giving the owner of them a note or bond, payable on some future day. Now, if the people in the neighbourhood had such confidence in the wealth and probity of the issuers of this note or bond, as to believe they would be able to discharge it, as soon as it became due, the person, who received it, would find no difficulty in paying it away, either in discharge of a debt, or in the purchase of other goods. Thus, this paper security may, for many weeks, circulate from hand to hand, supplying the place of a more expensive instrument of commerce, and of one, too, which could not be supplied with sufficient promptitude to meet a sudden increase on the demand.

As trade extended and confidence

was established, bills of exchange became the principal medium, by which the more distant operations of commerce were carried on. These were found so beneficial, not only in supplying, by a most convenient substitute, the sudden augmentations in the demand for money, but also in obviating the risk, delay, and expence, incident to the transmission of the precious metals, that first the usages of merchants, and afterward the laws of commercial states, encouraged their circulation by peculiar privileges. *A*, a merchant in Bristol, might wish to obtain a quantity of goods from *B*, a neighbouring manufacturer—but might neither have the ready money necessary to make the purchase, nor be able to turn his stock into cash, in sufficient time to meet the opportunities of the market. Now, if it so happened, that the sum which *A* required, was due to him from *C*, in London, and that the money, which *B* asked for his goods, he intended

to remit to his creditor *D*, in the same place—then would *B* be willing to receive in payment a bill of exchange, drawn by *A* upon *C*; as with this bill he could liquidate his debt to his creditor *D*. This operation would benefit all parties. To *A*, the negociation of the bill would answer all the purposes of the money, for which he had an immediate demand, but of which he could not obtain so immediate a supply; to *B*, besides allowing him to sell his goods sooner than he otherwise could do, it would save the expense and risk of transmitting gold and silver to his creditor; to *C*, besides the probable accommodation of having the bill made payable after date, it would save the similar expence and risk of remitting money to *A*; and to *D*, it would procure a more punctual payment, than he could have obtained, if his debtor *B* had not found so ready a sale for his goods. Thus, the bill of exchange acting for a time as so

much circulating medium, and serving as a substitute for the money, for which a sudden demand had arisen, but of which a supply so sudden could not be obtained, would facilitate the operations of trade, and multiply the productive powers of labour.

But to induce him to receive, in payment for his goods, a bill drawn by *A* upon *C*, it is by no means necessary that *B* should have a remittance to make to London; for *E*, *F*, or *G*, may have remittances to make to that place, and, in order to save the risk and expence of making them in money, may be glad to take this bill from *B*, either in discharge of a debt, or in payment for goods. Hence, bills of exchange are perpetually transferred from hand to hand, and, besides serving as circulating medium in lieu of money, become themselves articles of trade, and are regularly bought and sold in the market; their value being

regulated, like that of every thing else, by the proportion, which exists between the demand and the supply.

The circulation of bills of exchange was greatly extended, and their utility, as an instrument of commerce, very much increased, by their being made payable some time after date. *A* might wish to purchase a quantity of goods, which *B* was desirous of selling; but, if *B* had occasion for ready money, and if *A*, though a thriving and opulent trader, could not call in his debts, or dispose of his stock, so as to procure an instantaneous supply of cash, this transaction, though mutually advantageous and mutually desired, never might take place. But if *A* gave a bill, payable at three months, upon a substantial merchant who happened to owe him the money, —and if *B*, from the confidence reposed in the drawer and acceptor of the bill, could readily dispose of it in the market,

—then the obstacle to their dealing would be at once removed. For this bill, being easily turned into cash, would, to *B*, answer all the purposes of ready money; while the circumstance of its not being payable until after the expiration of ninety days, would enable *A* to avail himself instantaneously, of the sum which might be due to him, and to prosecute, what he conceived to be a profitable speculation. Thus, in a country, where credit is understood and established, every debt, which one solvent trader owes to another, may, by making bills of exchange payable some time after date, be transferred from hand to hand, and, as a substitute for the precious metals, supply any sudden augmentation, which may arise in the demand for money.

But the circumstance, that gave bills of exchange the utmost degree of circulation and utility, which they seem capable of attaining, was, the establishment

of banks. The operations of banking, as connected with bills of exchange, are of a two-fold nature. Every respectable banker keeps, in the first place, cash accounts with the banking-houses of the principal leading towns, with which the merchants, in his neighbourhood, have intercourse;—gives bills of exchange, drawn upon these houses, and accepts the bills, which they, in return, draw upon him. By this operation of banking, the debts and credits of different countries, and of different districts in the same country, are balanced without the intervention of precious metals,—facility is imparted to all the transactions of commerce,—and the risk, and expense of transmitting gold and silver, are avoided.

In the second place, banks freely discount good bills of exchange, and, by this means, greatly extend their circulation, and increase their utility. For, though a good bill of exchange will readily

pass in payment, from one merchant to another—yet, in the general market, they cannot enter freely into circulation, nor serve for the small and retail purchases of daily consumption. The holder of many such bills, if he were unable to discount them, might be put to serious inconvenience for the want of small sums of money. But, by the operations of banking, this inconvenience, incident to that of exchange, is completely obviated; and the holder of them, confident that he can answer all calls for small sums, and make what retail purchases he pleases, feels as much security, as if he had cash, to a similar amount, actually in his coffers.

Bankers, at first, discounted bills of exchange in the current coin of their respective countries. But, as the supply of gold and silver is not only kept within the limits of the effectual demand, but is incapable of being accommodated

to the sudden augmentations, which that demand may experience, bankers would frequently be unable to discount the most substantial bills, in coin. An influx of exchangeable commodities, or a brisker flow given to commerce, would increase the number and amount of purchases, and throw a greater quantity of bills into circulation. But, to procure the greater quantity of gold and silver, necessary to discount the augmented amount of bills, mines must be opened, or foreign voyages performed; and, while these tedious operations were going on, the holders of the best bills might be put to very serious inconvenience for want of money. Now this difficulty, in turning bills into cash, would necessarily withhold them from entering freely into circulation, and considerably limit their utility, as a circulating medium.

To obviate this inconvenience, and to obtain augmented profits, bankers be-

gan to discount bills of exchange in their own promissory notes, and thus effected the last improvement, of which paper currency seems susceptible. When the inhabitants of any neighbourhood have such confidence in the honour, fortune, and prudence of any particular banker, as to believe, that he is, at all times, ready to pay, upon demand, such of his promissory notes as are, at any time, likely to be presented to him,—these notes come to have the same currency as money, from the confidence that money may always be obtained for them. Now, though some of these notes would be daily returned to the banker for payment, part of them would continue in circulation for months and years together. Ten thousand pounds would probably be sufficient to answer the casual demands, occasioned by his having an hundred thousand pounds of promissory notes in circulation. By this operation of banking, therefore, ten thou-

sand pounds, in the precious metals, will perform all the functions, which an hundred thousand could otherwise have performed;—bills of exchange may be discounted to almost any extent, and the sudden augmentations in the demand for circulating medium, be instantly supplied.

CHAP. VI.

On the Utility of Paper Currency.

HAVING thus explained the principle which gives occasion to the establishment of paper currency, and traced the steps, by which it has been perfected, we are now to examine the nature and extent of the benefit it confers. In considering the subject in this point of view, the first thing that strikes us is, that paper currency is a much cheaper instrument of trade, than money. Bills of exchange, and the promissory notes of bankers, have scarcely any intrinsic value, and may be fabricated at little or no expense; while coined money, on the contrary, consists of very costly materials, and very curious workman-

ship. When the former, therefore, are substituted for the latter, a very considerable saving is produced. Now it is evident, that every saving, which can be effected in maintaining the circulating medium, will allow an increase to be made on that part of the wealth of the community which is intended for consumption, which feeds and clothes the labourer, and puts industry in motion. For the wealth of every community divides itself into two parts; one of which is appropriated to maintain the fixed capital, the machinery and contrivances for abridging labour, and performing operations which the unaided hand would be incapable of performing; the other part is appropriated to maintaining and increasing the floating capital, by which industry is put in motion, and from which the articles of consumption are drawn. Now as we diminish one of these parts, we necessarily increase the other. The circulating

medium belongs to that part of the wealth of the society, which maintains fixed capital, and abridges labour;—if, therefore, we can, without injuring the productive power of labour, take from the cost of supporting the circulating medium, we add to the articles of consumption, and augment the funds which purchase materials, pay the wages of industry, and increase the revenue of the community.—*A*, the undertaker of a great manufactory, who employs a thousand a year in the maintenance of his machinery, will, if he can reduce this expence to five hundred, employ the other five hundred in purchasing an additional quantity of materials, to be wrought up by an additional number of workmen: so a great country, which expends annually a million sterling in maintaining the circulating medium, if that expence can, without impeding commerce, be reduced to an hundred thousand pounds, will apply the remain-

ing nine hundred in prosecuting new mercantile speculations, which will occasion further improvements in the divisions of employment, increase the productive powers of labour, and augment the public wealth.

It is impossible to ascertain, with any degree of precision, the quantity of precious metals which, at any period, circulate in a country, or the amount of the saving, which might result from establishing a paper currency. Even if we knew the amount of the circulating coin, and of the promissory notes of bankers, serving as substitutes for coin, we could not therefore ascertain the quantity of the precious metals saved by paper currency;—of that currency, the notes of bankers form a small part. In every commercial country, a considerable portion of commercial transactions is effected by bills of exchange; and every good bill, which is received in payment of

goods—every security that passes from hand to hand, supplies the place of money, and enables us to appropriate to consumption, and to reproduction, a portion of the capital, which would otherwise be employed in supporting the circulating medium. Now, when we reflect, for a moment, on the enormous amount of the bills of exchange, and other paper securities, which enter annually into the circulation of a great commercial country; when we consider, that every debt, which one solvent debtor owes to another, may be drawn for by a bill, payable at some future day, and, thus converted into a species of paper currency, ready to supply any sudden demand which may arise for money; we must be struck and astonished at the almost incalculable saving, which is thus effected by erecting and supporting this instrument of exchange. In England, for example, almost every transaction of magnitude is done on

credit; and every credit which stands on the books of a solvent trader, may be drawn for by a bill of exchange, and, on any sudden emergency, enter into circulation, and supply the place of specie. Thus, where confidence is established, and paper securities understood, the whole floating capital of the country may be considered, as one great circulating medium. Debts are balanced; credits are transferred; bills, drawn upon debtors, are exchanged at banks for bills made payable to creditors;—and thus, while the operations of commerce are carried on with increased rapidity, the country is relieved from the enormous expence of collecting and maintaining a circulating medium in the precious metals. To give commerce a degree of facility, equal to that which may be derived from a well-regulated paper currency, would require a quantity of gold and silver, equal to all the sums, in which the solvent traders of the community

are indebted to each other. For, as all these sums may, by means of bills of exchange and the notes of bankers, be brought into circulation, and supply any sudden demand for circulating medium, it would, if paper currency were abolished, be necessary, in order to give similar facilities to trade, that specie, equal in amount to all the bills and promissory notes, which might occasionally be brought into circulation, should, at all times, be retained in the country. This would occasion a fatal diminution in the articles reserved for consumption; and in the fund for the maintenance of labour, commodities, equal in amount to all the bills of exchange and bank-paper, which might, on a sudden emergency, be brought into circulation, would be withdrawn from consumption, and from the purchase of materials and the payment of industry, and sent out of the country to purchase gold and silver. The whole amount of the metals thus

purchased, would be withdrawn from the floating capital, which supplies consumption and puts industry in motion, and added to the fixed capital, without aiding, in any manner, its powers in abridging labour, and in performing operations, which the unaided human hand would be inadequate to perform.

But the question of the utility of paper currency rests not here. We might purchase bullion,—we might withdraw from consumption and the maintenance of industry, floating capital, to the amount of all the notes and bills which might be substituted for money, and add it to the expence of maintaining the circulating medium; but we should be unable to bestow on that medium the convenience and utility, which it derived from being, in a great measure, composed of a paper currency. For, to say nothing of the impediments commerce must sustain from the expence

and risk of transporting the precious metals, if bills of exchange and bank-notes were abolished, the gold and silver which, at so great a sacrifice, we procured to replace them, could not be retained in the country. The merchant, who disposes of goods to the amount of a £1000. and accepts, as payment, a bill of exchange, at six months' date,—will, of course, charge the legal interest on this bill, and have it drawn for £1025. instead of for £1000. If he should have occasion to turn it into cash, the banker deducts the interest; and if he should have no immediate demand to answer, the bill lies in his coffers, and the interest becomes so much clear gain to him. But, if a merchant sells goods to the amount of £1000. for cash, and has no immediate demand to answer, unwilling to let the money lie unproductive in his coffers, he will endeavour to dispose of it to advantage. Now there may already be a sufficient quantity of money in the

market to meet the demand; and this increased supply will, therefore, reduce its value. But as money sinks in value, it becomes the interest of individuals to smuggle it abroad, and no vigilance of the magistrates can prevent its exportation. Merchants will retain good bills, for which they have no immediate occasion; because, by so doing, they profit by the interest, which, in discounting, the banker would deduct, because bills cannot be sent abroad to advantage;—but merchants will not lock up in their coffers any sum in specie, for which they have no immediate occasion; because, by such proceeding, they would lose the interest of their money, and because gold and silver can, at all times, be sent abroad, to seek that profitable employment, which cannot be obtained at home. Hence we see, that a country, which possesses a well-regulated paper currency, will, at all times, have bills in the coffers of its merchant, to

meet any demand for circulating medium; while, on the contrary, a country that transacts its business by means of gold and silver, never can retain a quantity of these metals, adequate to meet the unforeseen emergencies, which the fluctuations of wealth and commerce may occasion.

From what has here been urged, it follows, that a well regulated paper currency confers a two-fold benefit;—it not only saves the expence of maintaining, in the precious metals, an instrument of commerce of similar amount,—but it bestows, upon the circulating medium, an elastic power, which fills up, instantaneously, the vacancies that extending demand occasions. This saving, as we have already sufficiently shown, enlarges, very considerably, that portion of the wealth of the community which supports consumption, and puts industry in motion. But the effect produced on national prosperity,

by bestowing on the circulating medium an elastic power, requires some further explanation.

The benefits conferred by proportioning, with greater promptitude and precision than can be done by means of the precious metals, the supply of circulating medium to the sudden fluctuations of demand, are, in their nature, precisely similar to the benefits conferred by money. Money facilitates the operations of trade, establishes new and more accurate divisions of employment, and multiplies, to an almost incalculable extent, the productive powers of human industry. A well-regulated paper currency does the same. By enabling the merchant to bring his credits to market, and to turn them into a convenient substitute for money, it gives occasion to exchanges, which, without its intervention, could not have taken place:—these new facilities given to trade, enable

each individual to devote himself more exclusively to his particular calling; to husband his time, and acquire increasing dexterity and skill; or, to bestow upon his field that peculiar cultivation, best calculated to co-operate with nature;— and then, new divisions of employment would, in every department of industry, give increasing energy to the productive powers of labour, and swell, from a thousand springs, the stream of human happiness.

The nature of the benefit, derived from a well-regulated paper currency, is sufficiently obvious, and easy of comprehension; but the precise extent of that benefit it would be difficult, perhaps impossible, to ascertain. To calculate the amount of the different paper securities, whether public or private, which, in a great commercial country, serve as instruments of exchange; to examine, with accuracy, how far these paper securities

are calculated to supply the sudden and temporary augmentations in the demand for circulating medium, which cannot be supplied by the precious metals; and to trace out the additional exchange of commodities,—the new divisions of employment, and the increase in the productive powers of labour, incident thereto, are all necessary objects of inquiry, before we can estimate, with any correctness, the extent of the advantage which a country may derive from a paper currency. But, though the precise amount of the benefit cannot be ascertained, its magnitude is sufficient to fill the imagination, and to excite the surprise of all who reflect on this abstruse, but highly important branch of political economy. Though we cannot ascertain the amount of the paper securities which, at any given period, enter into circulation; or calculate, precisely, the new exchanges, the new divisions of employment, and the increased productiveness of

industry, created by these securities—yet, on the most superficial view of the subject, we must be struck with the great, the almost incalculable advantages, which arise from all the sums that, in a great commercial country, one solvent trader owes to another; becoming, in consequence of bills of exchange and the notes of bankers, capable of being thrown into the channel of circulation, and of supplying, as a substitute for money, every sudden increase in the demand for circulating medium. Trade is facilitated in a thousand ways. The great wheel of commerce, revolving unimpeded, with a rapid motion distributes to the members of the community the surplus produce of each other's industry. No man is compelled to waste his time, and throw away his skill, by combining, in his own person, a variety of occupations; or, to cultivate an ear of corn, or a blade of grass, in an uncongenial soil. Labour is abridged and sub-

divided in a thousand ways, and its productive powers are increased; until, to use the words of the great father of political economy, that universal opulence is produced, which confers, on the lowest ranks of the community, a greater share of the necessaries and comforts of life, than is enjoyed by many an African prince, the undisputed master of the lives and fortunes of his people.

These general deductions, respecting the advantages derived from a species of currency, which allows every increase in the demand of circulating medium to be instantly supplied, are amply confirmed by experience. England, the country in which paper currency and credit have been best understood, and most extensively established, has excelled all others in the accurate divisions of her labour, and in the productive power of her industry. Notwithstanding the enormous price of subsistence and of labour, she is

enabled to under-sell all other nations. Pressed by unexampled, by still accumulating taxation, she, notwithstanding, makes perpetual advances in prosperity and in wealth, and even seems to acquire greater energy and vigour from the operations of those enormous burthens, from which her destruction has been so frequently predicted. For every new debt which is created and funded, becomes a species of paper security, which, circulating freely in the market, facilitates exchanges, and, by occasioning more accurate divisions of employment, augments the productiveness of industry; and thus creates a fund for the payment of the interest which it bears

CHAP. VII.

*Disadvantages of Paper Currency.—
Depreciation of Excess.—Remedies.*

HAVING thus explained the nature, and made some rough calculation respecting the extent of the benefit, conferred by paper currency,—I now proceed to enquire into the disadvantages, to which it is exposed. The first thing that strikes us, on contemplating this branch of the subject, is—that paper currency is a less secure medium of exchange, than money. Money possesses an intrinsic value, independent of the authority of the state that utters it, and would continue to circulate, though the stamps affixed by the state, and the state itself were destroyed. Paper currency, on

the contrary, *represents value*, and circulates, from the public confidence, that articles of intrinsic value can, at any time, be obtained for it. Hence, an internal revolution, or the occupation of the capital by foreign troops—circumstances which, from occasioning the practice of hoarding, might increase the value of money—would at once destroy the value of a paper currency. This evil, however, is, in a great measure, counterbalanced by an accompanying advantage. Where a paper currency is established, every class, in the community, has the strongest interest in supporting the government against the shocks of internal commotion, or foreign violence; because all classes, particularly the lower, will have a considerable part of their property in the currency, and any convulsion, which destroyed the value of that currency, would plunge them into the severest difficulties. Hence, the very circumstance, that internal re-

volution, or foreign conquest, would inflict heavier misfortunes on a country, which had a paper currency, than on one, in which the medium was gold and silver, would render these national calamities less likely to occur. For the property of the people, being connected with the maintenance of existing establishments, must necessarily strengthen the hands of government, and render the efforts of the domestic demagogue, or foreign invader, comparatively impotent.

