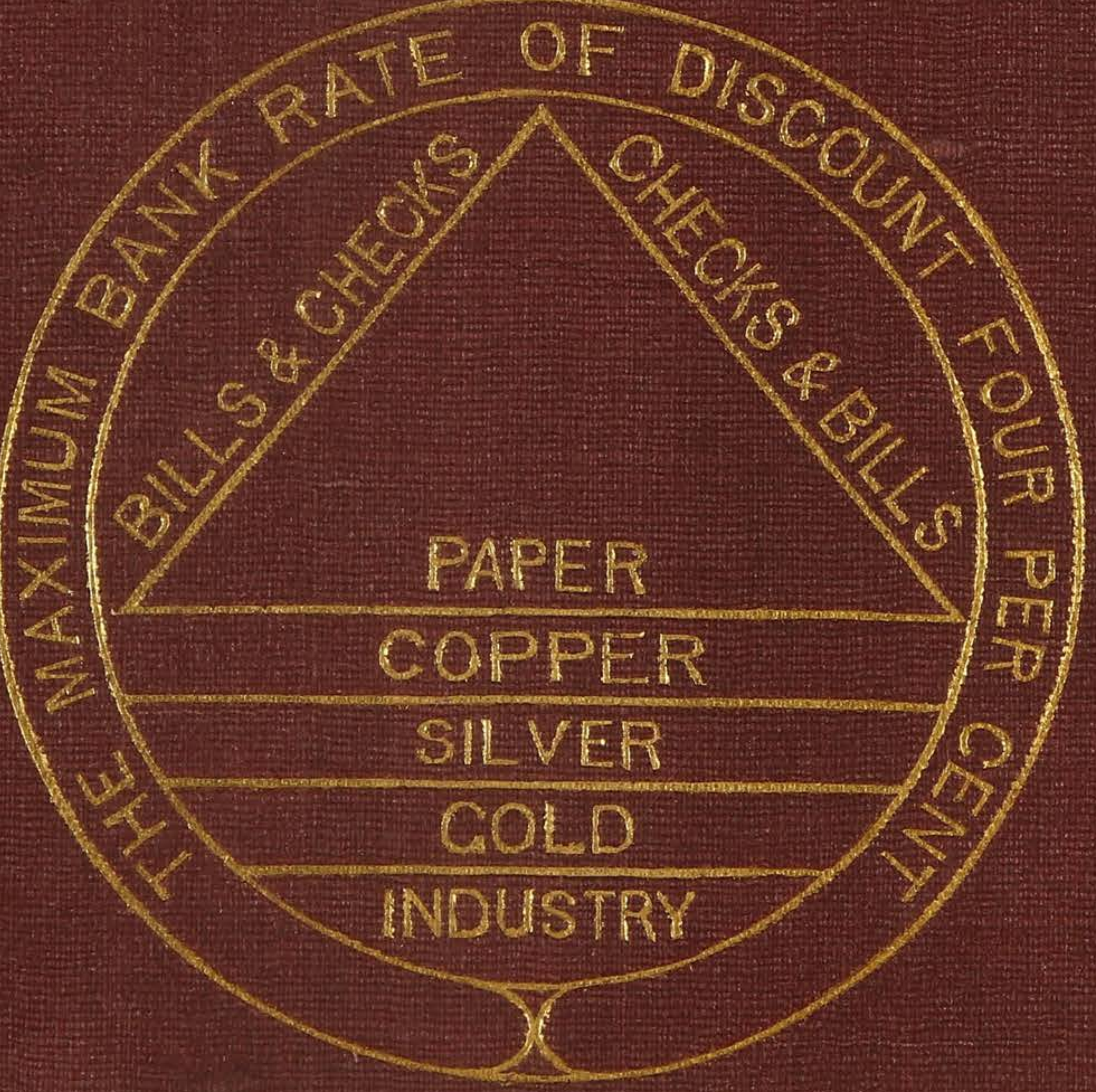
THE BANK OF ENGLAND



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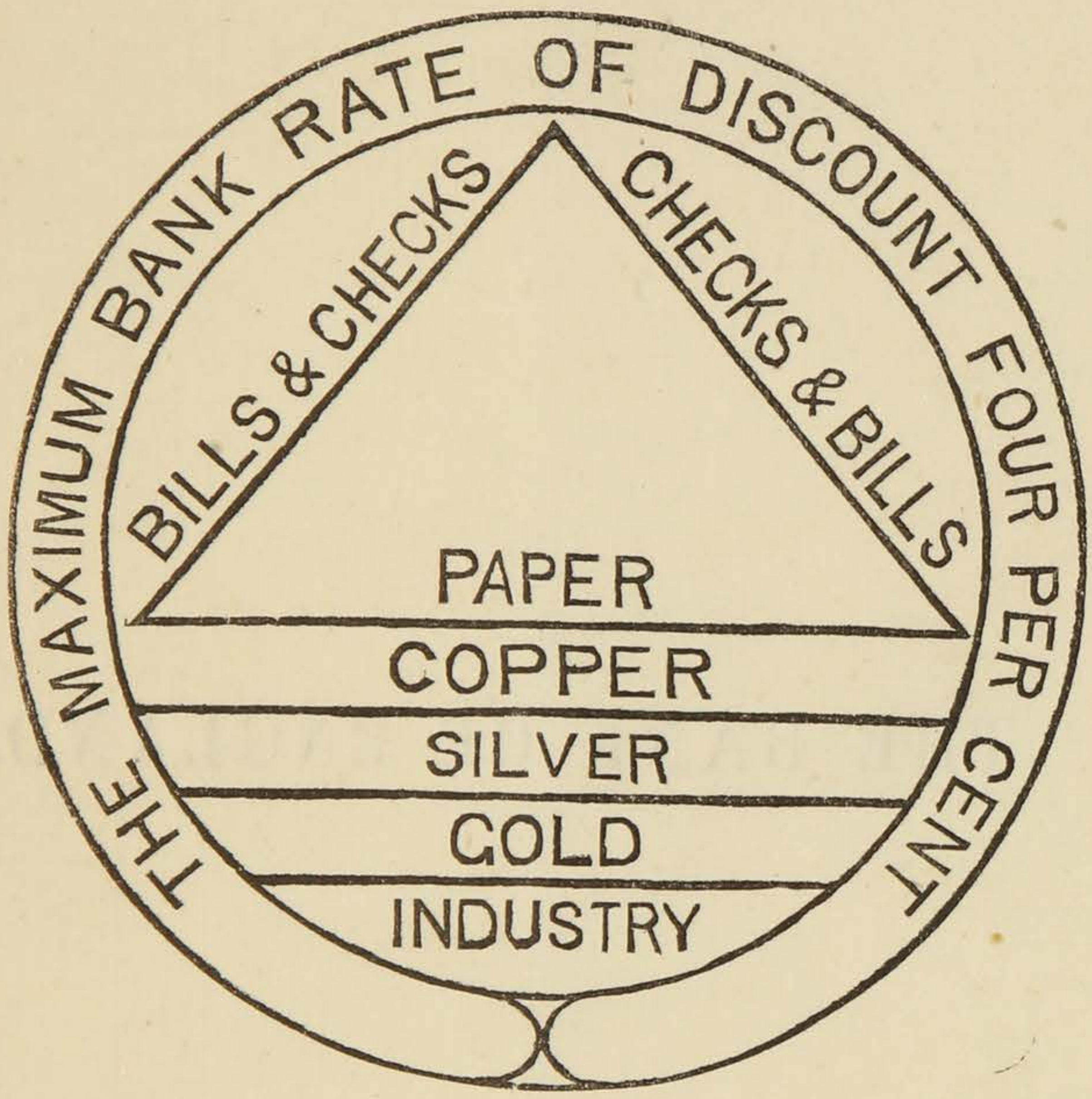
THE BANK OF ENGLAND.



The equilateral triangle represents the Bank-paper, the outside space being filled up with Bills and Checks dependent on Credit.

The foundation of the Bank-paper is the metallic coinage in copper, silver, and gold, in their respective proportions.

The basis of the whole is Industry.

The Circle represents eternity, and the legend within records a great commercial truth.

THE

BANK OF ENGLAND:

AND THE

ORGANISATION OF CREDIT IN ENGLAND.

THIRD EDITION, REVISED AND FURTHER ENLARGED.

WITH THE EVIDENCE

OF

MM. ISAAC AND ÉMILE PEREIRE

BEFORE THE FRENCH COMMISSION OF INQUIRY INTO THE BANK OF FRANCE:

ALSO

ABSTRACT OF THE AMERICAN FREE BANKING ACT:

AND

OUTLINE OF A JOINT STOCK BANK ON THE NEW PRINCIPLES.

"The Welfare of the People is the Highest Law."

LONDON:
LONGMANS, GREEN, READER, & DYER.
1867.

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NOTE FROM THE AUTHOR.

THIRD EDITION.

THE Author has enlarged and carefully revised this new edition, for a permanent place in the library. He has nothing to alter and little to add, beyond a few more explanatory remarks in further elucidation of his views, but more particularly in answer to M. Wolowski, of Continental celebrity, who, with laudable zeal but mistaken judgment, is misleading many in this country, as well as on the Continent, into his own fatal errors on the Bank Question.

The outline of a Joint-Stock Bank, on the new principles, in the Appendix, is framed to provide, as far as may be, for the deficiencies of the Bank of England, as at present constituted.

This is not proposed as a complete remedy for the evils of the Bank Charter Act, but only as a means for mitigating some of the worst effects, and, at the same time, providing a profitable investment for the savings and unemployed capital of the country.

For the success of the Joint-Stock Bank conducted on these principles, it would be necessary only to fill up the List of Directors with nine good names, which would carry the confidence of the City of London.

The required capital might then be subscribed, and the UNITED KINGDOM BANK, conducted on these principles, would be found to be so safe and profitable an investment for unemployed capital and savings, and would exercise so beneficial an influence over the commercial interests of this country, as to go a great way in settling the disputed points, and would thus lead to the re-construction of the Bank of England on the same sound principles.

THE AUTHOR OF
"THE PEOPLE'S BLUE BOOK."

London, 1st July, 1867.

NOTE FROM THE AUTHOR.

SECOND EDITION.

SINCE the publication of the first edition of this book, the Author has had the honour of corresponding with M. Isaac Pereire, of Paris, and has received from him copies of the evidence of himself and his Brother, M. Émile Pereire, before the recent French Commission of Inquiry into the Bank of France.

Some additions have been made to Chapter X., for the purpose of directing the attention of English readers to the last admirable work of M. Isaac Pereire,—"Principes de la Constitution des Banques, et de l'Organisation du Crédit;" and to Chapter XI., for the purpose of shortly noticing those political views, regarding the freedom of labor and trade, which so essentially concern the prosperity and credit of every country.

The Author has also had the honour of corresponding on the subject of this book with M. Michel Chevalier and M. Wolowski, and although the Author has not the satisfaction of their concurrence in his views, yet he has the pleasure of acknowledging the courtesy of their communications.

The reputation of M. Wolowski, in France, as an authority on the Bank Question, entitles him to respectful attention, and his opinion on this question may be interesting to Bank Directors and Capitalists, as supporting their views. M. Wolowski's opinion may be collected from his correspondence with the Author, extracts from which are given in the Appendix.

As Mr. J. S. Mill says :—"there is always hope when people . . . listen to both sides; it is when they attend only to one that errors harden into prejudices, and truth itself ceases to have the effect of truth, by being exaggerated into falsehood." ['On Liberty,' page 94.]

With the exception of a few other additions, arising chiefly out of the evidence of M. Isaac Pereire, and his Brother M. Émile Pereire, and the correction of a few trifling but obvious errors of the Press, this second edition is substantially the same as the first.

The increase of bulk in the present volume, if alarming to some, has been unavoidable, by the addition of the evidence of the MM. Pereire before the French Commission of Inquiry into the Bank of France, done into English and given in the Appendix; together with Chapter VI. of M. Isaac Pereire's last work, also translated into English.

The Author considers the chief worth of his volume to be in the Appendix, as containing the unconcerted and conclusive confirmation of his views by the MM. Pereire, Frères.

The Author, in his Preface to the First Edition, alluded to some slight differences of opinion between himself and M. Isaac Pereire; but the Author is not aware that any difference of opinion now exists between them on this question.

If the deplorable consequences of our present Banking System do not fix the attention of a commercial community and bring them together, as one united body, to demand from the Government a change in conformity with sound principles, the discouragement, to those who have devoted their time and thoughts to this subject, will be so great that, probably, further efforts will be abandoned, and the affliction of the Bank Act, under which the trade and industry of the country are suffering, will remain, until removed by the more enlightened intelligence of some future and perhaps distant generation.

To wait for an enlightened Government to originate this change, or to expect any Government to take the initiative in a change against which will be brought to bear the most powerful influence of wealth in the country, is, in effect, the abandonment of the interests of the community to the selfish interests or ignorance of a party.

The Author can only invite the careful attention of his readers to the admirable and conclusive evidence of the MM. Pereire, given in the Appendix.

Here we have the results of the long experience of two most honorable men, whose successful industry has made them great capitalists, and whose names, as financiers and bankers, are justly esteemed not only in their own country but throughout the world.