But a paper currency is liable to other inconveniences, which do not, like that just noticed, carry with them their own corrective. Of these, the most to be apprehended, is—depreciation. A country that has, in circulation, a million sterling in money, and four millions in an undepreciated paper currency, will possess a circulating medium, equal, for all the purposes of trade, to five millions in the precious metals. Now, if this paper

currency should, from any cause, suffer a depreciation; (suppose of ten per cent.) then it would be equivalent to no more than 3,600,000 in money. For the 4,000,000 in paper, when thus depreciated, having, in the market, only the exchangeable value of 3,600,000 in gold and silver, could not, in the operations of commerce, act as a substitute for a greater sum in these metals. The instrument of exchange, therefore, while it retained the same nominal amount, would have sustained a real reduction,—would consist of 100,000 in money,—and of a paper currency, representing specie, not to the amount of the 4,000,000 expressed in its denomination, but only to the amount of 3,600,000.—Thus we see, that a depreciation of the currency effects a real diminution in the quantity of circulating medium.

The effects produced on trade, and all kinds of industry, by a diminution in

the quantity of circulating medium, we endeavoured, in the preceding pages, to explain. If the money, circulating in a country, be diminished ; or, if the paper substituted for money, will now act as a substitute for a smaller sum than formerly,—then the supply of circulating medium will be reduced, its value enhanced, and, consequently, the money price of all commodities lowered. But, if the money price of all commodities is lowered, the traders and merchants, who purchased before the reduction in price took place, will be unable to obtain their expected profits ;—nay, instead of obtaining a profit, may sustain a loss, and become unable to carry on their speculations, as extensively as formerly, or to make good their engagements to their correspondents. Now, as mercantile speculations become less extensive, and merchants fail in the punctuality of their payments, the manufacturer experiences a diminished demand for his commo-

dities, and a further reduction in their price. The demand for, and the wages of labour, will be reduced also ; and the labourer, less wealthy than formerly, will be unable to purchase from the farmer, the same quantity of produce. Agricultural profits would, therefore, sustain a diminution ; and, unless the agriculturist was sufficiently opulent, to be independent of the sale of a single crop, for the payment of his rent, this diminution of his profits would affect the income of the land proprietor. Now, as the income of the land proprietor suffered diminution, a smaller quantity of the necessaries of life would be consumed ; the demand for every species of manufactural and commercial industry, would be reduced ; and, by perpetual reaction, decaying trade would depress agriculture, and a depressed agriculture dry up the springs of trade ; until poverty, deppoulation, and all their attendant miseries, spread throughout the land!

The awful calamities, thus necessarily flowing from a depreciation of paper currency, and consequent diminution in the supply of circulating medium, should, in every country where paper enters, in any way, into the channel of circulation, render the legislature peculiarly solicitous to investigate, and to remove, the causes by which such depreciation and diminution are produced. There are three great causes, which, either operating singly or in conjunction, may give occasion to a depreciation of the circulating paper. These are alarm, excessive issue, and an unfavourable course of foreign exchanges. We shall proceed, in the order in which they have been enumerated, to examine the manner according to which they produce their effect; and, as we go on, point out the means by which they may be obviated.

Paper currency represents intrinsic

value, and circulates, from the confidence, that articles, possessing intrinsic value, may, at any time, be obtained for it. This confidence, internal revolution, or foreign conquest, will destroy;—a suspicion, that the government is unstable, or, a doubt, respecting the solvency of the bank,—will weaken. Now, as the destruction of public confidence would completely annihilate the exchangeable value of the circulating paper,—so, by a diminution of confidence, that value would necessarily be diminished; or, in other words, the depreciation of alarm would be produced; the extent of the depreciation being always regulated by the degree of suspicion, which exists, respecting the stability of the government, or the solvency of the banking companies.

When the state is really in danger, or the affairs of the national bank are, in reality, deranged,—then the depreciation

of alarm admits no remedy which political economy can furnish. The cause must be removed, before we can get rid of the effect. A system of judicious measures must ward off the public danger, or an aid be granted, which shall enable the bank to make good its engagements, before the circulating paper can be restored to its natural state. But the depreciation of alarm is frequently occasioned by imaginary dangers, and groundless suspicions, of the solvency of banking companies. Ignorance of the true state of the country, and of the just principles of banking,—or the efforts of the factious, to discredit the measures of the rivals, whom they labour to supplant,—may excite unfounded apprehensions, and weaken the public confidence, which bestows unchangeable value on paper currency. The proper remedies for these evils are, the diffusion of more accurate information and juster principles, and the holding up to merited reprobation,

all those, who would raise themselves into power upon the ruins of public credit. The gloomy and cold-blooded despot; the infuriated and insatiable adventurer, who, without remorse, sweeps away the establishments, under which mankind have long reposed,—has a claim to our approbation and esteem, as valid as his, who seeks reputation or authority by discrediting the currency of his country, and thus diminishing the supply of circulating medium. On the person, indeed, who cries down an established paper currency, under the conviction that it is injurious to the public, we must bestow a mitigated censure. The conduct of such a person admits an excuse; similar to that which might be pleaded for the conscientious bigot, who might imagine, that he was serving God, by destroying the human race.

We are now to examine that depreciation of paper currency, which is occa-

sioned by excessive issue. It is an universally admitted maxim—that, when we increase the supply of any article, without a proportional increase having taken place in the demand, we thereby reduce its value. If, in any country, there are five millions of specie in circulation,—and if, without an augmentation in the demand for circulating medium, bank notes—which, from the public confidence in the wealth and probity of the issuers of them, have the same exchangeable value as specie—are, to the amount of one million, thrown upon the market,—then, in that country, the value of money will necessarily fall. But, as the value of bullion could not, by this means, have sustained a fall, equal to the fall of coined money, it would become the interest of individuals, either to melt down the coin, or to smuggle it abroad. The supply of currency would, therefore, be quickly brought back to the measure of the demand; and the cir-

culating medium would consist of four millions in specie, and one million in paper. Without increasing the demand for currency, let another million of paper be thrown upon the market, and another million of specie will disappear, and the channel of circulation will be filled by three millions in the precious metals, and two millions in bank notes. Repeat the operation, until there are five millions of paper in the market, and the precious metals will totally disappear from circulation, and the whole channel of commerce will be filled up with paper.

So far, no depreciation would have taken place in the paper currency. Five millions, in gold and silver, would have been banished from the market, and five millions in paper would occupy their place; but the quantity of circulating medium would remain the same, and as, by the supposition, the demand re-

mained unchanged, its value could have undergone no alteration.

Very different would be the case, if, after the specie had been completely banished from circulation, another million of paper should be thrown upon the market. This increase in the quantity of currency would necessarily sink its value; and, there being no longer a quantity of specie in the market—by the sudden withdrawing of which, the supply might be brought back to the level of the demand—a permanent depreciation of the currency would take place. The nominal amount, indeed, of the circulating signs, would be increased; but they would cease to represent the same quantity of gold and silver as formerly. The real sum of circulating medium would be diminished; and all the evils, incident to such a diminution, inflicted on the country.

Here it may, perhaps, be objected, that, though throwing an additional quantity of paper into circulation would reduce the value of the currency,—yet it would not reduce it to such an extent, as to cause the six millions of paper to represent a less sum in the precious metals, than the five millions formerly represented. The depreciation, it may be supposed, can extend no further, than to render the six millions of paper of the same exchangeable value, as the five millions before in circulation; and, consequently, that, while the nominal amount of circulating signs is increased, the real sum of circulating medium may remain unchanged, and the country continue exempt from the stagnation and distress, consequent to a diminution of the instrument of exchange.

This objection, however plausible it may, at first sight appear, turns upon a fundamental error. The variations, in

the exchangeable value of any article, are never in proportion to the alterations in demand and supply, by which they were produced. The Dutch frequently destroyed a part of the produce of the spice islands, because the quantity that remained brought a greater price, than could have been procured for the whole; and the most costly commodity in existence, if the supply were sufficiently increased, would possess no more exchangeable value, than the water of the ocean, or the sand beneath our feet. Make guineas, as plentiful as sand upon the shore, and sand will be as valuable as they. Go on, increasing the supply of currency beyond the demand,—and, instead of the greater nominal sum, possessing, in exchange, the same value which the smaller sum formerly possessed,—bank paper will lose its character, as a representative sign, and will be sold as waste paper. This was the consequence of an excessive issue of the assignats of

France; and a similar cause will, in all probability, produce a similar effect on the paper currencies of Denmark and Sweden.

Having thus seen, that an excessive issue of paper produces a depreciation of the currency, which occasions a greater quantity of paper, to represent a less sum, in the precious metals, than a smaller quantity formerly represented; and that, it consequently produces a real diminution in the supply of circulating medium, and brings on the country, all the embarrassment and distress incident thereto,—it remains for us to examine into the means, by which such excessive issue may be prevented.

One effectual method of checking an issue of paper, beyond the demand, is—to do away with any clause in the promissory notes of bankers, and to abolish every regulation, either of the bank, or

of the government, which might prevent the holder of such paper from turning it, at his own option, into cash. Every issue of paper, beyond the measure of the demand, necessarily reduces the value of the currency; and, as the currency is thus depreciated, a guinea, which, as part of that currency, is equivalent to no more than a pound note and a shilling, will, when melted down or exported, obtain a better price. By melting it down, or exporting it, individuals will acquire a profit; and, with a view to this profit, the holder of an hundred and five pounds, in the currency, will exchange his notes at the bank, for an hundred guineas. Hence, the excessive paper will rapidly flow back upon the issuers of it, until the currency is brought within the limits of the demand, and its value restored to the standard of the coin. Besides, while this operation was going on, the quantity of gold, contained in a guinea, would

be worth more than one and twenty shillings. The bank, therefore, obliged to purchase gold at its advanced market price, and to give, in exchange for twenty-one pounds, in its paper, a quantity of metal, which might have cost twenty-five or thirty pounds,—would, on every such payment, sustain a certain loss. While, therefore, the banking companies, which supply the country with currency, pay in cash, depreciation will not only be instantaneously corrected, but the bank creditors, admonished by their private interest, will be ever careful not to overstock the market with their paper.

Thus, it is plainly impossible, that a paper currency, convertible, at the option of the holder, into gold and silver, should, for any length of time, be depreciated by excess. But, though the convertibility of paper into cash, at the option of the holder, be an infallible remedy against this species of deprecia-

tion,—it is a remedy, which is, at all times, attended with some inconvenience, and which, in critical emergencies, may produce far greater calamities, than those, which it is instrumental in averting. When the bank turns its notes into money, at the option of the holder, it must regulate its issues,—not by the demand for circulating medium, but by the state of the bullion market, and the quantity of the precious metals, which it can readily procure, to answer the occasional calls for cash. A real increase may take place, in the demand for circulating medium,—merchants of undoubted credit may apply, to have their bills discounted,—and yet the bankers may be unable, without incurring a greater expence, than the profits on discount will repay, to replenish their coffers with sufficient rapidity, to answer the increasing calls for cash, occasioned by a more extensive issue of their paper. Hence, while cash-payments are in force, bankers will not

unfrequently find it their interest, to refuse to discount the most substantial bills; merchants will be discouraged, by the want of that accommodation, which, under another system, they might obtain; the supply of currency cannot be made, instantaneously, to conform to demand; and the country will lose much of the benefit, which a well-regulated paper currency is capable of conferring.

But this is not the worst. However cautious the directors of a bank may be,—whatever number of good bills they may, from prudential motives, refuse to discount,—yet, if they issue paper at all, they cannot have in their coffers, a pound in gold and silver, for every pound note they issue. The profits of the banker arise from the interest of the money he advances on bills of exchange, and other securities. If, when he discounts a bill for a thousand pounds, in his own notes,

and deducts the legal interest, he be obliged to keep a corresponding sum, in gold and silver, unproductive in his coffers,—he loses, on one hand, as much as he gains upon the other; and all the trouble and expence, attending the issuing of his paper, will bring him in no return. Hence, no bank will discount in paper, unless the paper, which it issues, and on which it receives interest, exceed, in amount, the cash that it is obliged to retain unproductive in its coffers, for the purpose of paying such notes, as may be occasionally presented. But, if a bank have paper in circulation, to a greater amount than the specie it retains in its coffers,—then it is evident, that it cannot, on a sudden emergency, convert its paper into money, at the option of the holder; and that, in the event of a run, it must close its doors, and stop payment.—Confidence will be destroyed; the notes of the insolvent bank will no longer circulate; and the country will

feel all the miseries, attendant on a sudden and extensive diminution of the circulating medium!

Public, no less than private banks, are, while obliged to change their paper into cash, at the option of the holder, liable to embarrassment and failure. By the issue of bank paper, to a greater amount, than the cash retained, to meet occasional demands,—the proprietor of bank stock enlarges his own profits, and confers a considerable benefit upon the public. If it should become necessary, to retain, in the bank, a pound in money, for every pound note thrown into circulation,—then it is evident, that the bank could not extend its discounts, beyond the sum so retained; nor increase the supply of currency, so as to meet any sudden increase in the demand: there would be no inducement, either of private advantage, or of public good, for uttering a paper currency. But, if the

bank issue its notes, to a greater amount than that of the specie it retains in its coffers, (and, if it issue paper at all, it will do so)—then, it is evidently exposed to the hazard of a run; and, however large its capital may be, or, however prudently its affairs are conducted, it may become, for a time, insolvent.

To illustrate what has been said, let us suppose, that the bank of England, in discounting solid mercantile paper, issues notes, to the amount of five millions sterling, and advances to government five millions more, on the credit of certain taxes; and let us further suppose, that the bank has, in her coffers, two millions in specie, to answer the notes occasionally presented for payment; and that, in three months, the sums she has advanced will be returned to her, with the legal interest. Under these suppositions, the affairs of the bank would be eminently prosperous. Its

debts to the public, in the promissory notes it had issued, would amount to ten millions sterling; while the two millions in specie, retained in its coffers, and the mercantile bills and government securities, which, with the legal interest, would be paid in at the expiration of three months, would, in all, amount to twelve millions five hundred thousand pounds. If, therefore, its promissory notes were gradually presented, the bank, thus circumstanced, would, after its debts to the public were discharged, have two millions five hundred thousand pounds in hand. This sum, after the specie, which might have been expended in occasional payments, had been replaced, and, after the cost of the establishment had been defrayed, would be so much clear gain to the bank proprietors. But the case would be widely different, if the promissory notes, issued by the bank, on the credit of mercantile bills and government securities, should be suddenly

returned for payment. Let a doubt arise in the public mind, respecting the stability of the government, or the solvency of the bank; or, let a demand for gold and silver, in the foreign markets, render it the interest of individuals to export the metals,—and the paper issued by the bank, will be rapidly poured back upon it, and the two millions, in specie, reserved for occasional demands, will be speedily exhausted. Thus circumstanced, the bank would be compelled to make extensive purchases in the precious metals. But, as the alarm would lead to the practice of hoarding, or as the foreign demand would occasion the exportation of bullion, its supply would diminish, and its value rise—until the purchases of the bank could not be made, without considerable loss. In such a state of things, her efforts to remove her difficulties would serve but to increase them, and every note, which she withdrew from circulation, would cause those that re-

mained, to return upon her with accelerating rapidity. For her increased purchases of bullion, would be an increased demand for that article; while every payment she makes, would facilitate hoarding and exportation, and reduce its supply. Thus, by a double operation, the value of the precious metals would be increased, and each successive payment be made at greater loss than the former; while the high, and perpetually advancing price of gold, would render the holder of twenty-one pounds, in paper, more eager to convert them into twenty guineas; until, at length, the bank would find it impossible to replenish her coffers, with sufficient rapidity, to answer the increasing demand Then, national bankruptcy must ensue—unless the legislature interfere, and relieve the bank, by a suspension of cash payments!

It being, as we have just seen, impos-

sible, without exposing the bank to insolvency, and bringing on the public the incalculable distress, consequent to a sudden diminution of the circulating medium, to render, in cases of alarm, or of an unfavourable balance of payments, bank notes convertible into cash, at the will of the holder,—the highly important question remains to be considered—Whether there are any other means of preventing, in countries where paper enters largely into circulation, an excessive issue, and consequent depreciation of the currency?

The exchangeable value of paper currency, like the exchangeable value of every thing else, that is brought into the market, is regulated by the proportion, which exists between the demand and the supply. If there is, in the country, a demand for circulating medium, to the amount of ten millions sterling; and if

this demand is accurately supplied by the paper of a bank, known, or believed to possess, in cash, in good mercantile bills, or in government securities, effects to a greater amount than the notes it circulates,—then this paper, whether it is, or is not, convertible into specie, at the option of the holder, will sustain no depreciation. On the contrary, if, while the demand for circulating medium remains unchanged, the supply of paper be increased to eleven millions,—then, though the bank were known to possess effects, to double, or to ten times the amount of the notes it circulated, a depreciation would inevitably take place. Nor, while the supply of circulating medium continued to exceed the demand, could this depreciation be any way corrected, by the bank paper being, at the option of the holder, convertible into cash; for cash itself, when it exceeds the demand, will lose its value

equally with paper. Cash, indeed, from being easily melted down, or exported, can never, for any length of time, overflow the market; and a paper currency, convertible into cash, will, when issued to excess, be quickly thrown back upon the bank, and brought within the limits of the demand. But the exchangeable value, both of cash, and of paper, convertible into cash, must ever be determined by the proportion, existing between the demand and the supply; and, if there are any means, by which a paper currency, not convertible into cash, can be thrown back upon the bank that issued it, as soon as it becomes excessive—then such currency will not, any more than cash, or paper convertible into cash, exceed, for any length of time, the limits of the demand; and the legislature, without degrading it below the standard of the coin, may adopt such restrictions on the bank, as the domestic

situation of the country, or its foreign relations, may render necessary, to the maintenance of public credit.

Now, it will be found, that limiting the issues of bank paper, to the discounting of solid mercantile bills, payable at a fixed and moderate date, is an effectual means of returning all superfluous paper upon the bank that issued it, and of bringing the supply of circulating medium within the measure of the demand. When the bank discounts a real mercantile bill, it does not throw its paper gratuitously into the channel of circulation; it exchanges its notes for a just equivalent,—it supplies a real demand: for the merchant, whose bill was discounted, was desirous of possessing the bank paper, and able to pay for it. Desire to possess, and ability to pay, are all that is necessary to constitute effectual demand. The increased issue of

currency, therefore, occasioned by the discounting of the mercantile bill, could not, in this first stage, overstock the market, and produce depreciation.