That the Author, without any previous communication with these two distinguished authorities or any previous knowledge of their views on this subject, should have found his own views, in every principle and in all important particulars, confirmed by them, is to himself personally very gratifying, but it will be much more so if it should give additional confidence to his readers, especially as he claims nothing from his own personal experience in commercial or financial affairs.

The Author has been invited to throw off the disguise, which he has so long maintained, and to affix his name to this new edition of his book, for more effectual cooperation with MM. Pereire in Paris and with a few others in this country. But he has no personal object to serve and no wish to be classed among political agitators; moreover, he believes that his opinion on most questions of politics and finance are in advance of the times and likely to be misinterpreted, as may be seen in the two fanciful emblems which he has rashly affixed to this volume, at the risk of reducing very considerably the number of his readers. But he does not write only for the present generation, nor does he intend to answer rude and ignorant criticisms, and he does not believe that his name, if known, would have the smallest effect in extending the sphere of his cooperation with those who agree with him in opinion.

He, therefore, prefers remaining in the freedom of obscurity as the Friend of the People and

THE AUTHOR OF
"THE PEOPLE'S BLUE BOOK."

1*st July*, 1866.

NOTE FROM THE AUTHOR.

FIRST EDITION.

THE outline of this work was written in the year 1858, and was then laid aside, as, at that time, the Bank Act did not appear to receive the attention which a subject of such importance deserved from the Public.

The pamphlet of M. Pereire, published in Paris, in December, 1864, entitled, "La Banque de France, et l'Organisation du Crédit en France," having revived some attention to the subject, and as the whole question of the Bank Charter Act of 1844 will, probably, be brought before a new Parliament next year, I have been induced to fill up and complete my original outline, with additions, showing wherein I differ with M. Pereire in some of his reasoning and conclusions; though, in the main principle we agree. But it should be borne in mind that, his object is the establishment of another Bank of France, or another Financial Association, on new and enlarged principles, with the view of forcing the existing Bank of France to adopt those principles.

It is, therefore, not quite a fair test of M. Pereire's arguments to try them as applicable to the Bank of England; nor would the proof that they are inapplicable to the Bank of England be conclusive against his object, which is to enlarge the sphere of usefulness of the Bank of France, the constitution of the two Banks being, in some respects, essentially different.

But the main principle seems to be applicable to the National Banks of both countries.

I have, therefore, assimilated the title of my book to that of M. Pereire's *brochure*, as being well chosen for the object, and it is satisfactory to me to find that, on the question of making the Bank of England a means for the Organisation of Credit in England, I am confirmed in my opinion by so eminent an authority as M. Pereire.

But, as "Historicus" has said, in one of his recent Letters in the "*Times*:"—"It is a lamentable but certain fact that, the hardest and best work that is done in the world is often that which is least appreciated."

Being quite of that way of thinking, I am prepared to expect that my views and opinions will meet with much opposition from a large class of Capitalists and Financiers ; and, after all care, much may be left open to just criticism.

My only object being to see our National Bank and Credit placed on a safe basis, and conducted on sound and intelligible principles, I am desirous of correcting my own views on the subject by the opinions of the most eminent and practical men in all countries ; and, for this object, I should give my best attention to any remarks with which they may favor me, through my Publishers.

But, however imperfectly the principles here laid down may be explained, and however feebly supported, I have a very strong conviction that, sooner or later, these principles will be carried out by the Bank of England, and also by the Bank of France.

Under such conviction, this work is submitted to the judgment of the Public, by a Friend of the People, and

THE AUTHOR OF
"THE PEOPLE'S BLUE BOOK."

London, 1st July, 1865.

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CHAPTER I.

THE BANK CHARTER ACT.

No public measure, of equal importance, has ever passed through so much good and evil report, with so little understanding of its true character, as the Bank Charter Act of 1844.

This Act has been ever since the subject of vehement comment, for and against. Committees of both Houses of Parliament have sat in judgment upon it. Numerous witnesses have recorded their opinions of it, in answer to the volumes of questions submitted to them, and ponderous Blue Books have given these Questions and Answers to the world. But, to this day, men of commercial experience and men of intellectual renown are not agreed as to the real effects of this famous Bank Charter Act of 1844.

It is, however, a significant fact that, the great Capitalists are almost universally in favor of it, and that, almost everybody else, — who knows anything about it,—is against it. This is significant of its actual operation and effects.

It will be shown that, these effects are much more favorable to lenders than to borrowers, and that, as the borrowers are always the most numerous, the opponents of this measure very far outnumber its advocates.

If this be no argument against the Act, yet, it is a strong ground for inquiry; and if it can be shown that this Act has worked injuriously to the trade and industry of the country, and that, it is founded on erroneous principles, the case for repeal is proved, notwithstanding that the Act may have worked to the profit of the Bank of England and to certain large capitalists.

The present object is to prove this case.

The main enactments of the existing Bank Charter Act are five.

1. It establishes two separate and distinct departments, the one for the issue of bank-notes, the other for the ordinary banking business.

2. It enacts that, the Bank of England shall

transfer fourteen millions of Government Securities to the Issue Department, and shall receive from that department the same amount of bank-notes; and enacts that, the Issue Department shall issue to the public bank-notes to the same amount for any quantity of gold bullion which may be brought into that department for the purchase of such notes, and shall repay sovereigns, on demand, for all notes of the Bank of England presented to the Issue Department by the public.

3. It limits the issue of notes by country banks, according to the average of their circulation up to a certain time.

4. It prohibits the establishment of new country banks of issue.

5. It provides that, if any of the country banks should cease to issue notes, the Bank of England shall be authorised to issue notes, without any deposit of securities or bullion, to the extent of two-thirds of the lapsed issues of such country banks.

From this it will be seen that, the Bank of England, so far as *banking* is concerned, is placed on the same footing as every other bank in the kingdom. It is only the largest bank amongst many others, with a special and very good customer, the Government.

Mr. Samuel Jones Loyd, (now Lord Overstone) who is supposed to have been the principal framer of this Act, and who is avowedly its most strenuous supporter, imperatively declares that, the Issue Department is perfectly distinct from the Banking Department of the Bank of England, and has no more to do with it than any other bank.

The fact that the bank-note still bears the name of the Bank of England, and is signed on behalf of that corporation, has perpetuated the illusion of the division of one and the same body into two subordinate departments, notwithstanding the disavowal of any such idea by the author of this curious contrivance. But that is only the illusion of the ignorant, and it is quite immaterial if, in the consideration of the whole question, the fact be borne in mind that, the Issue Department is quite separate and distinct from the Bank of England, and is wholly and entirely an office of the State for the manufacture of bank-notes,—as the Royal Mint is for the coinage of sovereigns.

It is important that this should be borne in mind for a correct understanding of the present question, for it will be maintained that, the Government, and not the Bank of England, authorises the issue of the notes, and, therefore, that the Government, and not the Bank, is responsible for the payment of the notes in gold on demand, just as the Government is responsible for the gold and silver coin, of standard weight and purity.

This view of the case, though very important in its bearing and consequences, seems to have been generally overlooked; but it must be admitted by Lord Overstone to be consistent with all that he has ever written or declared in evidence before Committees of both Houses of Parliament on the subject.

Lord Overstone is a very eminent authority on the subject, but this admission made by him will go a long way to prove the fallacy of his reasoning and conclusions.

It will be convenient to notice, presently, some of his fallacies, which are so many obstructions to a right view of this question.

That the great capitalists will be the last to be brought to look at this question in the right point of view is only what is to be expected, but that will be of little consequence when it is clearly seen and understood by the community. The Land-owners were the last to see the impolicy of the Corn-laws, but, when understood by the People, those foolish and unjust laws were soon repealed.

CHAPTER II.

FALLACIES EXPOSED.

Lord Overstone says :—" A paper circulation, is the substitution of paper, with a view to economy and convenience, in the place of the precious metals.

" The amount of it ought, therefore, to be equal to what would have been the amount of a metallic circulation ; and of this, the best measure is the influx, or efflux, of bullion.

" On this ground I must assume that fluctuations of the bullion constitute the correct standard by which to measure a paper-currency."*

If this maxim were strictly carried out, it would lead to universal ruin.

Lord Overstone says ; Eight millions are a satisfactory minimum reserve in gold ; but for this opinion he gives no reason, and it is impossible to see how this is consistent with his opinion, before quoted, on a paper circulation.

* Metallic and Paper-currency, p. 191.

The object of a paper circulation is simply to economise the coin, and, to that extent, the capital of the country.

The greater the extent to which that economy can be carried with perfect safety to the community, the greater will be the advantage to the country from the adoption of a mixed circulation of gold and paper.

Paper is used to take the place of coin because paper costs nothing, and gold costs much, and both perform exactly the same work.

The only question, therefore, is, to what extent paper can be substituted for gold with perfect safety to the community.

According to Lord Overstone, Eight millions are a satisfactory minimum reserve in gold. He would, therefore, admit that less would be a more satisfactory minimum reserve in gold, if equally safe, but that is the question.

Now, the reasoning which will show the minimum reserve of eight millions in gold to be perfectly safe, will also show the minimum reserve of two millions in gold to be equally safe; or, if it fail to show that, it will show that neither the one nor the other of these reserves would be safe. But, according to Lord Overstone,—"*a paper circulation should vary in amount exactly as the circulation would have varied had it been metallic;*"

"and that," he says, "is the only sound principle of currency."

This, as will be presently shown, is the great fallacy of the Act of 1844.

Again, Lord Overstone says:—"Management of the Currency means regulating the paper issues by the fluctuations of the bullion, and mismanagement consists either in putting out large quantities of paper-money and rapidly calling them in again, when there is a corresponding increase or decrease of the bullion: or, in taking in large quantities of bullion, and not putting forth notes against it. By this rule I contend that all issues of paper-money, whether Bank of England or Country issues, ought to be judged, and that their measures must, in every instance, be condemned, or approved, in proportion as they conform to, or violate it."*

Now, it is a fact, as will be presently shown, that the Issue Department does not produce such a correspondence between the paper-money and the bullion, and that there never can be, and never ought to be, any such correspondence between them.

Gold, although used for money, is also an article of merchandise, and is subject to the same

* *Ibid.* p. 202.

natural laws which regulate all other articles of merchandise.

A free trade in gold must always exist, and to say that the convertibility of bank-notes, payable in gold on demand, can be endangered, so long as the issuers of the notes possess the means of purchasing gold, and gold is to be purchased, is an unintelligible proposition.

If the supply of gold be equal to the demand, and the means of obtaining gold be equal to the occasion for it, it must be as unnecessary to keep in hand a stock of gold more than sufficient to meet the ordinary demand, as to keep in hand a stock of any other goods more than sufficient to meet the ordinary demand.

In the case of cotton, it is considered sufficient to keep in hand a stock enough to meet the ordinary demand.

Why should the rule for gold be different from the rule for cotton, when both are dealt with *as commodities?*

A small stock of gold has always proved sufficient to meet the ordinary demand for gold *as money.*

Who ever wanted to convert his bank-notes into gold to any large amount, unless he wanted the gold to send abroad in payment for goods, or to export as merchandise, or for foreign loans?

And who ever found any difficulty in converting his notes into gold to any amount, since notes were payable in gold?

When has the Bank of England note, since it was payable in gold on demand, been of less value than the sovereign?

At no time has the sovereign been preferred to the bank-note, since it was made payable in gold on demand.

The Banking Department of the Bank of England has often been severely pressed to supply the demands, but the difficulty has always been as much to find the notes as the gold, and to the public it was a matter of indifference which of the two they carried away.

The greatest run ever made on the Bank of England was in 1825, and then it was saved from stoppage only by the accidental discovery of one million of unburnt one-pound notes. These were eagerly taken by the public, so perfectly, at that momentous crisis, was the note held equal to the gold. Great authorities say that, the bank-note was then in imminent peril, but on what ground they say so does not appear, for the very reverse was then proved to be the truth.

Since 1819, the Bank of England note has never been exposed to the slightest risk of depreciation.

This fact, proved by experience, is confirmed by science.

We see and know that the solvency of a responsible issuer is a complete and sufficient guarantee for convertibility.

We accept the evidence from experience, that the Bank of England and the Bank of Scotland have been solvent and responsible issuers, and have furnished practical and trust-worthy security for solvency and convertibility.

The Bank of England, when so near a stoppage in 1825, was then solvent, and always has been so since.

It wanted then, what it accidentally found, the notes. These it has often wanted since.

The radical defect of this Act is that, it prevents the means of supplying the want. It secures a solvent and convertible currency, but that was secure before.

The machinery of the Issue Department has secured solvency and convertibility, which were already secure; but it has, on several occasions, spread insolvency throughout the kingdom, and has retarded the progress of the greatest commercial country in the world, by an undue and wholly unnecessary restriction of the circulating medium, thereby enhancing the price of money and lowering credit.

Lord Overstone says:—"It is the universal law of human affairs that every good must be purchased at its appointed price, and no country can expect to enjoy the double advantages of a currency regulated by a fixed metallic standard, without submitting to the occasional inconveniences and pressure which are the indispensable means for accomplishing that end."

This long sentence begins and ends with a simple truism.