But it must not be forgotten, that the increased demand for circulating medium, occasioned by the mercantile bill, would be of a fleeting nature; and that it would cease, after a few commercial operations had been performed. Now, if the paper originally issued, to supply a demand for currency, continues in the market, after the demand has ceased,—then that paper will be excessive. Here, therefore, the utility of limiting the bank, to the discounting of bills, payable at a fixed and moderate date, becomes apparent. The paper, issued upon such discounts, would not remain in the market, after the demand for it had ceased. When it had performed a few mercantile operations, and was about to become

excessive, it would be returned to the bank, in payment of the bill, upon which it had been advanced.

Thus we see, that, if the different banking companies would confine themselves to discounting good mercantile bills, payable at a fixed and moderate date, no excessive issue, or depreciation of paper currency, could take place. For every such bill, brought to be discounted, would constitute a real demand for circulating medium; and, as this increased demand subsided, the increased supply would, in payment of the bill, be thrown back upon the bank. From the bank, a stream would be perpetually poured into the channel of circulation; but, as an equal stream would, as constantly, return from the channel of circulation into the bank, that channel could never overflow. When the issues of banks are confined to the discounting of legitimate bills, of a moderate date,

the payment of these bills produces, on a paper currency not convertible into cash, effects, exactly similar to those, which turning paper into gold and silver produces, upon a currency that is convertible into cash, or which the melting down, and exporting of the coin, produce on a currency consisting in the precious metals,—withdraws from the market whatever is excessive, and speedily reduces the supply of circulating medium, within the limits of the demand.

This doctrine—that there can be no excess of paper currency, as long as its issues are confined to the discounting of legitimate mercantile bills, payable at a limited date—has been strenuously opposed, in the report of the committee, appointed to enquire into the high price of bullion. The report, indeed, acknowledges, that when bank paper is issued in discount of a bill, it constitutes so much capital—so much power of making

purchases, placed in the hands of the merchant who receives it; and that, if these hands are safe, the operation is, in this first step, useful and productive to the public. But the report goes on, and says, “As soon as the portion of circulating medium, in which the advance was made, has performed, in the hands of him, to whom it was advanced, this, its first operation as capital; as soon as the notes are exchanged, by him, for some other article, which is capital,—they fall into the channel of circulation, as so much circulating medium, and form an addition to the mass of currency. The necessary effect of every such addition to the mass, is, to diminish the relative value of any given portion of it, in exchange for commodities. If the addition were made by notes, convertible into specie, the diminution of the relative value of any given portion of the whole mass, would speedily bring back upon the bank, which issued the notes, as

much as was excessive.—But, if by law, they are not so convertible;—of course, this excess will not be brought back, but will remain in the channel of circulation, until paid in again to the bank itself, in discharge of the bills, which were originally discounted.”

In this objection, there is some sound principle, combined with some error. There cannot be a doubt, that bank notes, issued in discount of mercantile paper, must, when they have performed the office, for which they were issued, and supplied a temporary demand for circulating medium, fall into the channel of circulation, increase the mass of currency, and, consequently, diminish the relative value of any given portion of it, in exchange for commodities. It is, also, unquestionably true, that, if these notes are convertible into cash, at the will of the holder, the diminution in their value would cause them to flow back upon the

bank, that issued them. But the next sentence of the report, in which a distinction is attempted to be drawn, between notes convertible into cash, and notes not so convertible, involves a gross contradiction.—“If the notes are not so convertible, of course, the excess *will not be brought back*, but will remain in the channel of circulation, until *paid in again to the bank itself*, in discharge of the bills, which were originally discounted.” . . . However, without waiting to remark upon inaccuracies, or inconsistencies of expression, let us attend to facts, and endeavour to unfold the truth.

Notes not convertible into cash, will, undoubtedly, *remain in the channel of circulation, until paid in again to the bank*, in discharge of the bills, which they discounted. But notes convertible into cash, at the will of the holder, will also *remain in the channel of circulation,*

until they are presented to the bank for payment; and will thus occasion an equal excess in the mass of currency. Nay, more—when notes not convertible into cash, return on the bank, in discharge of the bills they discounted, the excess of circulating medium is at once reduced; but, when notes convertible into cash, are presented to the bank for payment, the mass of currency is not, at once, diminished; for the coined money, given in exchange for the notes, remains in the channel of circulation, until it has been melted down or exported.

I do not mean to contend, that cash payments are not a sufficient remedy to the public, against an excessive issue of bank paper. The contrary, I know, is not only conformable to experience, but is demonstratively true. All that is meant to be said, is, that the argument contained in the bullion report, proves

too much, and bears more strongly against notes, convertible into cash, than against notes, which are issued on solid mercantile paper, payable at a stated and moderate date. Cash payments keep the supply of circulating medium down to the level of the demand, by withdrawing whatever paper is excessive, and causing the coin, issued in its stead, to be melted down, or exported. Limiting the bank to the discounting of bills, payable at a short date, would, by a direct operation, produce a similar effect,—would throw the excess of paper back upon the bank, without drawing from thence, an equal sum in coined money, which, before the mass of currency can be diminished, must be exported or melted down.

As it is of the utmost importance, to ascertain, whether the making the issue of bank notes, for the discounting of mercantile bills, payable at a short date, be a sufficient security for the public,

against an excess of currency; I trust the reader will not deem me tedious, if I examine the question more narrowly, and endeavour to trace it through all its bearings.

Bank notes, advanced on mercantile bills, payable at a short date, do not, in their first operation, increase the supply of currency, beyond the demand: they merely raise the supply to a level, with a temporary augmentation, which, in consequence of the wants of the merchant, the demand has experienced. Neither does it necessarily follow, as asserted in the bullion report, that bank notes, when they have performed their first operation, and acted as capital, in the hands of the merchant,—should increase the mass of currency beyond the demand; and thus lower the relative value of any given portion of that mass, in exchange for commodities. In order to illustrate this, we will suppose, that

a manufacturer has received, in exchange for his goods, a bill for a thousand pounds, payable three months after date; and that, in order to carry on his business, he discounts this bill at the bank. Now, even upon the admission of the report, the bank paper, thus obtained, acts, in the hands of the manufacturer, as so much capital—as so much power of making purchases; and is, in this, its first operation, useful and productive to the public. In its second operation, while passing from the hands of the manufacturer, who had received it from the bank, the notes would be employed, either in purchasing raw materials, or in paying the wages of labour. This would occasion some rise in the price of materials, and of labour; and, as these rose in value, a greater quantity of currency would be required to circulate them. On the other hand, the materials and labour, thus purchased and employed, would increase the sup-

ply, and, consequently, diminish the price of manufactured articles, and, in the general scale, render the necessaries of life cheaper. Thus we see, that, in consequence of this second operation of the paper, uttered in discounting the manufacturer's bill, no rise in the money price of commodities could take place; nor an increased mass of currency be rendered necessary, in consequence of a given portion of that mass having lost a portion of its relative value, in exchange for the necessaries of life.

Again; this bank paper would, in the hands of the dealer and labourer, who had given goods and labour, in exchange for it,—be capital, and power to make purchases, as well as in the hands of the manufacturer, who procured it in exchange, for a mercantile bill;—therefore, it would, so far, be useful and productive to the public: and, should its second possessors employ it in the purchase of

other materials, or in the payment of other labour,—then, though some rise would be effected, in the price of materials, and wages of labour,—yet, the supply of manufactured articles would be increased, and the general market cheapened. Thus we see, that, while the bank paper, advanced on a mercantile bill, continues to be employed, in putting industry in motion,—it is useful and productive to the public, acts as so much capital—as so much power of making purchases; and, instead of producing an excess in the mass of currency, and of reducing the relative value of any given portion of the mass, in exchange for commodities,—supplies a legitimate increase in the demand, for circulating medium, and lowers the price of commodities, by rendering them more abundant.

Here it may be urged, that the paper uttered in discounting mercantile bills,

payable at a short date, will not, on every occasion, be employed in putting industry in motion; and that, all that is not so employed, will be devoted to procure articles for immediate consumption; and thus, by increasing, in its first operation, the money price of commodities, may render an increased mass of currency necessary, in order to circulate them, and may into that mass be itself gradually absorbed.

To this objection, two distinct answers may be given.—In the first place, the great majority of persons, who present mercantile bills for discount, will not squander, in the trade of consumption, the accommodations, which they pay the legal interest to obtain. The desire of bettering our condition, is a general feeling. As Dr. Smith has well observed—The prudent and judicious greatly exceed the thoughtless and profuse; and, though some might be found so

regardless of their interest, as to discount their mercantile bills, for the purpose of indulging in unproductive pleasures; yet the number of these would be too small to produce any perceptible rise in the money price of commodities.

But the most conclusive answer to the above objection—an answer, the force of which does not depend on calculations, or the number of those, who might be inclined to pay discount on mercantile bills, for the purpose of squandering the sums, thus obtained, upon unproductive pleasures,—is, that the bank paper, issued in discounting mercantile bills, payable at a short date, would not, even if employed, in the first instance, in the trade of consumption, remain long enough in the market, to enhance the money price of commodities, and to be consequently itself absorbed into the mass of currency. The paper issued by the bank, cannot enhance the price of com-

modities, while it remains in the hands of the person, who originally receives it. Before it begins to increase the demand, and raise the value of the necessaries of life, it must be brought into the market, and there employed in making purchases. Nor will it, even then, produce any sudden or universal effect upon the money price of commodities; it will only gradually heighten, in exchange for the currency, the relative value of such articles, as it may be successively employed in purchasing.—For example, let a merchant discount a bill for a thousand pounds, and employ the sum, thus obtained—not in extending his business—but in procuring articles for immediate consumption. Now it is evident, that this money, while it remains in the desk of the merchant, can produce no more effect on the market, than while it remained in the coffers of the bank. It is also evident, that the whole sum will not act upon the market at once, but that it

will produce its effects gradually, and as any portion of it may happen to be brought from the desk of its possessor, and employed in the purchase of commodities. This being the case, let us suppose, further, that the holder of the paper takes an hundred pounds from his desk, and gives it, in exchange for clothes, to his tailor. Clothes will, in this case, experience some rise, in relation to currency; but, no other commodity having a like increase of demand, no other will, by this first operation, be enhanced in value. The tailor, who receives the hundred pounds, (for we make the amplest concession to the objectors, and grant that the bank paper will, in all its stages, be employed in the trade of consumption,) will lay it out in some article, which he desires;—let us say, on wine and spirits. These articles, therefore, will experience some increase of demand, and rise of price; and the vender of them, obtaining a brisker sale,

and greater profit, will be enabled to consume an increased quantity of the necessaries of life. These, also, would, in some degree, rise in value; and, in this manner, each portion of the thousand pounds, issued by the bank, as it is gradually brought to market, will pass from hand to hand, and advance the money price of the commodities, which its successive holders may purchase and consume. But, while this increase in the money price of commodities, was successively and gradually produced,—another, and a diametrically opposite effect, would be taking place; for the bill, in discounting which the bank paper was issued, will be falling due, and the person, on whom it was drawn, will find himself obliged to prepare for payment. While, therefore, the consumer, to whom the mercantile bill was discounted, is throwing paper upon the market, increasing the mass of currency, and, consequently, the money price of commo-

dities,—the person, on whom the bill was drawn, is performing a contrary operation—is collecting money, to make good his engagement—withdrawing a portion of circulating medium from the market—and, consequently, reducing the price of the necessaries of life. Nay, it frequently may happen, that, before the consumer, to whom the bill was discounted, has thrown all the paper; thus obtained, upon the market,—the bill may become due, and the amount of it be returned on the bank. But, even were it otherwise—even if all that has been urged, could be shown to be inconclusive—still, it would admit of demonstration, that, confining the issues of bank paper to the discounting of good mercantile bills, payable at a short date, would prove an effectual security to the public, against an excess of currency. After the discount of every good bill, the bank will receive into its coffers, a greater quantity of currency than it issued. For,

in discounting a bill of £1000. payable at ninety days, the bank will deduct the legal interest—will issue only £987 10s; while, when the bill becomes due, it receives £1,000.—and thus withdraws £12 10s. from the mass of circulating medium. Hence, when the issue of bank paper is confined to the discounting of substantial mercantile bills, payable at a short date,—we see, not only that, while the consumer, to whom the bill was discounted, is throwing a quantity of circulating medium on the market, the person on whom it was drawn, is counteracting this effect, by an opposite operation; not only that the mass of currency may possibly be rendered less than formerly, in consequence of the bill being paid into the bank, before the whole of the paper, issued in discounting it, is actually thrown upon the market,—but that it is the constant and necessary effect of this species of issues, to reduce the quantity of currency, by the amount

interest on the sum advanced. This reasoning appears self-evident, in all its steps. If the bank should discount bills, payable at ninety days, to the amount of £100,000. it would, on this sum, deduct the legal interest, or £1250. and its actual issue would be only £98,750; but, when the bills fell due, and the day of payment came, the bank would receive £100,000.; that is, the quantity of circulating medium would be less, by £1250. than it was, before the bank paper had been issued.

In this statement, we have made concessions, which we were, by no means, called upon to make; we have supposed the whole of the bank paper, issued in discounting mercantile bills, to be expended on articles of immediate consumption. This never can take place. That principle in our nature, which renders us desirous of improving our condition, will perpetually prompt the

majority of merchants, to turn to profitable account, the accommodation they derive from banks; and, even if a few improvident traders should be induced to pay interest for the discounting of bills, and then to lay out the sums, thus obtained, in unproductive amusements,—still the persons, who ministered to these amusements, could not be expected to make so imprudent an use of their augmented profits. Every sum, therefore, issued by the bank on good mercantile bills, though it might, in its first operation, be employed in the trade of consumption, would yet, as it passed through the hands of successive owners, be directed to increase production,—would facilitate exchanges—occasion new and more accurate divisions of employment—and augment the necessaries of life. Thus we see, that every issue of bank paper, made on good mercantile bills, payable at a short date, produces a two-fold effect upon the currency;—in

the first place, it encourages industry, and increases the quantity of commodities to be circulated; and, in the next place, in consequence of the deduction of the legal interest, diminishes the medium by which commodities are circulated. Instead, therefore, of producing an excess and depreciation of the currency, the issues of the bank, when regulated by just principles, have a perpetual tendency, both by increasing the demand, and diminishing the supply, to raise the value of the circulating medium. This increased demand and diminished supply, consequent to each well-regulated issue of bank paper, are met by succeeding issues; the interest perpetually becoming due, and paid in upon these; securing the public against an excess of currency, and constituting the banker's profit.

When the bank supplies a temporary demand for circulating medium, by uttering paper, in discount of a real mer-

cantile bill, payable at a short date,—and when, on this demand subsiding, the bank receives, in payment of the bill, which it discounted, not only the sum which it advanced, but also the legal interest on the bill,—it is obviously impossible, that this transaction should render the currency excesssive, or reduce the relative value of any given portion of it, in exchange for commodities. But, though an excess, and consequent depreciation of the currency, cannot be the effects of a single operation of well-regulated banking,—they may, it has been supposed, be the effects of several similar operations, acting successively on the market.

To obviate objections of this nature, it might, perhaps, be sufficient to remark, that the effect of the whole, cannot differ from the joint effects of all its parts; but, as every question relative to currency, is of a nature extremely ab-

stract and obscure, it may tend to a clearer understanding of the subject, if we answer the above question—not by a reference to the general principles of reasoning—but by tracing out the effect, produced upon the market by successive issues of bank paper, in discount of solid mercantile bills.

When the bank discounts a solid mercantile bill, payable at a short date, it supplies a temporary increase in the demand for circulating medium, and supplies it in such a manner, that, as soon as the demand ceases, the increased supply is withdrawn from the market, by the person on whom the bill was drawn, and returned upon the bank;—by this single operation, therefore, of well-regulated banking, no excess of currency can be produced. But if, as the increased demand begins to subside, and the increased supply, which met it, is about to be withdrawn from the market,

the bank should make another issue,—then it is supposed, that the joint effect of these two operations may be an excess, and consequent depreciation of the currency. But here it is obvious, that, if the bank makes a second issue, she will make it, in consequence of a second demand, which, as the former subsided, must have arisen in some other quarter; and that, until this demand has ceased, the supply, which met it, cannot become excessive.

It avails the objectors nothing, to say, that, “before the first issue has been returned upon the bank, succeeding issues of paper are thrown upon the market, and produce a gradual increase in the mass of circulating medium; and, consequently, diminish the relative value of any given portion of that mass, in exchange for commodities.” To diminish the value of any given portion of circulating medium, the supply of that me-

dium must be increased beyond the demand. But, if the first issue of bank paper, as the demand for it ceases, is gradually withdrawn from the market, by the person on whom the bill, in discounting which the issue was made, had been drawn, and, together with the legal interest on the bill, is returned into the bank,—then it is impossible, that any part of this issue should, at any time, raise the supply of currency beyond the demand.

The same reasoning applies to a thousand successive issues. Trace the progress of each from the coffers of the bank, until it returns to those coffers again,—and it will be found to have acted as a temporary supply, meeting a temporary demand—but not to have had, during any period of its course, a tendency to excess. But if, out of a thousand issues of bank paper, not one has a tendency to raise the supply of cur-

rency above the demand,—by what process of reasoning, can it be shewn, that such a tendency belongs to all? A succession of sounds, it is true, produces an effect upon the mind very different, not only in degree, but in nature, from the effect of any of these sounds, taken singly; but then, the agency of each can be traced, in contributing to the combined result. A piece of machinery will perform operations, which have little similitude to the operations of any of its parts; but then the operation of every part, the revolution of every wheel, the action of every pin, can be ascertained, and the manner, in which it aids the movement of the whole, made manifest. On the contrary, it can be demonstrated, that each individual operation of well-regulated banking, has no tendency or efficacy whatever, in producing the effect, attributed to a succession of such operations. Those, therefore, who would have us believe, that, by the suc-

cessive discounting of sound mercantile bills, payable at a short date, the supply of currency can be raised above the demand,—should condescend to point out, that species of chemical affinity, which, on these principles, must exist between the operations of banking, and give to the compound, a property, so different from the properties of its elements.

A rapid increase of paper is no proof that, by the operations of well-regulated banking, the market may be overstocked with currency. This increase may proceed from other causes. Banks may be regulated upon wrong principles, and issue their notes upon improper securities. An increase of wealth will require an increased quantity of currency to circulate it, and to distribute it, in its proper proportions, to the different members of the community. Nay, without any addition being made to the mass of

national wealth, accumulating taxation, by raising the price of all commodities, will require an increased quantity of currency. These growing demands for currency, will naturally call for enlarged issues of paper; but, while the bank confines itself to the supplying of actual demand, and, by discounting nothing but legitimate bills of a short date, supplies it in such a manner, that, as the demand ceases, the supply shall be withdrawn from the market,—then it is not possible, that paper should be uttered to excess; the community may enjoy the incalculable benefits, arising from the supply of circulating medium being instantaneously proportioned to the fluctuations of demand, secure of not suffering the evils attendant on a depreciated currency.