The *appointed* price, and the *indispensable* means, constitute the question, which Lord Overstone seems to think he has answered by a general truism. This is the more strange when compared with his explanation of the object of a paper-circulation, before given in his own words.

It will be shown that, *the occasional inconveniences and pressure* are not *the appointed price* of *a paper-circulation regulated by a fixed metallic standard,* if properly regulated, and that, when the occasional inconveniences and pressure do occur, the fixed metallic standard will be in no manner the cause.

With regard to the separation of the Issue and Banking Departments, Lord Overstone says:—

"The only object of the proposed separation of the departments of the Bank of England is, to obtain an effectual security for the regulation of the amount of the paper-circulation of the country in correspondence with the fluctuations of the bullion, such regulation being deemed essential for the certain maintenance, under all circumstances, of the convertibility of paper issues and specie."

The true answer to this is that, it is the business of a Bank that administers a paper-currency in exchange for gold, or in lieu of gold, to have *no other end in view* than that of preserving its paper *strictly*, correctly, and invariably, upon a level with the value of gold.

The separation of the departments of the Bank of England can never obtain an effectual security for the regulation of the amount of the paper-circulation of the country in correspondence with the fluctuations of the bullion.

Experience was not required to show the fallacy of Lord Overstone's extraordinary assertion, the more extraordinary when made by a banker of his experience.

The fallacy has been already shown in the actual fluctuations between Bank of England *Notes* and Bullion ; but when the amount of the *paper* circulation of the country is brought into the question, it is difficult to find words to express the astonishment at such a statement as this by Lord Overstone.

Sir Robert Peel, as Chairman of the Parliamentary Committee of Inquiry on the Bank Act of 1844, said:—"I anticipate from the adoption of this measure a less fluctuation in the amount of the circulation—a less fluctuation in the range of prices; but I am not so unreasonably sanguine as to suppose that it will put an end to all speculation, and to all miscalculation in commercial matters. . . . We can prevent an additional stimulus being given to a rise of prices, and undue speculations by the influence of an ill-regulated currency, and this it is the duty of the legislature to attempt."

These anticipated effects have been in no way realised. The fluctuations in the amount of the circulation have not been less; nor have the fluctuations in the range of prices been less; but in both cases greater.

It is not the duty of the legislature to attempt to influence prices by regulations of the currency, nor is it possible to do so by any such means. Prices must necessarily vary according to the relative supply and demand, and can be in no way affected by the amount of notes in circulation. All experience confirms this principle. It is not found that prices vary according to the amount of notes in circulation. Currency, as will be presently shown, has nothing to do with prices, the real use of currency being to circulate commodities and transfer debt.

CHAPTER III.

THE FALSE CURRENCY PRINCIPLE.

"That when Bank Notes are permitted to be issued, the number in circulation should always be exactly equal to the Coin which would be in circulation if they did not exist."

This principle is contained in the Evidence of Mr. Samuel Jones Loyd, (now Lord Overstone) befor the Committee on Banks of Issue, 1840. Question 2663-4.

The following are his words:

"The precious metals converted into Coin constitute the money of each country. That Coin circulates sometimes in kind; but in highly advanced countries it is represented, to a certain extent, by paper notes, promising to pay the coin to bearer on demand, those notes being of such a nature in principle, that the increase of them supplants coin to an equal amount. When these notes are in use, the metallic coin, together with these notes, constitutes the money, or currency of the country. Now, this money is marked by certain distinguishing characteristics; *first*, of all, that its amount is determined by the laws which apportion the precious metals to the different countries of the world; *secondly*, that it is in every country the common measure of the value of all other commodities, the standard by reference to which the value of every other commodity is ascertained, and every contract fulfilled; and *thirdly*, it becomes the common medium of exchange for the adjustment of all transactions equally at all times, between all persons, and in all places. It has, further, the quality of discharging those functions in endless succession. Now, I conceive that neither deposits nor bills of exchange in any way possess these qualities. In the first place the amount of them is not determined by the laws which determine the amount of the precious metals in each country. In the second place, they will in no respect serve as a common measure of value, or a standard by reference to which we can measure the relative values of all other things; and, in the next place, they do not possess that power of universal exchangeability which belongs to the money of the country."

From the foregoing evidence it will be seen that the Witness used the words "Currency," and "Circulating Medium," as synonymous. Several other high authorities, examined before the same Committee, confirmed that opinion.

In Lord Overstone's opinion, money and currency are identical, and include the coined metallic money, and the paper notes promising to pay the bearer coin on demand. He says that the characteristic of their being money is, that they are received equally at "*all times, between all persons, and in all places.*" He excludes bills of exchange from the designation of currency, because "they do not possess that power of universal exchangeability which belongs to the money of the country."

It is impossible to imagine a definition more fatal than this is, to the opinion so expressed; for, if this definition be the true one, then there *is no such thing as money or currency at all.* In the first place, it at once excludes the whole of the issues of bank notes. The notes of a bank in the remote district of Cumberland, would not be current in Cornwall, *therefore*, not being received equally at "*all times, between all persons, and in all places,*" they are not currency.

Again, the notes of a bank in Cornwall would not be current in Cumberland, *therefore*, they are not currency. We may almost say that there are no country bank notes which have a general currency throughout England, therefore no Country Bank Notes are received equally at "*all times, between all persons, and in all places;*" *therefore,* no Country Bank Notes are Currency.

Till within the last 45 years, the Notes of the Bank of England had scarcely any currency beyond London and Lancashire, the preference being then universally given to local notes in country districts, therefore Bank of England Notes had not a power of "universal exchangeability;" *therefore* they were not currency.

If this test is to be applied, the claims of all Bank Notes to be considered as Currency are annihilated at once.

The acceptance of a Baring, or a Rothschild, or of Lord Overstone himself, would be received in payment of a debt by a far larger circle of persons than the notes of an obscure and remote country bank. But Lord Overstone excludes Bills from the term, "Currency," because their amount is not determined by the laws which determine the amount of the precious metals in each country. But is the amount of Bank Notes determined by these laws?

He says that the increase of Bank Notes only supplants coin to an *equal* amount; but this is a most extraordinary assertion for a Banker to make. Where the issue of them is free, it is absolutely certain that their amount will greatly exceed the amount of gold and silver coin that ever would have circulated. But the universality of this Witness' assertion is fatal to his argument in other ways. On the Continent silver is the legal standard of value. In Great Britain silver, like copper, is merely coined into small tokens, called shillings, etc., which are made to pass current above their intrinsic value, and are only a legal tender for a very trifling amount, hence it cannot be used for the adjustment of *all* transactions, therefore it is not received equally at "*all times, between all parties, and in all places:*" *therefore,* it is not Currency.