But though the bank, while it confines itself to the discounting of solid mercantile bills, payable at a limited date, can

never issue its paper to excess,—yet, if it should, at any time, deviate beyond this wholesome limit; if it accommodate the merchant, on the security of the goods in his warehouse; if it lend its paper upon mortgage,—then, indeed, it will overstock the market with currency, and produce depreciation. The reason of this is evident. The merchant, who is desirous of obtaining a sum of money, and who has, in his warehouse, goods equivalent to that sum, may be said to possess an effectual demand for it. But this demand is of a temporary nature, and cannot, with safety to the public, be supplied by an issue of bank paper—unless provision is, at the same time, made, that, when the demand begins to cease, the paper, which supplied it, shall be withdrawn from circulation. Now, goods in a merchant's warehouse, though they may be a sufficient security to the bank, for the principal and interest of the sum advanced, are not, like a bill payable at a short date, an adequate se-

curity to the public, against an excess of currency. These goods may lie on hand; and, long before their sale can withdraw the paper, issued upon them from the market, that paper may, in consequence of the cessation of demand, fall into the channel of circulation—increasing the volume, and diminishing the value of the currency.

It is still worse, when banks issue their paper upon mortgage: the long legal process, which must be gone through, before money advanced upon such security, can be recovered, renders it quite impossible, that paper, issued in this manner, should be returned to the bank, as soon as the demand for it has ceased. It must, therefore, in a short time, raise the supply of currency above the demand, and inflict on the country, all the evils incident to depreciation.

It is strongly to be suspected, that the issue of paper upon government secu-

rities, is not a legitimate operation of banking. If the bank make a loan to the state, and this, like other loans, be funded,—it is evident, that no provision is made for withdrawing the increase of currency from the market, as soon as it ceases to be in demand. When the bank advances the amount of certain taxes, it inflicts less injury on the currency; but still the utility of such an operation, is doubtful in the extreme. For, though the produce of these taxes should be adequate, and much more than adequate, to indemnify the bank, for the sums it issued,—yet, these sums might not be returned in sufficient time to withdraw the increase of currency from the market; when, in consequence of subsiding demand, it became excessive.

While cash payments are in force, the interest of the bank will be so identified with that of the public, that no

banker, who possesses a moderate knowledge of his business, would venture to issue notes upon any securities, except those, which provided that the increased supply of currency should be withdrawn from the market, as soon as the demand for it had ceased. For if, while paper is convertible into cash, at the will of the holder, the currency becomes excessive and degraded, then the quantity of gold, contained in a guinea, will be more valuable, than a guinea considered as a part of the currency; and, as soon as this is the case, individuals will find an interest in exporting and melting down the coin. But, when a profit can be obtained, by melting down and exporting the coin, the holder of twenty-one pounds in paper, will be eager to exchange them for twenty guineas. A run will be made upon the bank; and bankers, compelled to give the value of two, three, or perhaps five and twenty shillings, for the quantity of gold con-

tained in a guinea, and to pay that quantity away, in exchange for their notes, at the rate of one and twenty shillings, will be admonished by a fatal diminution of these profits, to desist from uttering paper upon any securities, except those, which provide effectually for their notes being withdrawn from circulation, as soon as the demand begins to cease, and they are about to become excessive.

But, when the internal situation, or foreign relations of a country, demand a temporary suspension of cash payments, then the private interest of bankers ceases to be so closely connected with the public good; and it therefore becomes the business of the legislature to interfere, and to provide; that the operations of banking are confined within their proper limits. Nor could such interference be considered as an infringement on the liberty of

trade. For, if the authority of the state be called in to protect the bank, by a suspension of cash payments, the least that the legislature can do, is, at the same time, to provide, that the bank shall not, in consequence of the protection thus afforded, increase her issues, to an extent injurious to the public.

CHAP. VIII.

Apparent Depreciation.

I HAVE now said all that I proposed, respecting that depreciation of paper currency, which arises from excess. I have endeavoured to show, that, while bank paper is convertible into cash, at the will of the holder, no undue issue, no depreciation from excess, can possibly take place; that, while the operations of banking are confined within their proper limits, and no issues made, except upon substantial bills payable at a short date, there cannot, even when it becomes necessary to suspend cash payments, be a supply of currency beyond the demand; and I have ventured to hint, that the legislature, when it becomes necessary

to restrict the bank from paying in cash, should, at the same time, restrict her from uttering paper, except upon securities, which shall provide, that the notes, thus uttered, shall be withdrawn from circulation as soon as they have answered the temporary demand, that called them from the coffers of the bank.—It is now time we should examine a species of depreciation, very different both in its cause, and its nature.

The rate of exchange, and the balance of payments with foreign countries, must ever have a powerful effect upon the state of the domestic currency. When the bills and various debts, which England owes to the continent of Europe, are equal in amount, to the bills and debts due from the continent to England, then the one balances the other; England has no money to send to the continent, nor the continent to England. But, when the debts which

England owes to the continent, exceed in amount those, which the continent owes to her, then the one no longer balances the other; there are more English bills in the continental market, than it is necessary for the continental merchants to buy up, in order to make good their engagements with this country:—in the continental market therefore, English bills will exceed the demand, and like every other article similarly situated, will sink in value.

Now let us suppose, that the English bills in the continental market exceed the demand to such an extent, that their value is reduced by five per cent.; that an hundred ounces of gold will, in Hamburgh, purchase bills upon London for an hundred and five ounces of gold of equal fineness. The expence of transporting gold to Hamburgh is about one per cent. Under this supposition therefore, any person, who sends an hundred

ounces of gold to Hamburgh, and purchases a bill upon London, will obtain a profit of four per cent. If then the course of business between England and the continent be such, that English bills in the continental market exceed the demand, until they fall in value five per cent.—until one hundred ounces of gold in Hamburgh, will purchase a credit upon London, for an hundred and five ounces of equal fineness;—then, individuals will be powerfully stimulated to send gold out of the country, in order to purchase the depreciated bills of the English merchant—A new demand for the precious metals will be created, while the supply of them will be perpetually diminishing. The market price of these metals therefore, will be raised above the mint price; guineas being more valuable in the state of bullion, than in the state of coin, will be melted down, or exported.

If I have been fortunate enough to express myself with clearness, the reader will now be enabled to perceive the injurious effect, which an unfavourable course of foreign exchange has upon domestic currency. Supposing that this currency consisted wholly in the precious metals, then the quantity of circulating medium would be rapidly diminished, and the country exposed to that mercantile embarrassment and distress, which in the preceding pages of this work we endeavoured to describe. For, if the rate of exchange is against a country,—if a given portion of the precious metals, will in the foreign market, purchase a credit exchangeable on the home market, for a greater quantity,—then these metals will inevitably be exported, and the coined money of the country, being nothing more than certain portions of the metals, with public stamps, certifying that they are of a given weight and fineness, and being liable to all the

accidents incident to the metals, of which it is composed, will be exported also. An hundred guineas purchasing in the foreign market a bill, which, at home, will exchange for a quantity of gold, equal to that contained in an hundred and five guineas,—guineas will, in spite of every regulation to the contrary, be withdrawn from circulation, and sent out of the country. The quantity of circulating medium will be diminished, and its exchangeable value raised; or, in other words—the price of all commodities will fall, and an universal stagnation of trade, and extensive mercantile failures, will be the necessary consequence.

If the circulation of a country were carried on, partly by means of gold and silver, and partly in a paper currency, convertible, at the will of the holder, into these metals,—then an unfavourable course of foreign exchange, and the con-

sequent increased demand, diminished supply, and heightened value of bullion, would be productive of effects, still more deplorable; for the advanced value, given to the precious metals, could not be communicated to the paper circulating with them. Paper could not be exported, to purchase depreciated bills in the foreign market; and, therefore, when compared with coin, would appear to have sustained a depreciation—just as gold, which cannot be sworn off for exportation, has become less valuable, than gold, which can be sworn off. Now, as paper became less valuable than coin, the holders of it would be eager to convert it into cash. A run would be made upon the bank; and, though the bank might have, in landed and government securities, capital to a greater amount than the notes she had uttered; nay, though she had confined herself to the legitimate operations of her trade, and held, in her coffers, good mercantile bills,

equivalent to the whole of her circulating paper,—still she would be unprepared to answer the sudden call, and her affairs would go rapidly to ruin. For, while the bills in her coffers were falling due, the holders of her notes would be eager to profit by the increase of price, in the precious metals, and would demand to be paid in cash. The bank, therefore, in order to make good her engagements, would be obliged to purchase gold and silver at the increased market price, and to issue them, in exchange for her notes, at the mint price; nay, more—as the bank began to purchase gold in unusual quantities, a still further increase would take place, in the demand for that metal, and a still greater advance in its price. Thus, every cash payment would serve but to add to the temptation of exchanging paper for cash, and to increase the run upon the bank.

Nor would the bank proprietors be

the only sufferers, by a course of exchange, so unfavourable, as to induce individuals to export the coin, for the purpose of buying up the bills, which overstocked the foreign market. For the bank directors, finding themselves so embarrassed—finding, not only, that every note they issued, instantaneously returned upon them, but that they were also under the necessity of paying, at the mint price, gold, which they purchased at an increased market price,—would discontinue to discount the most unexceptionable bills. The merchants, consequently, would be unable to obtain the customary accommodation; and this, too, at a period when it was more necessary than ever—when, from the increased price of bullion, and unfavourable course of exchange, they laboured under peculiar difficulties, in making good their engagements to their foreign correspondents. Trade, through all its thousand windings, would receive a

shock; and, unless the legislature interfered, to suspend cash payments, bankers and merchants would be involved in one common ruin!

If the legislature restricted the bank from paying in cash, (and under the circumstances stated, there would be no medium between this measure and universal bankruptcy,) a very important change would be produced on the currency of the country. Supplies of cash no longer flowing from the bank, in payment of her notes, whatever quantity of specie might, during the unfavourable course of exchange, have remained in the country, would now be gradually withdrawn, and the whole currency of the country would consist of paper. It is, therefore, necessary for us to examine the effect, which, a continuance of the unfavourable course of exchange, would produce on this new state of things.

Let us suppose, for the sake of illustration, that there is, on the part of the public, a full and a well-grounded confidence, that the bank possesses effects equal, and more than equal, in value to the paper it has in circulation; and let us suppose, further, that the bank directors understand, and act upon the just principles of their trade. Now, under these circumstances, it is evident, that the value of the circulating paper will be regulated by the proportion between the supply and the demand; and that every temporary increase in demand, being met by a supply, that shall be temporary also, the currency never can become excessive, nor the value of any given portion of it lowered, in exchange for commodities.

Now, let the real course of exchange be five per cent. against the country; let an hundred ounces of gold, in the foreign market, purchase a credit for an

hundred and five ounces, in the home market. Under such circumstances, individuals will be powerfully stimulated to export the precious metals; and, by the double operation of increasing demand, and diminishing supply, these metals, whether in the state of bullion, or of coin, will rise in value. But this can effect no change in the demand for, or in the supply of, the paper medium: * the paper medium, therefore, will preserve its former relative value, in exchange for commodities; while bullion, and any small portion of coin, that may remain in circulation with the paper, will, in exchange for commodities, have

* If any temporary change take place, it will be an increased value of the paper medium. For, if the quantity of goods to be circulated, or the demand for circulating medium continue the same, the abstraction of guineas will have a tendency to raise the value of the whole of the remaining currency, till the vacuum is supplied by an increased issue of bank paper, or the return of the precious metals.

experienced a considerable rise; twenty one one-pound notes will no longer be an equivalent for twenty guineas; and an apparent depreciation of the paper currency will be produced.

From what has been said, I trust it will be sufficiently manifest, that the apparent depreciation of paper currency, incident to an unfavourable course of foreign exchange, differs materially from that species of depreciation, which arises from excessive issue. In the depreciation, arising from the last mentioned cause, the value of the paper is radically reduced; any given sum in it will no longer circulate the same quantity of goods, as formerly. Nay, as when we augment the supply of any commodity beyond the demand, its value is lowered, in a ratio greater than that, by which its quantity is increased,—the whole mass of currency would be unable to circulate the same quantity of goods, which the

smaller mass circulated before: the nominal amount would be increased; while the real quantity and power of the circulating medium would be diminished.

On the contrary, in the apparent depreciation, occasioned by an unfavourable course of foreign exchange, the value of any given portion of the currency, in exchange for commodities, would remain unaltered. A thousand pounds, in the currency, would circulate the same quantity of wealth as formerly; and while the nominal value of the circulating medium, when computed in coined money, would be reduced,—its real quantity, its real powers in making purchases, and in facilitating the divisions of employment, would, in all domestic transactions, have undergone no change. With respect to the operations of foreign commerce, indeed, the quantity of the circulating medium would be diminished. Bullion is the universal

instrument of trade—the circulating medium of the world. If the merchant receives his profits, in a currency undepreciated, with respect to the domestic market, but for which he can procure only a reduced quantity of bullion,—then, in the foreign market, his power of making purchases will be diminished, and, in fulfilling any engagements he may have with foreign merchants, he will sustain a loss. Now, as the merchant sustained a diminution of his profits, and hence became embarrassed, the manufacturers and home dealers, with whom he might have transactions, would suffer also, and a general stagnation and distress would be experienced by the mercantile community. Finding it difficult to make good their engagements, many would be eager to sell, and few disposed to buy; the market would become glutted with commodities, and an universal fall of prices would ensue.

The evils we have thus briefly attempted to describe, though of a most serious and alarming nature, are, by no means, the only ones to be apprehended from an apparent depreciation of the currency. The difficulties of the country, in providing for its foreign expenditure, would be increased, exactly in the same manner as the difficulties of the merchants, in making good their foreign payments. As it requires a greater quantity of commodities, and a greater sum in the currency, to purchase the precious metals, a larger revenue will be necessary, in order to meet the foreign expences of the nation; nor can this inconvenience be obviated, by sending bills abroad, instead of bullion. For, when the currency sustains an apparent depreciation, then will our bills overstock the common market, and be depreciated also. An increased amount in them must, therefore, be employed; and thus, in proportion, as the

value of bullion is raised in the home market above the currency; or, in other words, as our paper experiences an apparent depreciation, an increased taxation becomes necessary, in order to maintain our foreign relations.

But this is not all; as the actual value of our currency differs from the standard of our coin, and as a general stagnation and embarrassment are felt in the commercial world, confidence receives a shock, and a real depreciation, arising from alarm, may be added to the apparent, occasioned by an unfavourable course of exchange, and the consequent high price of bullion. If, in this state of things, any of the banking companies had departed from the just principles of their trade; or any leading political character should, either from a misconception of the subject, or from party-spirit, endeavour to decry, or to subvert the paper system,—then might the most

serious calamities be apprehended, and the wealth and prosperity of the country receive a blow, from which it would be impossible for them speedily to recover. Perhaps there is not, throughout the land, an individual, with nerves sufficiently firm to contemplate, and to trace out, though all its ramifications of misery, the tremendous shock, which a sudden subversion of our paper system would occasion.

Having thus endeavoured to explain the evils, arising from an apparent depreciation of the currency, I now proceed to point out the means of removing it. Apparent depreciation is occasioned by a balance of debt, being due to foreign countries; overstocking these countries with bills; and, consequently, in the home market, increasing the demand for the precious metals, and diminishing the supply. Whatever, therefore, clears off, or prevents the accumulation

of foreign debts, will stop the exportation of the metals, increase their supply, bring them back to their level price, and restore the currency to the standard of the coin.

Except that very small portion, arising out of the rent of land, and the profits of stock due to absentee proprietors, the debts, which are incurred to foreign countries, proceed from foreign expenditure, and an unfavourable balance of trade. If the unfavourable balance of payments and course of exchange, arise out of foreign expenditure, in order to improve our domestic currency,—we must diminish the expence of supporting fleets and armies abroad; we must desist from subsidizing other countries, retrench the establishments of ambassadors and agents, and thus bring that foreign expenditure within more reasonable bounds.

If the unfavourable balance of payments and course of exchange, be occasioned by the balance of trade being against a country,—then the easiest and most obvious means of correcting the apparent depreciation of the currency, is, to leave commerce free : when there is no restriction on the interchange of commodities, all things find their level price. When the balance of trade is unfavourable, the metals are exported, and, in the home market, rise in value; or, in other words, commodities, in the home market, fall in price; while, in the country, where this balance is favourable, money will become cheap, and commodities dear. Now, as commodities become cheap at home, and dear abroad, exportation will increase; while, as the overflow of the metals on foreign markets, raises prices, foreign articles will be consumed less abundantly, and importation will diminish. By this opera-

tion, therefore, the debts incurred to foreign countries, will be balanced, without the transmission of the metals; nay, the course of exchange will be rendered favourable—until the specie, carried out of the country, is restored. Thus, while trade is left free, gold and silver will have a perpetual tendency to distribute themselves, among the different countries of the world, in the proportions marked out by the demand; and cannot, for any length of time, be much dearer in one market, than in another. But, when gold and silver are distributed, in the proportions marked out by the demand, and cease to be dearer in the home, than in the foreign market,—then are they brought back to their natural and level price, and the evil of, an apparent depreciation of the currency, is removed.

The freedom of trade is an effectual

remedy against apparent depreciation; but it is a remedy, which cannot always be applied. Unfortunately for mankind, the manner, in which commerce enriches a nation, is so little understood, that princes and legislators frequently seek to augment the wealth of their respective countries, by restricting, or prohibiting their people from establishing the foreign divisions of employment, and making the most of their acquired and natural advantages. While such wretched ignorance presides over the councils of the majority of nations, little benefit can arise, from a particular country acting upon principles, more enlightened and enlarged. When any country of Europe is unwise enough to combine against the prosperity of a neighbour, whom it envies, and encourages exportation to her, while it refuses to receive her merchandize in return,—then the nation, against whom the combination is made,

has nothing left, but to choose between two evils—Whether to retaliate upon her enemies their own barbarous policy, and close her ports against their produce; or else, to acquiesce in an apparent depreciation of their currency.

END OF THE FIRST PART.

PART THE SECOND.

CHAP. I.

Application of the foregoing Principles to the present State of the Money, and Currency of this Country.

HAVING, in the former part of this work, explained the principle, which gives occasion to the establishment of a paper currency—traced the manner, in which such currency aids the productive powers of industry, and pointed out the means, by which its inconveniences may be obviated,—it now remains, that we bring our general reasonings to the test of experience, and try whether the principles we have en-

deavoured to establish, will afford a satisfactory explanation of the facts, which the present state of our currency exhibits.

In the year 1797, an unusual and long protracted demand was made upon the bank of England for gold. The directors of that institution, finding that, lessening their issues of paper, a measure, which all their past experience had taught them to consider, as an effectual measure of checking, and of stopping the demand for gold,—not only failed of producing the expected effect, but served to increase the run, at length resorted to the legislature for relief. The remedy, which, in this state of affairs, the legislature applied to the difficulties of the bank, and of the country, was an act, for the temporary suspension of cash payments.

From 1797 to 1802, a period of five

years, the bill for the suspension of cash payments, was continued; yet it is, on all hands, admitted, that, during this time, no depreciation of the currency took place, and no material or permanent fall in the course of foreign exchange. Bank notes were equivalent to coin; and an hundred ounces of gold, in the foreign market, would not have purchased a credit upon the home market, for a greater quantity of that metal.

In the years 1806, 1807, and 1808, gold, which, by the regulations of his Majesty's mint, is £3 17s. 6½d per ounce, became as high as £4. in the market. Towards the latter end of the year 1808, the value of gold rose very rapidly—the market price of that metal being about 15½ per cent. above the mint price. In the beginning of the year 1809, the first remarkable depression took place in the foreign exchanges; and, about the same

time, gold, which could be sworn off for exportation, brought, in the market, three or four shillings an ounce more than gold, which could not be legally sent out of the country. The precious metals, whether in the form of bullion, or of coin, were, to a considerable extent, sent out of the country; and, through all the departments of commerce, unusual embarrassment was felt.

These are the leading facts, which our circulating medium, at this time, exhibits; and any theory of money and of currency, which does not afford a satisfactory explanation of them, must be erroneous, or incomplete. If the principles, we endeavoured to unfold in the former part of this work, are irreconcilable with such a state of things, they can, at the present crisis, be of no practical utility; and, however ingeniously they may be argued, will be liable to the uncertainty, and received with the

distrust, which accompanies a theory, not substantiated by experiment. But, on the contrary, if the general principles of money and of currency, which we have attempted to expound, are applicable to passing events, and afford a full and satisfactory explanation of the circumstances, connected with the present state of our circulating medium,—then, a knowledge of these principles cannot fail to be of the highest utility, and the reasoning, by which they are supported, will receive all the sanction of experience.

In the former pages of this work, I brought forward several arguments, to prove, that, limiting the issue of bank paper to the discounting of legitimate mercantile bills, payable at a short date, is a sufficient security to the public, against an excess of currency. Now, is this principle conformable to experience?—does it furnish an explanation of any

facts, recently exhibited by the circulating medium of this country? In the year 1797, the bank was restricted from paying in cash; and, until 1802, no difference took place, between the value of the currency, and the standard of the coin. For five years, therefore, there was no excess of paper; for five years the bank, by limiting its issues to the discounting of good bills, payable at a short date, kept the supply of currency within the measure of the demand. This period too, was a period of unusual difficulty and alarm, and pregnant with events, calculated to discredit any currency, that was not regulated by the soundest principles. But what shews, in a still stronger light, the practical utility of limiting the issues of the bank, in the manner just mentioned, is, the following important fact—that though, during this period, we have reason to suspect, that, in some of the advances, which the bank made to government, it was not provided,

that the increased supply of currency should be withdrawn, as soon as it began to be excessive,—yet, that no depreciation whatever was experienced; for, on every mercantile bill becoming due, the bank received into its coffers a greater sum, by the legal interest on the bill, than it had issued; and thus perpetually drew off whatever excess of currency might have been produced, by advancing to the government the produce of the taxes. If limiting the issues of paper to the discounting of good bills, payable at a short date, be not a sufficient, and even more than sufficient, security against an excess of paper,—how can it be accounted for, that, during five years of unexampled difficulty and danger, and when the bank may even be suspected of having, in some instances, departed from the just principles of her trade, no overflow, or depreciation of the paper currency, took place. The undepreciated state of our

currency, from the suspension of cash payments, in 1797, to the year 1802, is a most important fact; and a fact, too, which seems incapable of explanation, except upon the principle, that the practice of the bank, in limiting its discounts to mercantile bills, is a full security against the excess of paper.

While examining that difference, between the value of the currency and of the coin, which we have denominated apparent depreciation,—we endeavoured to establish the principle, that a rise in the value of the metals, which cannot be communicated to the paper circulating with them, is the necessary consequence of a large, foreign expenditure, and unfavourable balance of trade. Is this principle conformable to experience?—does it afford an explanation of particular facts? In the year 1809, the war on the peninsula, increased our foreign expenditure to a large amount; and Napo-

leon's interdictions, against our commerce, compelled us to pay, in cash, for the greater part of the foreign articles we consumed. Accordingly, we find, that, in the year 1809, the course of foreign exchange became very unfavourable; the metals, whether in the state of bullion, or of coin, experienced a sudden rise of price; specie was sent abroad, to a large amount; bullion, that could be sworn off for exportation, became more valuable, than bullion which could not; and our currency and our commerce exhibited all the facts, which, in our general reasoning, were shewn to be connected with an unfavourable balance of payments, and course of exchange.

But, though the principles we have unfolded, can be supported by a train of reasoning, which seems self-evident in all its steps; though they receive the fullest sanction from experience, and afford the most satisfactory solution of the various

facts, connected with the present state of our circulating medium,—yet, strange as it may appear, a gentleman of great experience and abilities, has vehemently contended, that the balance of payments, and unfavourable course of exchange, afford no explanation of the difference, which exists between the value of our currency and the standard of our coin: but the refutation of his arguments must form the subject of another chapter.

CHAP. II.
On Mr. Huskisson's Pamphlet.

BEFORE we proceed to examine Mr. Huskisson's doctrine, respecting the balance of payments and foreign exchanges, it may be proper to notice some preliminary observations, by which he endeavours to prove, that the difference, at present existing between our currency and coin, arises from an excessive issue of bank paper.*

In the first paragraph of his pamphlet, Mr. Huskisson tells us, that "the va-

* The increased issue of bank paper, which has taken place since the passing of the restriction bill, is no proof whatever of excess. The vacuum, left by the subtraction of guineas, must have been filled up by paper; and every tax, that increased the price of commodities, would require an increase of currency to circulate them.

rious definitions of the word money, and the different acceptations, in which that word is used, in the ordinary transactions of life, have contributed to produce much of the doubt and uncertainty, which prevails, at this moment, respecting the state of our currency."

This is, indeed, true; yet the definition of the term money, which Mr. Huskisson has himself given, is not calculated to remove the doubt and uncertainty, of which he complains; or, however great his talents for business and detail may be, to impress us with the idea, that he has brought, to the discussion of this very difficult subject, a mind, sufficiently habituated to abstract and profound speculation.—"Money," he tells us, "or a given portion of gold and silver, is not only the common measure and common representative of all other commodities—but is also the common and universal equivalent."

Here a part is evidently mistaken for the whole—the species substituted for the genus. Money is any article, possessing intrinsic value, which the common consent of mankind has rendered the measure and the equivalent of other commodities. Gold and silver are, in civilized countries, the articles, at present, appropriated to measure the value of, and to pass as an equivalent for, other articles. Gold and silver are, therefore, money; but it does not follow, that money is gold and silver. A man is an animal; yet what should we think of the naturalist, who defined an animal to be a man?

To those, who are unaccustomed to consider the relation, which a species bears to a genus, or a genus to a species, it may, perhaps, be more intelligible to observe, that Mr. Huskisson's definition excludes many articles, which actually have been, and many more, which pos-

sibly may be, rendered, by general consent, the common measure of value, and the universal equivalent. By this definition, the iron currency of the Spartans; the As, or pound of the Romans; and even our own copper coins,—are not to be considered as money: and if the celebrated Mr. Davy should discover a substance, not metallic, which, from the greatness of its value, in proportion to its bulk, from its divisibility and durability, should be considered preferable, as an instrument of trade, to the metals, and become, throughout the civilized world, the measure of value, as well as the universal equivalent,—still it could not, according to the above definition, be denominated money. This definition would answer tolerably well, not for stamped metals in general, but for gold and silver coin: as applied to *money*, it is, in a high degree, narrow and incorrect.

But Mr. Huskisson has not only shown,

at the commencement of his pamphlet, that he is deficient in those habits of generalizing, which are necessary, in order to give a just definition of an abstract term,—but, with respect to facts and detail, he sometimes falls into inaccuracies; to which, from his official habits, we might imagine him less exposed. He says—“A pound, or twelve ounces of gold, by the law of this country, is divided into forty-four guineas and a half, or £46. 14s. 6d. By this division, which is made at the public expence, and without charge for coinage, nothing is added to the value of the gold, and nothing taken away from it. A pound of gold, therefore, and £46. 14s. 6d. being equivalent—being, in fact, the same thing under different names, any circulating credit, which purports to represent £46. 14s. 6d. ought, by the law of this country, to be exchangeable at will for a pound of gold.”

This passage contains a strange mistake! A guinea is a *gold* coin; a pound is a denomination, which formerly stood for a real pound weight of *silver*, but which, in consequence of repeated frauds and deterioration, now stands for the much smaller quantity of silver contained in twenty shillings, fresh from the mint. Therefore, forty-four guineas and a half are not identical with 46*l.* 14*s.* 6*d.* The former are a pound weight of coined gold; the latter stand for that quantity of silver, which, by the regulations of the mint, is contained in 934½ shillings. It may consequently, very frequently happen, that a credit, which represents 46*l.* 14*s.* 6*d.* cannot be exchangeable at will, for a pound of gold. An increased demand, or diminished supply of silver, may render 46*l.* 14*s.* 6*d.* equivalent to eighty-nine guineas; and, on the other hand, an increased demand, or diminished supply of gold, may render 46*l.* 14*s.* 6*d.* equivalent to no more than

twenty-two guineas and a quarter, or to half a pound of gold. Mr. Huskisson, indeed, has stated the regulations of the mint correctly; but these regulations, when they do not conform to the actual relative value of the metals, are nugatory and absurd.

Again; "The sum of 46*l.* 14*s.* 6*d.* in our present paper, will procure, in exchange for gold, only ten ounces and a quarter of that metal. A pound of gold is now exchangeable for 56*l.* in paper currency. Any commodity, therefore, which is equivalent to a pound of gold, is also equivalent to 56*l.* in paper. It follows, that the difference between 56*l.* and 46*l.* 14*s.* 6*d.* or between twelve and ten ounces and a half of gold, arises from the depreciation of the paper, and is the measure of that depreciation, as well with respect to gold, the universal equivalent, as to every other commodity."

Pleased with having produced so fine a piece of reasoning, Mr. Huskisson proceeds, in the language of triumph: "Those who differ from me in opinion, must be prepared to deny some one of these facts, from which, if not disproved, the conclusion necessarily follows:—they must either shew, that I have misstated the permanent laws of the realm, which regulate our coinage, and determine our legal tender; or, they must shew, that gold is not the basis of our money; that its value is not measured by its quantity; that the value of that quantity is varied, by its conversion into coin. But these are propositions, which no man, who has ever looked at the subject, will attempt to maintain."

After having assumed so confident a tone, Mr. Huskisson will, no doubt, be surprised to find, that, without maintaining one of these propositions, his conclusion may, in an instant, be overthrown;

and overthrown, too, by those very facts, from which, as he asserts, it necessarily follows! Gold is the basis of our money; and the value of gold is measured by its quantity. Diminish the supply of this metal, until its relative value, in exchange for all other commodities—silver, of course, among the rest, is doubled; and a pound of gold, or forty-five guineas and a half, will be equivalent to the quantity of silver contained in one thousand eight hundred and sixty-nine shillings, and represented by 93*l.* 9*s.* of the paper currency. Now this difference, in the relative value of gold coin, and the silver and paper currencies, could not possibly arise from the depreciation of these currencies; for a shilling in either, though it is changed for a smaller quantity of gold than formerly, would purchase exactly the same quantity of every other article. In like manner, if we diminish the supply of silver, as well as of gold, until its value, in exchange for all

commodities, is also doubled, and the quantity of metal contained in nine hundred and thirty-four shillings, or in 46*l.* 14*s.* 6*d.* will be equivalent to one thousand eight hundred and sixty-nine shillings, or 93*l.* 9*s.* in paper currency; but it is quite impossible, that this difference, between the value of the coined metals, and of the paper currency, should arise from the depreciation of that currency; for bank paper, though apparently depreciated, when measured by the standard of the metals, would, when compared with commodities, retain its full exchangeable value, and, in the operations of domestic trade, perform all the functions, which it could have performed, before it ceased to be, in consequence of the diminished supply of gold and silver, equivalent with the coin. . . . So much for the doctrine, that a considerable, or durable increase in the price of the precious metals, cannot be

ascribed to any thing, but the depreciation of the currency!*

It is now time to examine that part of Mr. Huskisson's pamphlet, in which he attempts to prove, that the difference between the value of our currency and of our coin, cannot be accounted for by the course of foreign exchange. He sets out with assuming, as an universally admitted fact, that the real depression of exchange, can never exceed, for any length of time, the expence of transmitting bul-

* During the American war, and in the year 1797, before the restriction act passed, there was a very considerable increase in the price of the precious metals; yet no depreciation of the paper currency took place -- because, at these periods, the bank paid in cash, and a pound note and a shilling were, at the will of the holder, exchangeable for a guinea. Thus, our past experience demonstrates, that the value of the metals may increase, without that of the paper medium being diminished: and the argument of those, who, from the heightened market price of bullion, would deduce the depreciation of the bank note, falls completely to the ground.

lion, from the debtor to the creditor country. This is a vague supposition, as inconsistent with reason, as it is contradictory to experience. In the science of political economy, there is scarcely any principle, which admits a clearer demonstration, than that the depreciation of foreign exchanges may, for almost any length of time, exceed the expence of transmitting bullion.

Let us suppose, for the sake of illustration, that the course of exchange, between England and the continent, is three per cent. against England; and the expence of transmitting bullion from England to the continent, is one per cent. Under such circumstances, the person, who should send the precious metals out of England, for the purpose of buying up her depreciated bills in the foreign market, would gain a profit of two per cent. This would induce individuals to export the metals; for, as Mr. Huskisson

has justly observed, though the profit might be small, the return would be quick and certain. Gold and silver would flow out of the country; while the demand for these metals was increased, the supply would perpetually diminish, and their value, from a two-fold cause, would be enhanced. Now, as the metals became dear in the home market, their exportation would be checked. Supposing, that, by the double operation of increasing demand and diminishing supply, the price of bullion should rise two and a half per cent. above their price on the continent, where the supply, in consequence of the favourable course of exchange, had been gradually increasing,—then it follows, that the person who continued to export bullion, would lose one half per cent. For, if the expence of transmitting the metals be one per cent. and if they be two and a half per cent. cheaper in the foreign, than in the home market,—then, the loss in export-

ing them, will amount to three and a half per cent.; while, if the course of exchange be only three per cent. against the country, three per cent. will be the utmost that can be gained, by purchasing up the bills, which overstock the foreign market. On the whole transaction, therefore, of sending gold and silver abroad, in order to purchase depreciated bills, the loss of half per cent. would be sustained. Thus we see, that the depression of the foreign exchange, cannot be regulated by the expence of transmitting the metals; for the high price of bullion in the home market, which an unfavourable course of exchange is sure to produce, prevents the debts, due to other countries, from being liquidated by its exportation.

In vain may it be objected, by those who maintain, that the depression of exchange cannot exceed the expence of transmitting bullion; that, when a given

quantity of gold can purchase, in the foreign market, a credit upon the home market for a greater quantity,—then, it will be the interest of individuals to export the precious metals, though more valuable at home than abroad. For, as gold and silver become dear, commodities become cheap, and individuals find a greater interest in exporting them, than in the exportation of the metals. Supposing, that, in the English market, gold and silver experienced a rise, and cloth and sugar a fall, of three per cent.—the possessors of the metals, who wished to speculate in bills of exchange, would be encouraged to purchase, in the first instance, cloth and sugar, and then to send these articles abroad, for the purpose of buying up the depreciated credits upon England. Hence, when an unfavourable balance of payment heightens the value of the metals, in the same market, (and it must ever do so,) the extent of the depression of the exchange

will be regulated—not by the expence of transmitting bullion, but by the expence of transmitting commodities.

But, even supposing that the scarceness and increasing value of the precious metals, could not check their exportation,—still it would by no means follow, that the unfavourable course of exchange could not, for any length of time, exceed the expence of transmitting bullion, from the debtor to the creditor country. If an unfavourable balance of trade, subsidies to foreign powers, or maintaining fleets and armies abroad, should overstock the continental market with English bills, to the amount of 100,000*l.* the exchange would be immediately turned against us: at first, our gold and silver would be sent abroad; and then, as these metals became scarce and dear, exportation would be encouraged, and importation diminished, until the 100,000*l.* due to foreign countries, should be discharged.

But if, while the liquidation of the original debt was going on, we continued to subsidize foreign powers, and to maintain armies and fleets abroad, and incurred a new debt of similar amount,—then, it is plain, that the exchange could not have been improved. One debt would have been liquidated—another would have been incurred; and, if the debts thus perpetually growing due, should continue to force exportation, our commodities, glutting the foreign market, would not bring so large a sum as a smaller quantity of them formerly brought, and the exchange would be injured; not improved.

Having assumed a false principle, Mr. Huskisson attempts to refute one, which is demonstratively true, and denies, that, when the course of exchange is unfavourable, the account is balanced, by a payment in the precious metals. The reason, on which he founds his ob-

jection, is not a little curious:—“ Because there is no one article of general consumption and demand, which forms the foundation of so few operations of trade, between the different countries of Europe, as bullion.” Now, it is undoubtedly true, that, when compared with other commodities, bullion forms the foundation of few mercantile operations, and for the obvious reasons, that it is a scarce commodity, and that it is not a perishable one, requiring to be periodically supplied. But what possible connection this can have with the question before us, I am at a loss to discover. Because corn and wine, and hardware and cloth, are more frequently exchanged between nations, than gold and silver, does it therefore follow, that foreign debts are not discharged by the transmission of cash? We are not endeavouring to ascertain the degrees and proportions, in which the different commodities of the world form the founda-

tion of commercial transactions; we merely want to know, whether, when one country owes a thousand pounds to another, the amount of the debt will be remitted in merchandize, or in money. A little further on, Mr. Huskisson has himself admitted, that it will be remitted in money. He tells us, "If, indeed, the fall in the real exchange exceeds the limits, which are confined to the actual expence of transmitting bullion, from the debtor to the creditor country, particular individuals will export bullion. They will be induced to do so, by a profit, much smaller than what would tempt them to a speculation in any other merchandize—because such profit, however small, is, in this case, quick and certain." This is all that can be required by those, who would explain the depressed state of our currency, when compared with specie, by the unfavourable course of our foreign exchanges. Mr. Huskisson, indeed, in the very next

sentence, limits his concession, by saying, that the exportation of bullion is of rare occurrence, and can never continue long. But will it not occur, as often as a fall in the real exchange exceeds the expence of transmitting the metals? And if an unfavourable balance of trade, and a large foreign expenditure, are perpetually renewing our debt to foreign countries, will not the real exchange be lowered for any length of time, that these causes may continue to operate? And, in this case, will not bullion be sent abroad, until, in consequence of the perpetually diminishing supply, its value becomes so high, that individuals find the exportation of commodities more profitable, than the exportation of the metals.