There are other countries where gold is not a legal tender, therefore it fails to satisfy Lord Overstone's test, *therefore,* gold is not Currency.

It is easy to see that there is no substance, or material whatever that will not fail under this test, and therefore, *there is no such thing as currency.*

The fact is, that the only difference between a Bill of Exchange, and a Bank Note is, that the former is a promise of a deferred payment, and the latter is that of an immediate one; and there is less risk in taking the latter than the former. From these circumstances a Bank Note possesses a greater degree of circulating power than a Bill of Exchange. To all those who hold the doctrine that Bills of Exchange are not currency, or circulating medium, the answer is short and simple :—that even if the allegation were true, it is nothing to the purpose, because it only goes to show that there are different species of currency, or circulating medium, some of more eligible descriptions than others. But the allegation is not true, and the fallacy and absurdity of it are here shown. To prove the entire fallacy of Lord Overstone's doctrine on this subject ;—he maintains that only Promissory Notes payable on demand are currency. But would not Notes payable one day, one hour, or minute, after demand be currency ? Are not Bank Post Bills, payable seven days after sight, currency ? Where is it possible to draw the line ? The same argument applies to one month, two months, three months, or any longer period. The answer is clear, that they are all species of currency, though differing in degree, and the distinction between them is untenable.

But though Lord Overstone's criterion of a Currency be fatal to his own view, what would he gain by it if it were admitted ? For what is it that exists in all places, in all times, and among almost all persons ?

The answer is—Debt Or Services Due.

And what is it that it is universally required to measure, record, and transfer them?

Some material.

But we see that all Currencies are more or less local, none are universal. The idea, or want, alone is universal. The notes of a Country Banker, only circulating in his own neighbourhood, are like a country *patois;* each district has its own. A national currency rises to the dignity of a language. But even that is only local on a larger scale. The ideas only expressed in the language are universal. The only true idea of a Currency is, that it is the—Representation Of Transferable Debt; and that, Whatever represents transferable debt is Currency.

All persons except those who advocate an inconvertible paper currency, agree that a paper currency must represent some article of value, and bullion has been generally chosen for that purpose. Now, the idea has occurred to a great many persons, that if it be necessary only that a paper currency should represent some article of value, why should it not represent any or all articles of value, such as Land, Corn, Silk, or any other commodity, and among others, the public funds? And this has actually been tried in several instances, yet they have universally failed, and in many cases have been attended with the most dreadful calamities. Now, as this has uniformly happened, and must happen, it necessarily follows that there must be some radical error in the principle, and that it must oppose some great law of nature.

And this is, beyond all comparison, the most momentous problem in political economy :—Why is it improper to issue a paper currency on any other basis than that of bullion ?

All the most eminent British Statesmen have instinctively resisted such proposals, although repeatedly pressed to do so. No doubt, it has been a most fortunate instinct for the country ; but certainly all their reasonings on the subject have not followed their instinct.

The Bank Act of 1844 was the first occasion on which a small bit of this fatal theory was introduced, which, if only followed out to its legitimate conclusion would reproduce in this country the horrors of the Mississippi scheme in France. But though the British Parliament, by a blind unreasoning instinct, has always, with the exception just named, resisted such fatal advice, this, will not satisfy the demands of Science. This was the error which brought the name of John Law into such unhappy notoriety, about 160 years ago. He was the great advocate of what is now the popular cry—basing a paper currency upon any article of value besides bullion. The only difference between him and our greatest statesmen is, that he carried out their arguments to their legitimate conclusion. He had the opportunity of carrying this theory into effect, and the result was ruin.

This has been so fully and clearly shown by Mr. Macleod, in his admirable work on "The Theory and Practice of Banking," etc., that it is only necessary to refer to that work,* from which these remarks on Currency are, for the most part, abridged. As the same writer adds:—"A moment's consideration will show that the theory of basing a paper currency on commodities involves this palpable contradiction in terms, *that one can buy commodities, and also have the money as well.*"

The origin of the Public Debt of this country was Bank of England Stock, which was advanced to the Government, in consideration of privileges conferred, and as these advances were made from time to time, increasing the Public Debt to the

* "The Theory and Practice of Banking." By Henry Dunning Macleod, Esq. Longman and Co. 1855. A 2nd edition, enlarged and very much improved, was published in 1866, and is by far the most comprehensive and able work which has ever been published on the subject of Banking.

same amount, the Bank was allowed to issue notes to the exact amount of its capital, *i. e.* the Public Debt, and this permission still continues.

If this permission had been carried out to its legitimate conclusion, the National Debt and the capital of the Bank of England would have been one and the same thing, and the paper notes of the Bank would have been nearly £800,000,000.

As Mr. Macleod observes; this fundamental principle of the Bank of England was as erroneous as the Mississippi scheme, and if this principle had been carried out much further, it must have ended in universal ruin; but that, in all these cases, such as the Mississippi scheme, the Ayr Bank, the French Assignats, or American banking, the mischief is not developed until the issues exceed a certain limit. In the case of the Bank of England, the mischief has been prevented from producing its inevitable consequences by rigidly restraining it within that limit. The depreciation of the issues is the evidence that the certain limit has been exceeded. That the Bank of England note has not been depreciated, is evidence that the principle has not been carried far enough to develop the mischief.

The idea, therefore, of basing a paper-currency upon property, or commodities, or upon public stock, is essentially erroneous, and if carried out to its legitimate consequences, must terminate, as it did in France, in 1796, and in America, in 1837–9.

But the Bank of England, being based, from its commencement to the present time, on this vicious principle, the first step to the re-constitution of the Bank of England on a sound principle must be to restore the borrowed capital of the Bank.

This must be the foundation of the Bank of England, otherwise it is a Bank without capital, and must be unequal to its purpose and object.

The next important step must be to enlarge the credit capital of the Bank of England, by extending the power of the Bank over the issue of notes on Government securities.

That the safe limit has not been exceeded by the issue of £14,000,000 of Credit Notes is manifest from the fact that these notes have never depreciated. The issue might be extended to £40,000,000 or £50,000,000 on the same security with equal safety, the security depending on the solvency of the British Nation.

The fallacious theories which have so long bewildered the banking and commercial mind with regard to over-issues and over-trading will be passed over lightly here, the object being to expose the fundamental fallacies of the Bank Charter Act.

No practical purpose is now to be served by further discussion of the wearisome questions about Metallic Currency, and Paper-Currency, and how these are affected by Foreign Exchanges.

We never have had, and never can have, a wholly metallic currency. We have had a wholly and inconvertible paper-currency, and that, whilst it lasted, was an injustice and a disgrace to the nation. But we have paid for that vicious system, and got out of it, and are not likely to go back to it, whilst common sense, not to say common honesty, prevails in this country.