Mr. Huskisson has told us, and has told us truly, that the exportation of the metals has a tendency to force the exportation of other goods, and to diminish the debt, due to foreign countries, in a

greater degree, that the exportation, to a similar amount, of other articles of commerce. As we have already seen, the exportation of the metals diminishes their supply, and augments their value; or, in other words, lowers, in the home market, the money price of all commodities. Now, as prices are reduced at home, importation will be checked, and exportation encouraged, and, by a double operation, the debts due to foreign countries gradually discharged. But to say, that the natural and necessary check to the further exportation of the metals, occasioned by their increasing value in the home market, is a proof that an unfavourable rate of exchange has no influence, in creating a difference between the value of our currency and of our coin—would be to assert the grossest and most palpable contradiction. The unfavourable course of exchange must have raised the value of bullion in the home market, before the forced exportation of

commodities can take place. An increase in the relative value of the metals, whether in exchange for commodities, or for currency, is not only the necessary consequence of unfavourable foreign exchange, but is also the necessary antecedent of that forced exportation, from which Mr. Huskisson would disprove its existence.

Still contending, that there is no exportation of bullion, heightening the price of the metals, and affording an explanation of the difference between the value of our currency and of our coin, Mr. Huskisson says—"An unfavourable course of exchange, operates as a bounty upon all exports, and as a tax upon all imports. This bounty and this tax necessarily excite a competition to export, and a diminished disposition to import, by the joint effect of which, in all ordinary cases, without any transmission of bullion, the real exchange is

brought back to its par." A very short examination of the subject, will be sufficient to convince us, that, in this view of the question, Mr. Huskisson is completely erroneous.

In the first place, it has already been shewn, that while an unfavourable balance of trade, or a great foreign expenditure, continued to overstock the continental market with English bills, no exportation, either of bullion or of commodities, could bring the exchange back to its par; for the debt perpetually discharged, would be as perpetually renewed—the effect would be as permanent as its cause.

In the next place, when the unfavourable course of exchange operates as a bounty upon exportation, the preference will, both in ordinary and in extraordinary cases, be given to the exportation of the precious metals. Supposing that

the course of exchange, between England and the continent, is five per cent. against England; and that the expence of transporting the precious metals, is one per cent.—then the person, who should export to the continent an hundred ounces of gold, could purchase an assignment, on the home market, for an hundred and five ounces, and thus gain a clear profit of four per cent. Now the question is, could he gain an equal profit, by the exportation of other commodities?—could manufactures, or colonial produce, be sent to the continental market, at a less expence than gold and silver? The thing is plainly impossible. As the expence of transporting the commodity, with which the depreciated bills are bought up in the foreign market, must be deducted from the profits, obtained upon such bills, the speculators in this way, will always export the commodity, which can be sent abroad at least cost—which possesses the greatest value, in proportion to its bulk.

But it is not only the facility of carriage, which will (until their price is considerably enhanced in the home market, and an apparent depreciation of the currency produced) cause the preference to be given to the exportation of the precious metals. In every market of the world, the supply of commodities must be limited to the demand. If, after we have supplied the continent with all the articles for which it has occasion, the balance of trade should be against us, or a large foreign expenditure bring us in debt to other countries,—then, a further exportation of goods, for the purpose of buying up our depreciated bills, would only serve to ruin the speculator, and to render the course of exchange still more unfavourable. For the demand for our goods being already supplied, a further exportation would overstock the market, and reduce prices—not merely in the ratio of the excess, but, as always occurs in such cases, by a ratio considerably higher. Supposing that there is, in

Hamburgh, a demand for 1000lb. of our tea, and 1000 yards of our cloth, and that our merchants, in order to purchase up the English bills, which overstock the Hamburgh market, send to that place 1100lb. of tea, and 1100 yards of cloth,—then, these articles will also overstock the market, and the increased quantity of goods will bring a smaller sum, than might have been obtained, had the supply been more accurately proportioned to the demand. The merchant will, by an over-eager speculation, have diminished his own profits; fewer bills will be bought up; and the course of exchange will be rendered more unfavourable, by this attempt to improve it.

The case is widely different, with respect to the precious metals. These are the universal equivalent—these retain their value every where; for should they, at any time, overstock the market, such is the facility of transporting them—such

the rapidity of their motion, that they almost instantaneously find their level, and flow to other quarters. As Mr. Huskisson justly observes, the price of bullion is more steady and uniform, and always nearer to a level, from which it never long departs, than any other commodities in the different markets of Europe. This property, which prevents the precious metals from overstocking any particular market, unfits them, in Mr. Huskisson's opinion, for the purchasing of bills of exchange; but had he reflected a little more deeply upon the subject, he would have found, that it is this very property, which renders them, until their increasing value in the home market checks their exportation, beyond all other articles, the proper instruments for balancing the accounts, between different nations.

Thus we see, that, in all ordinary cases, when the course of exchange is

against a country, bullion will be exported, for the purpose of purchasing up the depreciated bills in the foreign market; and that this exportation will not cease, until its diminishing supply operates as a bounty upon the exportation, and as a tax upon the importation of all other articles—until, in fact, its value, both in exchange for commodities and for currency, has been raised, and an apparent depreciation of all paper securities taken place.

But we do not live in ordinary times, and the present course of our dealings with foreign countries, forms no ordinary case. Though Mr. Huskisson had been successful in proving, that, in all ordinary cases, the real exchange is brought back to its par without the intervention of bullion; yet, it would by no means follow, that, in the new and extraordinary situation, in which England is at present placed, the encouragement

which unfavourable exchange holds out to increased exportation, should enable her to discharge her foreign debts, without the transmission of the precious metals. The ports of continental Europe, are hermetically sealed against our commerce. Whatever advantages our merchants might in ordinary cases be supposed to derive, from availing themselves of the bounty, which an unfavourable exchange holds out, on balancing their foreign accounts, by an increased exportation,—these advantages, in the present state of things, it is impossible to attain: for our colonial produce, and manufactured goods, will no longer be received in exchange, for the productions of the continent; and while the maintenance of our fleets and armies abroad, an unusual demand for the corn, and the naval stores of the north of Europe, and the payment of enormous freights to the neutral, and even to the hostile flags, by which in this new state of things, the

commerce of England is carried on,—all combine to turn the balance of payments against us, our merchants, so far from being able to balance their increasing debts, by an increased exportation, have not, with the exception of the Spanish peninsula, a market open to them from the Adriatic to the White Sea. Under these circumstances bullion must be exported; the supply of the metals must, in the home market, be diminished, and their value enhanced, whether compared with the commodities in general, or with the paper medium by which these commodities are circulated.

As the balance of trade is intimately connected with the balance of payments, and the course of exchange, it may be proper before we conclude our observations on Mr. Huskisson's pamphlet, to say a few words upon this subject.

Mr. Huskisson tells us that, "An ex-

change of equivalents is the foundation of all commerce. No nation therefore can permanently export to a greater value, than it imports; so far as exports and imports are created by a commercial intercourse with other nations. But a considerable part of our imports are not derived from commerce. From our colonies a great portion of them is in the nature of rent remitted in kind to the owners of colonial estates, who reside in England; to which are to be added, as further exceptions, the produce of our fisheries, and of any portion of our territorial revenue in India, or of the savings of public servants, civil and military, in that quarter sent home in goods. If these returns were abated from the sum total of imports, the annual balance of trade, in our favour, as stated to Parliament would appear still more considerable; yet taken for any length of years, no part of this balance is created by our commerce. For every thing we receive

through that channel an equivalent, and no more is returned. All that we send out above the amount, which is thus returned, is drawn from us by the remittance of the profits of foreign capital vested in this country, or is to be accounted for, under the several heads of foreign expenditure. A great balance of trade, therefore, instead of being the natural criterion of increasing wealth, at home, is only a certain indication of a great expenditure abroad."

Here we have the strangest misconceptions!—the balance of trade confounded with foreign expenditure, and denied to be created by commerce; the only thing by which (as the name should seem sufficiently to denote) it possibly can be created, until the mind is lost and bewildered, in a maze of incongruous absurdities. Let us endeavour to arrange this chaos; to separate things, which are, in their nature, distinct; and

to point out the several relations, which each bears to the other,

In the first place, then, the balance of trade means, "that excess of debt, or of credit, which is created by real commercial transactions between nations, and which is paid or received in specie." Thus, if there be a demand in England for continental productions, to the amount of £100,000. while the continental market requires goods, only to the amount of £90,000.—then, on these demands being mutually supplied, England would owe the continent 10,000. This debt (the continental market being already supplied with our commodities) must be paid in cash, and the balance of trade will be 10,000. against England. As for the strange assertion, that no part of the balance of trade can be created by commerce, because, on each commercial transaction, an equivalent, and no more, is received,—it only serves to fill us with

surprise and regret, that a person of Mr. Huskisson's high reputation and acknowledged abilities, should write so hastily, and without due preparation, upon a subject so abstracted and so important. For whatever one nation receives from another, in the way of commerce, undoubtedly an equivalent, and no more, will be returned. But when any part of this equivalent consists in the precious metals, or in bills of exchange, which, when they fall due, must be paid in the precious metals,—then, the balance of trade is against the country giving this species of equivalent. It would, perhaps, be difficult to give a better definition of the balance of trade, (which, in Mr. Huskisson's opinion, cannot exist, where equivalents, and no more, are received,) than that "It is the *equivalent* in specie, or in good bills payable in specie, which, during the course of its commercial operations, one country pays to another."

To say that the debts, which one country incurs to another, by foreign expenditure, or that the specie and bills of exchange, sent abroad as rent to absentees, or profits on foreign capital, vested in this country, constitute the balance of trade, is a gross perversion of terms. These occasion a transmission of money, or of bills, without any commercial return whatever. As far as they are concerned, there is no *foreign trade*; and how that which has no *existence*, can possess a *balance*, I leave to Mr. Huskisson to explain.

But, though our foreign expenditure, and our remittances to the absentee proprietors, either of capital or of land, constitute no part of the balance of trade, they yet, in common with that balance, give rise to what is called the balance of payments. While the exchange is at par, while the debts, incurred by England to the continent, are annually

discharged by the debts, which the continent incurs to England,—let us suppose, that our foreign expenditure, and remittances to absentee proprietors, experience an increase of a million sterling. As, by the supposition, the continental market is supplied with all the English goods, for which it has demand, we cannot increase our exports, so as to balance this increase of foreign debts. The greater part of this debt must, therefore, be paid in cash, and the balance of payments will be turned against us.

While things are in this state—while the balance of payments is nearly a million sterling against England, let a new system of commercial regulations arise, which shall create, in the English market, a demand for foreign shipping, to the amount of half a million. As this change could not effect any material increase in our exportation, the equivalent, which we should be obliged to give the foreign merchants, for the use of their

shipping, must be cash, or bills of exchange, payable, in a short time, in cash. In consequence, therefore, of this unfavourable balance of trade, the balance of payments would be turned still more against us; would be increased to nearly a million and a half sterling. In this case, the balance of trade would bear, to the balance of payments, the relation of a part to a whole. In other possible cases, the balance of trade might be against us, and the balance of payments in our favour, and *vice versa*.

Having thus examined the arguments of Mr. Huskisson,* let us now, for a moment, bring his theory to the test of experience, and enquire what explanation it affords to the present state of our circulating medium.

* On perusing the pamphlet of Mr. Huskisson, I was impressed with a feeling of regret, that a person of his extensive practical knowledge, and fine talents for business, should have so far mistaken the nature of his own attainments, as to write upon the principles of political economy. To expound the doctrines of

In the first place, I would ask Mr. Huskisson, how it can, on his principles, be explained, that, from the suspension of cash payments to 1802, a period of five years, no excess of paper, or depreciation of the currency, was observed. Having denied, that limiting the issues of the bank to the discounting of good bills, payable at a short and fixed date, is a sufficient security to the public against an excess of currency,—he should tell us to what other cause it was owing; that the bank directors, for a period of five years, confined their paper to the measure of the demand; and he should explain the reason, why the check against excessive issue, which was efficacious from 1797 to 1802, should, in 1809, have lost its salutary power.

an abstract science, and to generalize our ideas, so as to meet those unforeseen emergencies, for which the file affords no precedent, requires, as Mr. Burke has beautifully expressed it, a turn of mind, which office never gave; and which office never can give.

Mr. Huskisson has, in the next place, to shew, how an excessive issue, and consequent depreciation of paper currency, can afford an explanation of the fact, that the real course of exchange is, and, for a length of time, has been, considerably against this country. When the currency of any particular country is depreciated, below that of other countries, then, the computed course of exchange will be against such country. If twenty guineas will purchase, in Ham-
 burgh, a credit on London for twenty-five pounds in the paper currency, which twenty-five pounds would only pass for a quantity of gold, equal to that contained in twenty guineas,—then it is plain, that the computed exchange would be about twenty per cent, against London. But the real exchange would, under this supposition, be at par; and, I think, it will be found no very easy task to explain, how the circumstance of our giving a greater nominal amount

in paper, for a given quantity of gold, can enable an hundred ounces of that metal to purchase, in a foreign market, a credit upon London for an hundred and five ounces.

Another remarkable circumstance, in the present state of the bullion market, is, the difference in value between the gold which can, and the gold which cannot be sworn off for exportation. When we consider the ease, with which the precious metals can be sent abroad; when we reflect on the facility with which, when the value of a commodity is great, in proportion to its bulk, private interest evades prohibitory laws—this fact cannot fail to fill us with surprise. Yet, what can we find in an excessive issue of paper, to account either for this, or for the concomitant fact of the rapid disappearance of the metals? If our currency consisted of fifteen millions in paper, and five millions in specie;

and if, without any increase in the demand for circulating medium, ten other millions of paper were thrown upon the market,—then, the currency would become excessive, and, consequently, depreciated. Now, the value of the precious metals could not be materially altered, by this depreciation. The gold and silver, therefore, which circulated with the paper, bringing a higher price as bullion, than as a part of the currency, would be melted down, or exported. But it is evident, that the exportation of the metals, as far as it arose from this cause, could not, at the very utmost, exceed the quantity thrown out of circulation, by the excessive issue of paper. When this was withdrawn, (and, as the currency became excessive, it would be withdrawn almost instantaneously,) in what manner could the depreciation of bank paper, cause the precious metals to disappear? How can the circumstance of our giving an in-

creased sum, in paper, for the same quantity of metal, cause such a demand for gold and silver in the foreign market, that bullion, which can be sworn off for exportation, shall, for a considerable length of time, bear a higher price than bullion, which cannot be legally exported.

These facts, which seem to have no connection with the depreciation of excess, appear, as has been already shewn, to flow necessarily from the theory of currency, that we have endeavoured to expound. The fact, that there was not, from the suspension of cash payments to the year 1802, any depreciation of the currency, receives the most satisfactory explanation, upon the principle, that limiting the issues of the bank to the discounting of good bills, payable at a short date, is a sufficient security to the public, against an excess of paper. The difference between our currency and coin, which occurred in 1809, when a

large foreign expenditure, and unfavourable balance of trade, began to turn the balance of payments considerably against us, affords a complete and practical illustration of the doctrine of apparent depreciation. On the same principles, the unfavourable course of exchange, whether real or computed, is accounted for; and the singular fact, that gold, which can be sworn off for exportation, bears a higher price than other gold of equal fineness, receives a satisfactory solution.

...the value of gold is determined by the quantity of it in the market, and the demand for it. ...the price of gold is higher than that of other gold of equal fineness, because it is more scarce, and more useful.

...the value of gold is determined by the quantity of it in the market, and the demand for it. ...the price of gold is higher than that of other gold of equal fineness, because it is more scarce, and more useful.

CHAP. III.
On the Effects of deranging the Paper System.

HAVING shewn, that the theory of currency, unfolded in the former part of this work, affords a satisfactory solution of the facts connected with the present state of our circulating medium, and having proved that those who deny, that the difference between the value of our paper and of our coin arises from an unfavourable balance of payments and course of exchange, not only argue erroneously (if the mode of treating the subject can be termed argumentative), but have attempted to explain some important facts belonging to our currency, by a principle with which these facts have no conceivable connection; I think we may now,

without the hazard of refutation, venture to assert, that, in consequence of the increased value of bullion in the home market, our paper is apparently depreciated.

This apparent depreciation of the currency exposes the country to many inconveniences. It embarrasses the trader to foreign parts, and increases the expences of government; it produces an indirect and very injurious effect upon domestic industry, and, in consequence of its occasioning domestic embarrassment, it has a tendency to give confidence a check, and to add the depreciation of alarm to the other evils of the country. These are the natural, probably the necessary consequences of our currency being apparently depreciated. They are, at present, accompanied by other evils arising out of the state of public opinion, and the prevalence of political error. One party looks to the destruction of the paper system as the means of correcting

the corruptions which have crept into the constitution, and another proposes remedies, the operation of which would be more injurious than the disease. These are adventitious evils that may be removed or mitigated, and it may, therefore, be proper to examine them.

There are, in this country, certain individuals, and these too, of no inconsiderable influence and reputation for talent, who are so profoundly ignorant of the principles of political science, as to regard the destruction of the paper system, and the subversion of public credit, as the means of renovating the constitution, and of relieving the people from the oppression of accumulated taxation. The arguments by which such persons attempt to prove that paper currency has been the cause of corruption, and endeavour to associate reform with the ruin of the Bank, are little calculated to produce an effect on those who have made any progress in

the difficult science of political economy, but they are sometimes conveyed in a popular and familiar, yet original style, which is well adapted to seize the attention of a numerous class of readers, and to diffuse error over an extensive surface.

Fortunately, the false principle which would associate a renovation of the state, and a relief from public burdens, with the destruction of our paper system, lies so near the surface, that it may be laid open to all who will be at the trouble of reflecting, for a short time, upon the subject. In every country, the comfort and independence enjoyed by the mass of the community, must be regulated by the price of labour. Where the people, by a moderate exertion of industry, can obtain the necessary supply of food, raiment and habitation, there happiness and freedom will obtain. On the contrary, in the country where the wages of exertion,

whether corporeal or mental, are inadequate to comfortable subsistence, poverty and wretchedness will meet us in every walk; the people, unaccustomed to rely on their own efforts for support, will become fawning and servile, and the independent spirit of the nation will be lost; there will be a perpetual tendency to that species of alternate anarchy and slavery which was exhibited in the latter years of the Roman republic, when the multitude of citizens, unable to maintain themselves by the exertion of any species of industry, were fed at the public tables of the Patricians, and bartered their liberty for bread.

Now, in the science of political economy, there is no one principle that can be more clearly established, than that a well-regulated paper currency increases the demand for labour, and, consequently, enhances its price. We have seen, that substituting a very cheap for a very expensive instrument of commerce, makes

a considerable addition to the funds destined for the maintenance of industry; and we have seen that proportioning the supply of circulating medium to every temporary augmentation of demand, promotes the interchange of commodities, perfects the divisions of employment, and, in this manner, gives energy to the productive powers of labour, and creates new wealth and new capital. Now, the demand for labour, and, consequently, its price depend upon the quantity of capital which gives it employment. As a greater portion of the capital already in the country is directed to production, and, as new capital is created, the wages of labour will, by a two-fold operation, be advanced, and the comforts of the lower classes of the community increased.

But if the people at large are benefited by the introduction of a paper currency, they are, in a still higher degree, interested in maintaining the credit of

such currency when it has once been established. Indeed, the only solid objection that can be urged against the introduction of paper into circulation is, that after it has been established, the depreciation or destruction of its value would inflict on all classes, but particularly on those who live by the wages of industry, aggravated and incalculated misery. All the best and most useful members of the community, all who, out of the fruit of their labour, had made small savings in the current medium, would, in case of depreciation, have these savings diminished in value, and, in case of the destruction of the paper system, would have them reduced to nothing. This would occasion great poverty and distress, and evils more permanent would follow. A depreciation of the currency diminishes the supply of circulating medium; the destruction of a paper system, after it had, in a great measure, supplanted the metals, would, for a time,

destroy that medium altogether. In either case, but particularly in the last, there would be a rapid, a fatal fall in prices. Bankrupt merchants and ruined manufacturers could no longer give employment to labour. Thousands of labourers would wander idle in the streets; "because no man had hired them," and all the industrious classes throughout the community would learn, from bitter experience, the utility of that system of currency and of credit, the destruction of which they had been instructed to consider as the means of checking corrupt expenditure, and of improving the condition of the people.

CHAP. IV.

On the Resumption of Cash Payments.

WE are now to examine some measures which have been either proposed, or adopted for the purpose of equalizing the value of our currency and of our coin; but the effect of which is to heighten the evils they were brought forward to remove. The measure which, on account of the high authority by which it has been recommended, and of the magnitude of the evil it would inflict, I shall, in the first instance, proceed to discuss, is the resumption of cash payments.

In a former part of this work it was shewn, and indeed it must be apparent to every person at all acquainted with the subject, that rendering a paper cur-

rency convertible into cash at the option of the holder, is an effectual remedy against the depreciation of excess. Superficial observers, therefore, and persons not sufficiently aware of the limitations to which their general principles are liable, conclude, that the convertibility into cash is the universal corrective of every difference between the value of the currency and of the coin, whatever character such difference may assume, or from whatever cause it may arise. This conclusion is completely erroneous. A slight investigation will be sufficient to demonstrate that, when a currency sustains, in consequence of the increased value of bullion, an apparent depreciation, a resumption of cash payments, instead of correcting, the check thus given to industry and trade, would diminish, still further, the supply of circulating medium; would occasion a stoppage at the bank, and fill the country with insolvency and ruin.

When the balance of payments and the course of exchange are against a country, individuals will export the precious metals, in order to speculate in the bills of exchange which overstock the foreign market. This exportation of the metals, however, has a natural limit. When gold and silver acquire an heightened value in the home market (and an heightened value they must acquire if the balance of payments continue long against us) importation will be checked, and exportation encouraged, and all future debts incurred to foreign countries will, while bullion retains its heightened price in the home market, be balanced without a transmission of the metals.

Now this natural limit to the further exportation of gold and silver, would be completely removed by a resumption of cash payments. Let us suppose, that the real course of exchange is against us five per cent, and that the speculators

in bills have exported bullion until its value, in the home market, is so high, that buying it up there, for the purpose of sending it abroad, to purchase depreciated credits upon England, will no longer afford a reasonable profit. If, in this state of things, the bank should return to cash payments, the exportation of the precious metals would be immediately recommenced. For, the holder of twenty one pounds in bank paper, being able to convert them, at will, into twenty guineas, however scarce gold might be, or whatever advanced price the bank might have given for it, to him its value in the home, would not exceed its value in the foreign market, and he would again find a profit in sending it abroad to purchase depreciated bills upon England.

To this it may be objected, that while the metals continue to possess a higher value in the home than in the foreign

market, commodities, when measured by the metals, will be proportionably cheaper, and that, therefore, the person who converts twenty one pounds into twenty guineas, will procure every article at a reduced price, and be encouraged to export goods rather than commodities.

The resumption of cash payments would, indeed, have a tendency as here described, to increase the profits upon exportation, but this tendency would be counteracted by another of an opposite nature. If exportation should, from any cause, be forced, our productions would overstock the foreign market, and the merchant who should, in consequence of their reduced money price at home, export them beyond the limits of the foreign demand, instead of obtaining increased profits, would, in all probability, sustain a heavy loss. Besides, the profit to be obtained on the exportation of commodities is slow and

precarious; while the profits, arising from sending the metals abroad, is quick and certain. The resumption of cash payments, therefore, will force bullion out of the country, rather than merchandize; for, as Mr. Huskisson has justly remarked, commercial persons will be induced to traffic in gold and silver, by the prospect of much smaller advantage, than would induce them to speculate in other articles.

Thus we see, that, while the rate of exchange is against us, the resumption of cash payments would enrich the defacer of the coin, and the exporter of bullion, at the expence of the bank. If the value of bullion is so much increased, that it requires twenty-six pound notes to purchase the quantity of gold contained in twenty guineas—then, on every twenty guineas in cash, which the bank pays, five pounds will be lost. The difference between the value of twenty-one

pounds in paper, and twenty guineas in cash, will render the holders of paper eager to convert it into money. Every note, therefore, that the bank utters, will be instantaneously returned, and must be paid at a loss, and at a loss, too, perpetually increasing. For the large purchases of gold, which, under these circumstances, the bank would be compelled to make, would increase the demand for the precious metals; while the speculators in bills of exchange, enabled, notwithstanding the high price of these metals, to obtain guineas at twenty-one shillings each, would be constantly reducing the supply. Every day, and every hour, the value of bullion would rise, and the loss of the bank, on each cash payment, would be increased.

It would be impossible for any company, however extensive its capital might be, to continue, for any length of time, in so ruinous a course of business.

The directors of the bank would soon find themselves compelled to limit their discounts to the merchant, and to withhold their advances to government, until the supply of paper currency should be diminished, in a ratio equal to the diminution of the precious metals. Then, indeed, the value of the paper would be brought to a level with that of the coin, and the apparent depreciation of the currency would be removed. But this, instead of producing a beneficial effect, would plunge the commercial world in deeper and more extensive calamity. In a very short time, the remedy would be found incalculably worse than the disease.

We have seen, that, when the home market is exclusively considered, an apparent depreciation of the currency produces no real reduction in the supply of circulating medium. Retaining its full exchangeable value, with respect to com-

modities, bank paper will perform all the functions, which it could have performed before the value of the metals arose. No fall of prices—no commercial embarrassment, will be produced, except what may arise from the difficulty of making foreign payments. The scarcity of the precious metals, indeed, by diminishing, in the home market, the supply of the commercial medium of the world, will diminish the profits, perhaps trench upon the capital of the foreign trader; and, through him, the manufacturer and home dealer will be injured. Now, were we to correct apparent depreciation, by diminishing the supply of the domestic medium, until its value rose to a level with gold and silver, the universal medium, we should add a direct embarrassment to the indirect one, which we sought to remedy. The diminished supply, and increased value of the universal medium, having compelled the merchant

to forego his profit, and even to dip his capital, in order to make good his engagements with foreign correspondents, we seek to relieve him, by inducing a similar diminution in the supply, and increase in the value of the domestic medium, and by compelling him to forego his profits and dip his capital, in order to fulfil his engagements to correspondents at home.

By the very measure, too, which thus involves him in complicated embarrassments, the bank will have been deprived of the power of yielding the accustomed accommodation, and he falls a sacrifice to the injudicious efforts made for his relief. Such, to the mercantile world, would be the effects of returning, while the real course of exchange is against us, to that system of cash payments which is held up so confidently, and by such high authority, as the only means of removing

the embarrassment occasioned by a difference between the value of our coin and of our currency.

Those who have been so strenuous in recommending the resumption of cash payments, when they renew their well intended efforts to correct the difference between our currency and our coin, will, it is to be hoped, reflect more deeply upon the subject, and endeavour, by patient thought, to trace out the nature, and to ascertain the cause of the evil which they seek to remove. If an unfavourable balance of trade, and a large foreign expenditure render the balance of payments and course of exchange against us, and if the continental system of our enemy, throw great and accumulated difficulties in the way of our balancing our foreign accounts by an increased exportation, then individuals will be powerfully stimulated to export bullion.—If the exportation of bullion di-

minish the supply, and increase the value of the precious metals in the home market, and if the bank, under such circumstances, continue or resume cash payments; then every holder of a pound note and a shilling will be eager to convert them into coin, and the speculator in bills of exchange will go on exporting the precious metals, unchecked by the high price of them in the home market.—If the bank, unable to support the loss of purchasing specie at the increased and increasing market price, and paying it away at the mint price, should limit their issues until the value of the paper currency rose to a level with that of the coin, then a diminution would be affected in the supply of the local circulating medium, equal to that which had taken place in the universal one.

Now, if a diminution in the supply, and consequent increase in the value of the precious metals, the circulating medium of

the world, would embarrass the dealer in foreign articles, by obliging him to dispose of a greater quantity of his stock, in order to procure the money necessary to make good his engagements with the merchants of other countries; and, if a similar diminution in the supply, and increase in the value of the paper currency, the local circulating medium, would reduce the price of all commodities, and cause the home-dealer to dispose of a larger portion of his goods, in order to answer the demands of his correspondents, then, the loudly boasted-measure of cash payments, instead of producing the salutary effects which its supporters and admirers predict, would involve the commercial community in universal bankruptcy and ruin.

Most of the advocates for the resumption of cash payments, aware that the bank must be ruined by purchasing bullion at its present increased market price,

and paying it away in exchange for paper at the rate of a guinea for one and twenty shillings, recommend that cash payments shall not commence until some fixed future period. By this means, they say, the Bank directors will be enabled gradually to limit their issues until the supply of paper is so reduced that its value will rise to an equality with that of the coin; and, when this is the case, the Bank may, without loss, return to cash payments, and restore the currency to its sound and natural state.

It is true that, if the Bank directors were told by the legislature that they must resume cash payments upon a stated day, they would see the necessity of limiting their issues, until the supply of paper currency became so reduced that its value rose to an equality with that of the coin. It is also true that, when the value of the paper currency had been so raised, the Bank might,

without loss, return to cash payments. But what effect would such payments have on the prosperity of the country? The defacers of the coin, and the speculators in bills of exchange would not, indeed, be enriched at the expence of the bank proprietors, as would have been the case had the restriction been immediately removed; neither would the natural check on the further exportation of the precious metals, be rendered effectual; nor, in the home market, their supply still more reduced, and their price still further advanced. But all this would be a palliative, not a cure. When an unfavourable balance of payments has, in the home market, diminished the supply, and raised the price of the metals, if we should limit the supply and raise the value of bank paper in the same proportion, we should be guilty of the preposterous folly of attempting to remove one evil by adding another and a greater.— At a period when the country suffered

from a diminution of the universal medium, we should be diminishing the domestic, should be doubling the embarrassment of the dealer in foreign merchandise, and inflicting on the home market, by a direct and general operation, that stagnation and fall of prices which was before only indirectly produced, and partially felt.

CHAP. V.

Lord King's Notice to his Tenantry,

WHEN the actual value of the currency differs from the standard of the coin, or in other words, when a pound note and a shilling will no longer purchase a quantity of gold equal to that contained in a guinea, the highly important question arises, whether the person, to whom twenty one pounds may be owing, can equitably demand either twenty guineas in the standard coin, or else a sum in the currency equivalent to twenty guineas? This question, which is in its nature sufficiently momentous, acquires a great additional interest from a notice recently given by a noble lord to his tenantry, as well as from the legislative interference to which that notice has

given rise. It therefore, becomes necessary to examine in detail the effects which the demand to be paid in coined money is, under various circumstances, calculated to produce, to shew how far this demand is founded on equity, in what manner it operates on the person upon whom it is made, and how far, if generally acted upon, it would be calculated to restore our currency to a sound and natural state.

We shall, in the first place, examine the question under the supposition that the currency is depreciated by excess; that any given sum in it will no longer exchange for the same quantity of commodities as formerly. In this state of things it is evident, that requiring payment in gold and silver is perfectly equitable on the part of the creditor, and can inflict no injury on the debtor. Supposing that a tenant stipulated to pay his landlord an hundred guineas a

year, at a time when £105. in the paper currency, would readily exchange for that quantity of coin,—then £105. in the currency, would be exactly equivalent to the landlord's demand, and he could have no interest in demanding metallic payments. But, should bank paper be issued to excess, and, in consequence, its value fall, until £105. would exchange only for the quantity of gold contained in ninety guineas,—then 105*l.* in the currency, would not be equivalent to the rent the tenant had stipulated to pay; and the landlord, in demanding an hundred guineas, or else a sum in paper, sufficient to purchase an hundred guineas, would only be requiring what was justly his own, and protecting himself and his family against the effects of the overtrading of the bank. Nor could this demand for cash, or for such a nominal amount in the paper currency, as would exchange for the stipulated sum in cash, inflict any injury on the tenant; because, in the

state of things, which we have supposed, the currency will be equally depreciated, with respect to all commodities. If ninety guineas will purchase 105*l.* then ninety quarters of corn, or ninety tons of hay, will exchange for the same sums in paper, which an hundred quarters, and an hundred tons, formerly exchanged for. The tenant, when he brings his produce to market, will obtain a nominal increase of price, exactly proportional to the nominal increase of rent, demanded by the landlord.

If the conduct of Lord King, in demanding his rents in gold, were universally followed, two different prices would be established in the market; a money price, and a paper price. As soon as the landlord, for every pound note and a shilling of his rent, demanded a guinea in coined money, or else a sum in paper, equivalent to the metal contained in a guinea,—then would a guinea be more

valuable to the farmer, than a pound note and a shilling; and, however that species of coin might be degraded, when considered as part of the currency, to him it would retain its full bullion price. This being the case, the farmer would be willing to give a larger portion of his produce for a guinea, than for one and twenty shillings in the currency. The corn-dealer and the wool-buyer, finding that more could be obtained for guineas, than for an equal nominal amount in notes, would, in all their sales, give a preference to guineas; and thus a gold and a paper price would be universally established—the difference between those prices being, of course, regulated by the extent of the depreciation, which the paper might have sustained.

As soon as money and a paper price were established, the coin would cease to be banished from the market, by the excess of bank issues. For, if a piece

of metal, in the state of coin, can be freely and openly sold in the market, at its full bullion value, there can no longer exist a motive for melting it down; or if the exchange should be at par, for exporting it. But not only will the coin, already in the channel of circulation, be retained there; but much of the gold and silver, which might have been hoarded, will be returned. For the person, who was unwilling to part with a guinea, while it would bring no more in the market than a depreciated pound note and a shilling, might readily dispose of it, as soon as it would exchange for its full bullion price—five and twenty, or, perhaps, thirty shillings: so that the establishment of a gold and silver price, would, supposing the exchange to be at par, not only stop the further disappearance of the precious metals, but would return, into the channel of circulation, much of what had already been withdrawn.

When the establishment of money and of paper prices, began to retain specie in circulation, and to restore a part of that, which had disappeared, very important facilities would be afforded to the Bank, for returning to cash payments, and restoring the currency to its sound and natural state. If the currency is depreciated, by excess to such an extent, that twenty-six pounds in paper will not purchase a quantity of gold, greater than that contained in twenty guineas,—then, when the Bank purchases a supply of this metal, equivalent to twenty guineas, and pays it away to the holders of notes, it sustains, on this transaction, a loss of five pounds. Now, to avoid so heavy a loss, the Bank directors, on the prospect of a return to cash payments, would limit their advances to government, as well as their mercantile discounts, until the supply of paper would be so far diminished, that

the difference between the value of the currency and of the coin, would cease. But, by limiting its advances to government, and its discounts to the merchants, the Bank might expose the public service and commerce of the country, to considerable inconvenience and embarrassment; and it might be deemed more advisable, to acquiesce in the evils of a depreciated currency, rather than resort to a remedy, pregnant with so much danger to the Bank, or with so much injury to the government and to trade. However, if gold and paper prices were established, the inconveniences, incident to a diminution in the amount of the currency, would be removed. Supposing twenty guineas to have, in the market, the same exchangeable value as twenty-six pounds in paper,—then, for every twenty guineas of its gold, the Bank might buy up and cancel twenty-six pound notes; and thus, without exposing itself to loss—without embarrassing the

government, or refusing accommodation to the merchant, might gradually withdraw its superfluous paper from circulation. As the supply of paper should, in this manner, be diminished, its value would, of course, be enhanced, until it rose to a level with that of the coin; and the instant this was the case, cash payments might be resumed, and the currency restored to a sound and healthy state.

And now, it will not be too much to assert, that, under the supposition that our currency is depreciated by excess, Lord King, in demanding his rents in gold, did justice to himself and his family, without injuring his tenantry; and that his conduct with respect to the community at large, evinced the highest wisdom and most exalted patriotism. But, unfortunately for the reputation of Lord King—unfortunately for the country, the present disease of our currency is

not the depreciation of excess, but an apparent depreciation, occasioned by the increased value of the precious metals. It is, therefore, from the tendency of his measure, under this new state of things, that the conduct of the noble economist is to be held up, as a pattern to imitate, or as an example to avoid.

In a country where the coin and the paper currency are at par, it will be indifferent to the landlord in which of these species of circulating medium his rents are paid. But, as we have just seen, if one of the constituent parts of the circulating medium be reduced in value, then the same nominal sum in that part will no longer be equal to the stipulated rent. For the same reason, if one of the constituent parts of the circulating medium should be increased in value, the same nominal sum in that part would be more than equivalent to the rent the tenant had agreed to pay. The landlord,

therefore, who should insist on being paid his rents in that portion of the circulating medium, the value of which has been enhanced, though he might receive only the same number of pieces, and the same weight of metal, would yet bring forward an exorbitant demand, and lay claim to more than was his due.

To illustrate what has been said, let us suppose that the circulating medium of the country consists of the gold and silver coins, denominated guineas and shillings, and that one guinea is equivalent to twenty-one shillings. In this state of the currency it would be indifferent to the landlord whether his rents were paid in the gold or in the silver coin. But supposing new mines to be discovered, which increased the supply of gold until the value of a guinea did not exceed that of a shilling, then, if the landlord were paid his rent in guineas,

though he received the same nominal sum as formerly, he would obtain no more than the one-twentieth part of his just demand. On the other hand, let the mines of silver be exhausted, and the supply of that metal reduced, until a shilling becomes equal in value to a guinea, and then, if the landlord should demand twenty-one shillings for every guinea of his rent, it is plain that the tenant, under the same nominal sum, would be called upon for twenty-one times more than what he had stipulated to pay.