We have now a mixed metallic and paper-currency, based on bullion, as the acknowledged measure of value, and the only true basis of the representative value.

The convertibility of the bank-note into gold coin of the realm, on demand, is the foundation of the commercial honour and prosperity of this country, and must be preserved at whatever cost.

To show that the convertibility of the bank-note can be preserved at a much less cost than under the existing system, and with equal safety, is the present object.

CHAPTER IV.

MONEY, CURRENCY, AND CAPITAL.

Money is currency of the legal and acknowledged measure of value.

The metallic currency is called Money, and the paper-currency of all sorts is termed, Security for Money. These securities for money, or the paper-currency, are divided into two general divisions, *firstly*, promises to pay money, called Promissory Notes; and *secondly*, orders to pay money, called Bills of Exchange. Each of these general divisions, again, is divided into several varieties.

The Sovereign, or Pound, is 123·274 grains of standard gold, 22 carats fine, and 2 carats alloy. The sovereign was a new gold coin, made current by proclamation, of the value of 20*s*., on the 1st July, 1817.

Currency is that which passes current from hand to hand, for the transfer of Debt. It is evidence of a debt due to the possessor of it, proving that he has rendered services for which he has received no equivalent, but which he can demand at any time. It may, therefore, be laid down as a fundamental conception, that Currency and Transferable Debt are convertible terms; that whatever represents transferable debt of any description is currency; and that, whatever material the currency consists of, it represents Transferable Debt, and nothing else. Therefore, where there is no debt, there can be no Currency. Where the exchanges are equal, there is no debt, and there can be no currency. The Debt represents the precise *inequality* of the exchange, and where there is no exchange, the debt must equal in value the service rendered. Hence it is clear that the use of currency is to supply the defect of the exchange, or, rather, in most cases, to do away with the necessity of an exchange. Its real use is manifestly to enable commodities to circulate, or move from the possession of one person to another, or to enable one person to render another services without the necessity of an exchange. Hence,—*The use of a Currency is not to facilitate exchanges, but to abolish exchanges.*

Circulation is the amount of the sum total of all the transferences of the currency. It is generally used as synonymous with money and bank notes, and more particularly the latter. Thus the number of notes issued by the Bank of England, or any other Bank, is called its circulation. But this is an objectionable term.

To call the notes which circulate a circulation, seems as great a confusion of idea, as to call a wheel a rotation. The word circulation, therefore, cannot properly be applied to the issues of a Bank. The more correct expression evidently is, the number of its notes in circulation. Currency denotes the substance itself. Circulation the amount of its transferences from hand to hand.

This simple definition of money and currency, as given by Mr. Macleod, will help to expose many of the common fallacies from the mis-use of these terms.

Capital is nothing but a store of accumulated labor, which has not yet been spent, and it is necessary to have some material substance to represent and measure it. That substance is money. Capital, then, in its primary and true meaning, denotes the accumulated savings of labor, and its symbol is, MONEY. Among most of the civilized nations, the weight of bullion is the measure of value. Capital, therefore, is the purchasing power, the moving power of commerce, the power that causes the goods to move from the producer to the merchant, or it is the circulating power, which causes the goods to circulate. In its primary meaning, it does not mean the commodities themselves, but the power which transfers the property in them from one person to another. All goods are circulated, either by capital, or credit; hence, *capital and credit constitute the circulating medium.*

It will, therefore, be seen that every unsuccessful operation in trade alters the proportion between the currency and the capital, or the debt it represents; and though a few unsuccessful operations of this sort would not have any sensible effect in changing its value, yet a repeated succession must necessarily do so ultimately, just as adding a drop of water in a bucket may not perceptibly increase the quantity of the water, yet a continued series of drops will at length cause the water to overflow the bucket; so a continued series of such operations, under an inconvertible paper-currency, must necessarily result in a serious diminution in the value of the whole. But it may happen that, even though the merchant pay his debt, and no loss of capital ensue to the bank, yet it may be a loss of capital to him. Thus, when he bought the goods on credit, and gave his acceptance for them, which was purchased by the bank, he meant to employ those goods as *capital,* that is, he bought them merely for the purpose of selling them again with a profit. If he succeed in this object and sell them to advantage, he pays his acceptance out of the proceeds realised by the goods, and his Capital is increased more or less, according to the greater or less advantage he sells them at. But if he have made a miscalculation, and sell the goods at a loss, he must still make good his debt to the bank out of his remaining capital; and such a transaction is a loss of capital to him. But every loss of capital to an individual is a loss of capital to the whole community. And the great general result to the community is absolutely the same, whether the loss of capital fall upon the individual or upon the bank. The capital of the Nation is diminished, but the currency remains the same. Consequently, every unsuccessful operation in trade alters the proportion between the quantity of the Currency, and the quantity of the debt, or the Capital it represents; and, therefore, every unsuccessful operation necessarily tends to diminish the value of the whole currency, unless some means can be devised by which a quantity of currency can be removed from circulation, corresponding to the loss of capital. Now, the diminution in the value of the currency inevitably shows itself in process of time, by a general rise in prices. It may do so gradually and imperceptibly at first

—in the hourly variation of prices it may not, perhaps, be perceived at first,—just as when the waves are breaking upon the shore, it is impossible to tell whether the great tide be advancing or receding; but if it continue for any length of time, all traders begin to feel it instinctively. It is impossible, perhaps, to point out the precise influence in any particular transaction; but, yet, it makes itself felt, in commercial operations, by a general rise in prices. The fact is that, when the operation was done, and the production exposed for sale, it was expected and calculated that a certain portion of currency would be appropriated to the purchase. But, if people do not want the article, they will not appropriate that portion of currency to the purchase; the producer loses his capital, and the currency remains in circulation. And the increased quantity of it gradually enters into the prices of other commodities, aggravating them and swelling them up. Now, in this case, when the currency is made of a material which has a universally acknowledged value, nature herself provides the remedy. When commodities rise in price in this country, beyond their prices in foreign countries, besides the cost of transporting them here, they will be imported, and the extra quantity, thrown upon the market, diminishes their price, both by altering the rates of supply and demand, as well as by removing from circulation the quantity of currency, necessary to pay for them, until the general equilibrium is again restored between prices, currency, and capital. But if the currency be made of a material which has no value whatever, like paper, this great natural restoring process cannot take place. The quantity of currency remains the same, while the capital it represents is diminished. The consequence is a general diminution in value of the whole currency,—all the portion of the currency which has no intrinsic value is driven out of circulation; then follows a great rise in the market price of bullion, and, as a necessary consequence, a fall in the foreign exchanges.