Thus we see that, when the circulating medium consists of currencies of different species, and when these species of currency alter their relative proportions by either of them increasing or diminishing in value, then equity requires that all debts shall be paid in that species whose value has remained unchanged. Our circu-

lating medium consists of specie and of a paper currency. While the value of our paper, in exchange for commodities, remains in a great measure unaltered, the value of specie has experienced a very considerable increase. In this state of things, therefore, when any creditor demands the amount of his debt in cash, he demands more than he is, in equity, entitled to receive. The law which regulates our legal tender, or the nature of a particular contract, might bear a landlord out in demanding, when gold has undergone a great rise in value, the same quantity of that metal which formerly was paid; but the character of such a demand would not, therefore, be altered, it would still be ruinous to the tenant, still it would be no more than legalized injustice.

Whether our paper currency has been depreciated by excess, or whether the precious metals have experience an in-

crease of value, the circumstance of the landlord's exacting his rents in cash, would equally give occasion to a money and a paper price. The establishment, too, of a money and a paper price would, in either case, afford the Bank equal facilities for limiting her issues, and preparing for the resumption of cash payments. But the limitation of Bank issues, and the resumption of cash payments, circumstances which, when the currency is depreciated by excess, would be attended with the highest benefits, could, in the case of apparent depreciation, produce nothing but calamity. This we have already explained, but, as the subject is of the highest importance, it may, perhaps, be not unuseful to re-state the arguments formerly employed.

It is a sound general principle, that banks should regulate their issues in such a manner as to keep the value of the paper currency exactly on a level with that

of the coin. If the discovery of new mines increased the supply of the precious metals until a given sum in money lost half its former value in exchange, then the issues of the bank should be enlarged, until the supply of paper currency became increased, and its value reduced in an equal ratio. But this general principle is, like every other, liable to limitations. When foreign expenditure, or arbitrary commercial decrees have produced an *artificial* scarcity of the precious metals, and rendered them more valuable in one country than in another, then it would no longer be proper to limit the issues of paper so as to raise its value to an equality with that of the coin. In the country where the precious metals have become dearer than in the neighbouring states, the merchants will be embarrassed in making good their foreign engagements; and if we produce, in the domestic instrument of trade, a diminution equal to the local one which

the commercial medium of the world may have sustained, we shall inflict upon our industry a two-fold injury.

But though the present disease of our currency arises principally from a local increase in the value of the precious metals, and though, in such a case, the exacting of money payments must commence in injustice and terminate in commercial ruin, yet it would be in the highest degree unfair to attribute unworthy motives to Lord King, and those who recently supported him. Under the supposition that our currency is solely depreciated by excess, their conduct admits the most honourable explanation. The whole tenor of their conduct, every word they have uttered on the subject, evince their conviction that it is so depreciated. In this they are undoubtedly mistaken; but while their mistake lowers their reputation as practical statesmen, accurately acquainted with the circumstances of the

times in which they live, and aware of the limitations to which, when applied to any particular case, the general principles of political science are liable, it can in no way detract from the rectitude of their intentions.

With a supposition, however, that the present disease of our currency arises from a local increase in the value of the precious metals, and though, in such a case, the exacting of money payments must commence in injustice and terminate in commercial ruin, yet it would be in the highest degree unfair to attribute unworthy motives to Lord King, and those who recently supported him. Under the supposition that our currency is solely depreciated by excess, their conduct admits the most honourable explanation. The whole tenor of their conduct, every word they have uttered on the subject, evince their conviction that it is so depreciated. In this they are undoubtedly mistaken; but while their mistake lowers their reputation as practical statesmen, accurately acquainted with the circumstances of the

of gold or silver, against the relation
of value and price, and to regulate the
quantity of money, and to secure the
circulation of the same, in the most
convenient manner, and to the
benefit of the public.

CHAP. VI.

On Lord Stanhope's Bill.

OUT of Lord King's requisition to his
tenantry, Lord Stanhope's bill arose. As
far as this bill goes to protect the te-
nantry against the exorbitant demands,
which, from mistaken views, respecting
the state of our currency, the landholder
might be disposed to make, it is entitled
to our highest praise. But when this
bill proceeds a step further, and enacts,
that the trade in guineas shall be dis-
continued, then, it becomes decidedly
injurious, and produces effects diametri-
cally opposite to those contemplated by
its supporters. The money, or coin of
any particular country, is nothing more
than certain portions of the precious

metals, with stamps affixed to them, by
the authority of the state, and certifying
that they are of a given weight and fine-
ness. Now it is evident, that the certi-
fying stamps cannot, in any respect,
effect the intrinsic value of the pieces,
to which they are affixed; and that this
value, like that of other articles, will,
according to the variations of supply and
demand, be in a perpetual state of fluc-
tuation. Should an increasing demand,
or diminishing supply, enhance the value
of bullion, the value of the coin, in spite
of all the regulations of the legislature,
and vigilance of the magistrate, to the
contrary, will rise in an equal ratio.
When the state faithfully certifies, that
the pieces circulating as coin, are of a
given weight and fineness, and thus saves
the trouble and expence of weighing and
of assaying them,—it has given all the
aid to the metallic medium, which it is
capable of giving. But, when the state
attempts to prescribe the relative value,

which the coin of one metal shall bear either to the coin of another metal, or to the paper currency, it departs from its legitimate functions, and pretends to regulate that over which, from the nature of things, it possesses no controul.

The slightest consideration of the subject, is sufficient to convince us, how entirely impotent the authority of government must ever be, in preventing coined metal from obtaining an equal price with uncoined metal, or bullion. Let us suppose, that, at a time when the quantity of metal contained in a guinea, will bring twenty-six shillings, an individual has, in his coffers, a thousand guineas. These pieces, at their intrinsic or bullion value, are worth, to their holder, £1300. Now if, in this state of things, the legislature should interfere, and enact, that a guinea must not pass for more than one and twenty shillings,

what would be the consequence? Would the holder of a thousand guineas acquiesce in a measure, which would at once deprive him of £250.? But, supposing that he did; supposing that respect for the laws, or a principle of patriotism, laudable, but unenlightened, should induce him to bring his pieces to market, and exchange them at the prescribed price,—would the persons, through whose hands they should successively pass, act so disinterested, and public spirited a part? The thing is impossible! The coined metal, which was prohibited from obtaining its natural price openly and fairly, would infallibly be thrown into the crucible, or smuggled out of the country. The legislature may prevent my obtaining, in the market, a greater sum than one and twenty shillings for my guinea; but all its penal statutes—all the vigilance, which it is possible for the magistrate to exert, cannot withhold me

from melting it down and selling it, in the form of bullion, at that level price, which is marked by the proportion between the supply and the demand for gold. Legislative interference must ever be completely impotent, to prevent metal, in the form of coin, from bearing an equal value with metal, in the state of bullion; but such interference will be found all-powerful, in causing the coin to disappear, and in completely banishing the precious metals from circulation.

The traffic in coin is as fair, and as useful, and as honourable, as any other traffic. When the price of bullion rises, or the value of the currency is reduced, it is this traffic alone, which can retain the metals in circulation. If a piece of gold, with a public stamp affixed to it, be less valuable than an unstamped piece of gold, of equal

weight and fineness,—then the stamp will be immediately effaced. As water finds its level; as air rushes to occupy vacuity—so will metal, which is coined, rise to the value of metal which is uncoined.

CHAP. VII. *Legal Tender. Conclusion.*

IT has been proposed, by those who imagine that our currency may be improved by a direct legislative measure, to render bank paper a legal tender. In the language of these gentlemen there seems to be something ambiguous. If, by resorting to the legal tender, nothing more be meant than that a debt which, when valued in bank paper, is equal to one thousand pounds, shall be legally discharged by the payment of one thousand pounds in such paper, then the measure, though not calculated to produce much good, would at least be harmless. But, if the advocates of the legal tender intend that, in all payments, a pound note and a shilling shall be equivalent and equal to a

guinea, then their measure is exposed to all the objections which we urged against a legislative prohibition of the traffic in coin. For if a guinea, though the metal it contain be worth twenty-six shillings, should, in all payments, be allowed to pass for no more than twenty-one shillings, then, in such payments, it would never be employed. Guineas, like all other things, naturally seek that employment which affords the greatest profit. If the law forbids their finding that employment in the payment of debts, and in the daily purchase of the market, then they will be melted down and exported. Reverting to the legal tender instead of improving the state of our currency, would serve but to banish the precious metals from the channel of circulation.

Besides, when the value of bullion has so increased that the metal contained in a guinea is worth more than twenty-one shillings, there would be the greatest ab-

surdity in the legislature declaring that a pound note and a shilling are equivalent to a guinea. Such a declaration would amount to an absolute contradiction. It would be asserting the same thing to be, and not to be. It would be telling the public, that twenty-five shillings are equal to twenty-one shillings, and that twenty-one shillings are equal to twenty-five.

And now, if I have been at all successful in illustrating this important but difficult subject, the reader will be prepared to conclude with me, that an apparent depreciation of the paper currency is necessarily connected with an unfavourable balance of payments and course of exchange, and that, while these continue against us, all legislative attempts to correct the evil, to raise the bank note to a level with the guinea, or to bring down the guinea to an equality with the bank note, will not only be

completely impotent in producing good, but must increase the public alarm and distrust, banish the little specie that remains, and effectually prevent any fresh supplies of metals from being thrown into the channel of circulation.

To correct the difference, therefore, between the value of our currency and of our coin, we must remove the cause by which such difference is produced; do away the unfavourable balance of payments; restore the exchange to its par—and our currency will rapidly, and of itself, return to its healthy state. Bullion is more valuable in the home, than in the foreign market; and, as soon as a greater profit ceased to accrue from the purchase of depreciated bills of exchange, individuals would find an interest in transmitting the precious metals, from quarters where they abound, to quarters where they are scarce. As the supply of metals thus increased in the

home market, their price would sink to its natural level, and the apparent depreciation of our currency would be completely and rapidly removed. Should any depreciation have arisen from alarm, the re-appearance of specie would re-establish confidence; and if, in consequence of a departure from the just principles of banking, some depreciation of excess* might have obtained,—then the bank, without circumscribing its discounts on good mercantile bills, payable at a short date, (for a paper and a money price, in spite of every effort to the contrary, must soon be established) might,

* It has already been observed, that an increased issue of notes is necessary to fill up the vacuum, occasioned by the abstraction of coin, and that, circumstances remaining the same, every new tax will require an increase of circulating medium. Now, when we consider how much specie has been withdrawn, and how many taxes have been imposed, since the passing of the restriction bill, we shall be prepared to conclude, that, for the additional bank paper, thrown into circulation during the last fourteen years, there has been a legitimate demand; and

by purchasing up its notes at their market price, diminish the supply of paper, until its value rose to the standard of the coin. As soon as this was the case, cash payments might be immediately resumed.

It is impossible to deny, that bringing our foreign exchanges to their par, would lower the price of bullion; correct the evil of apparent depreciation; and, consequently, restore public confidence, prepare the way for the resumption of cash payments, and thus bring back our currency to its sound and natural state.

when we reflect on the facts that the bank notes outstanding, bear a small proportion to the bills of exchange, and other paper securities, which enter into the circulation of this great commercial country; and that, in the city of London alone, the bankers' clerks, by means of checks, bills, &c. settle, in one week, accounts nearly equal in amount to all the notes, which the national and provincial banks have in circulation,—we shall be struck with the obvious absurdity of ascribing the disease of our currency to an excess of bank paper.

But it may be contended, that the remedy we propose, is unattainable; that the rate of foreign exchange is not a fit subject of legislative interference; and that the only effect of enquiries, like those pursued throughout this work, is to depress the public mind with the conviction, that the present disease in our currency is incurable.

Were it, indeed, true, that the rate of foreign exchange is not a fit subject for legislative interference, and that the only result of the most successful investigation, into the nature of the circulating medium, must be a conviction, that the difference between the value of our coin and of our currency admits no remedy; yet investigations of this nature would, nevertheless, be attended with very considerable benefit. If the evil be without remedy, it is right that we should know it, and prepare to endure what it is impossible

to shun. Though the cause of the malady cannot be removed, yet it is necessary, yet it is essential that its nature and extent should be accurately ascertained, in order to prevent groundless and unnecessary alarm, and to prevent that state quackery, the only tendency of which is to aggravate the symptoms of the distemper that, with ignorant presumption, it attempted to cure.

But the disease of our currency is not incurable, nor is the course of exchange an unfit subject for legislative controul. The course of exchange arises out of the balance of payments, and that part of the balance of payments which is occasioned by foreign expenditure, is under the immediate, the exclusive controul of government. The inquiry how far, during a period of warfare, it might be expedient to limit our foreign expenditure, would lead to a complicated political

discussion, little connected with the principles of the present work; but the other, and the predominant source of foreign remittances, the unfavourable balance of trade, will require no protracted discussion, and comes more within the province of the political economist.

The ruler of France has closed the ports of the European continent against our commerce; and, whatever of the productions of the continent we consume, must be paid for—not by the free interchange of commodities, but by the transmission of the precious metals. Thousands of ships sail from England in ballast, and return with valuable cargoes, until our bills, in the foreign market, greatly exceed the demand, and the balance of payments and course of exchange are turned considerably against us. Now, the only manner in which we can obviate such a state of things,

is, to turn the policy of our adversary against himself; to close the ports of England against every production of the continent; to wield, with a high hand, the trident of the seas, and to interdict all maritime intercourse, between one part of the continent and another.

Here, perhaps, some timid politician will exclaim, "Shall England imitate the barbarous policy, which would destroy the mutually beneficial intercourse between nations? and, because she is cut off from a great part of the advantages conferred by foreign trade, consummate the wishes of her foe, and voluntarily fling away the rest?"

To this I answer, that the loss of the little continental commerce that remains to us, would, undoubtedly, be an evil; but an evil to which it is necessary we should resort, in order to avoid a greater.

As domestic trade establishes divisions of employment between the members of the same community, and enables them to make the most of their acquired or natural advantages; so foreign commerce establishes divisions of employment between the members of different communities, and enables them to regulate their industry according to their habits of life, or to the nature of their climate and their soil. In either case, the productive powers of labour are increased. When the shoemaker confines himself to the making of shoes, and the weaver is devoted to the fabrication of cloth, there is a greater quantity of shoes and of cloth produced than there would be were the two occupations combined in the same person. In like manner, when the English feed sheep and manufacture wool, and the French cultivate the grape and extract its juice, greater quantities of woollens and of wine are brought into ex-

istence than could be done were sheep fed on the vineyards of France, and the pastures of England converted into vineyards.

But, though commerce adds considerably to the wealth of a country, yet this wealth may be purchased too dear. A debt to foreign countries, perpetually renewed, and a consequent unfavourable course of exchange, and apparently depreciated currency, are evils which cannot be redeemed by any advantages, that our present commercial intercourse with the continent can bestow. But, even were it otherwise; though the increase of wealth, derived from foreign trade, greatly overbalanced the embarrassment of a depreciated currency,—yet, there are reasons of a political nature, which should determine us voluntarily to abandon the little commerce with the enemy's country that remains to us. Possessed

of all the naval resources of continental Europe, Napoleon wants nothing but seamen to enable him to put forth a marine, more formidable than any thing the world hitherto has seen. In this state of things, England, with a strange infatuation, carries on her commerce in foreign vessels, navigated by the subjects of France, or of her vassal kings; thus instructing her rivals in nautical affairs, and placing, in the hand of her inveterate foe, an instrument to be wielded for her own destruction. It requires no very prophetic spirit, to enable us to foresee, that, if the licence-trade be much longer continued; if England persevere, in recruiting the navies of Napoleon, she will soon be compelled to maintain a doubtful struggle for the empire of the seas.

Thus we see, that, independently of all other considerations, a sense of self-preservation ought to prompt us to decline,

for the present, all intercourse with the continent. Nor is this all. If we were to turn Napoleon's policy against himself; if we were rigorously to interdict the remnant of the commerce of Europe, and suffer nothing either to enter, or to issue from the ports connected with France, we should soon compel our enemy to revoke his commercial decrees, and to sue to us for peace. For, if we exercised our sea dominion with a high hand, France would not only be cut off from all commercial relations with other countries, but one part of the empire could have no maritime intercourse with another. Not only would the divisions of employment, and the increased productiveness of labour consequent to foreign trade, be abolished; but all that part of the home trade, which is carried on coastways; and all those domestic divisions of labour, which are incident thereto, and which are more beneficial than

the commerce of the world, would be immediately destroyed. The productions of the North could not be conveyed to the South; nor the commodities of the East exchanged for those of the West. The inhabitants of the distant towns could not, in the pursuit of their industry, avail themselves of their acquired advantages; nor the different districts be cultivated, in a manner suitable to their respective soils. Industry would be every where depressed, and the fine territory of France would not produce half the wealth, which it is capable of producing. By his failing revenues, and decaying population; by the curses, "not loud, but deep," of suffering Europe, Napoleon would be admonished of the necessity of peace.

"Peace!" the advocates of eternal hostility will exclaim; "what peace can be made with the government of France?"

It cannot be denied, that, in the present circumstances of the world, peace would be attended with many dangers; and that, unless we obtained an equitable commercial treaty, to England it could not be attended with much advantage. But, if we understand the nature of our own situation; if we wield, with a lofty arm, the trident of the seas,—an equitable commercial treaty might be extorted, and the dangers of peace avoided. Napoleon is ambitious—greatly ambitious; and, having subdued continental Europe, he pants to create a navy, which shall enable him to wrest from England the dominion of the seas. Our great object, therefore, when we terminate hostilities, ought to be, not to take from France her continental acquirements, but to provide for the perpetuation of our own ascendancy on the waters:—this might easily be done.

With the exception of the Spanish peninsula, the continent of Europe belongs to France; and any territory, which she might be there inclined to cede to us, we should be unable to retain. On the other hand, the colonies of the world are the property of England, and no power upon earth can wrest them from her. Let France, therefore, retain her continental acquisitions, and let England keep her colonial conquests: these, with a commercial treaty, and her navigation laws, would throw into her hands the carrying trade of the world. A mercantile marine, beyond example—beyond calculation great, would afford such a nursery for her navy, that its power never could be rivalled. France might build ships through all her subject realms; but she never could approach us in the number and skill of our seamen. Confident of retaining our supremacy upon

the waters, we might terminate a contest, which has deluged the earth with blood, and obtain the only legitimate end of warfare—a secure and honourable peace!

FINIS.

Heney, Printer, Aldersgate-street.

0295

[Faint, illegible text on a document page, possibly bleed-through from the reverse side.]