These considerations enable us to affix a definite and specific meaning to a phrase now in constant use, but which no one even attempts to explain. All discussions upon currency are full of misty and vague expressions about "excessive issues," "over-issues," but no attempt is made to define what an "over-issue" is. Now, "over-issues" in general, must consist of specific instances of over-issue in particular cases. Where is the use, or the sense, of casting vague and indefinite accusations against the Bank, of making "excessive issues," unless the charge be supported by pointing out specifically which issues are excessive, and which are not? Now, the meaning of an "excessive issue," or an "over-issue," is an advance upon an unsuccessful operation, or *the purchase of a bad debt.* Every quantity of currency advanced to promote an unsuccessful operation, or which purchases a bad debt, alters the proportion between the currency and the debt, or the capital it represents. Each specific instance, then, of such an operation is an "over-issue," and the expression has no other meaning.

The foregoing considerations also show the complete fallacy of the theory of issuing notes on "good bills." In a Banker's sense, a "good bill" means simply a bill which is duly paid by the proper party at maturity. It is not the smallest consequence to the Banker, as long as he is paid, whether the transaction out of which the bill originated be a profit or a loss to the person who incurred the obligation. But if the expression, "good bill," be taken in a more extended and philosophical sense, to denote a bill upon which it is safe to issue currency, it is a very different matter indeed, for then "a good bill" can only mean one generated by a successful operation.

Every consideration of sound reasoning and science, then, proves that, the only true foundation of a paper currency is that substance which is the legal, or the universally accepted, representative of Debt, *i. e.* of services due, or Capital, whatever that substance be. Now, among all civilized nations, gold or silver bullion is the acknowledged representative of Debt, or Capital. Consequently, gold or silver bullion is the only true basis of a paper currency. Among all civilized nations, *the weight of bullion is the acknowledged measure of value*, and, consequently, bullion is the only true basis of the representative of value. Many unthinking persons declaim against the absurdity of founding a paper currency upon the commodity of gold bullion, rather than any other commodity, such as wheat, or silk, or sugar. But it is not as a *commodity* that bullion is the basis of a paper currency, but as the substance which is the accepted representative of Debt or Capital. It would be perfectly possible to make a yard of broadcloth, or a Dutch-cheese, the representative of Debt and the measure of value; then the yard of broadcloth or Dutch-cheese would be the only true basis of a paper currency, and to issue paper upon the basis of bullion would, in such a case, be as improper as to issue paper on the basis of broadcloth or Dutch-cheeses under existing circumstances. But all nations are agreed that bullion is better fitted by nature for such a purpose than any other commodity; and, consequently, as it seems to be the substance pointed out by nature for representing debt, bullion is the substance which forms the only true basis of a paper currency.

Bullion, then, as the symbol of Capital, is not only the sole proper basis of a paper currency, but is the only true regulator of its amount. As all paper currency is a "promise to pay" gold or silver bullion at some definite time, it is quite evident that the "promises to pay," floating in a nation, must bear some proportion in quantity to the actual quantity of the bullion. It is quite impossible to fix any definite proportion, because that depends upon a multitude of peculiar circumstances. Experience is the only guide on the subject.

Capital and Credit, or money, and promises to pay money, then, form the only true circulating medium, or currency, and they are its limits. If the limits of Capital and Credit be once transgressed, we plunge at once into the fatal error of the notorious John Law, and there is no logical goal, till we arrive at the Assignats of 1796, or the Issues in America in 1837; and even these did not reach the full limits allowed by the theory. It is impossible to exceed the boundaries of Capital and Credit in the smallest degree, without involving this absurdity,—*that we can buy a thing, and keep the price of it as well.*

Capital and Credit, then, must always increase and decrease together. If a man's real capital be reduced from £1000 to £100, it is quite clear that he cannot keep in circulation as many "promises to pay," as when he had £1000 ; and if his real capital be leaving him, he must reduce his liabilities in a similar proportion. If he choose to spend £500 in buying commodities, such as corn, flour, etc., it is quite clear that he cannot spend the money, buy the commodities, and have the price as well. What is true of a single individual, is equally true of a Bank, or of a Nation. When an ordinary Bank feels a drain upon its bullion, it must reduce its liabilities, its "promises to pay," or else the ruin of that Bank is certain. Now, although this be true as a general principle, and applicable to private banks, yet it is not applicable to the Bank of England, invested with a monopoly in the issues of the legal tender money of the country, as will be shown in the future pages of this work, where it will be maintained that it is the reverse of true applied to the Bank of

England, and that, as its bullion *decreases*, it ought to *increase* its issues, but under certain limitations.

The operation of reducing "Issues," or "Advances," is always one which will excite much complaint, and requires to be done with much delicacy; and, indeed, the grand problem, in regulating the paper currency, is to discover the true mode of acting upon it, so as, on the one hand, to maintain always its uniformity in value with the coin it represents, and on the other, not to contract it too suddenly and violently, and without giving the public sufficient warning to enable them to reduce their liabilities in proportion.

The plain and obvious method of controlling the paper-currency has almost entirely eluded observation. No person who apprehended the true nature of Banking, and expressed it in simple language, could fail to see the natural controller. The main business of commercial banking is discounting mercantile Bills, that is, buying debts. Discounting a Bill for a merchant, is not *lending* him money, but buying a debt due to him; and the price of such debt must follow exactly the same law as the price of corn, or any other article, if brought under the same law by exactly the like circumstances, but not otherwise. If money be very scarce and wheat very abundant, the price of wheat must fall; if money be very abundant, the price of wheat will rise. The price of debts obeys the same rule, under the same circumstances. If capital become very scarce, the price of debts must fall, *i. e.* the discount must rise. If capital become abundant, the price of debts will rise, *i. e.* the discount will fall. The price of debts, then, must follow the same great natural law that the price of wheat does, if that law be left uncontrolled in its operation. Now, does not every man of common sense know that, it is foolish to try to control the price of wheat? It is not the fluctuation of the price of wheat that is the evil, but it is only the *sign* of the evil. The real evil is the change in the proportion of the demand and supply, and the fluctuation of the price is the grand natural corrector of the evil. Does not every one know that a *high* price of corn is the way to *attract* corn where it is deficient, and a *low* price the way to *repel* it from where it is already too abundant? Does not every one know that it is the most fatal folly to force down the price of wheat when there is a real scarcity, and to sell it below the price it would naturally attain?

Now, apply all the arguments which suggest themselves so irresistibly in the case of wheat, to the case of credit, or the purchase of debts, and the same results will follow, under the same, or the like circumstances. The same natural law operates to preserve the due proportion between capital and credit, and any interference with this law must necessarily be attended with the same evil consequences, as an interference with the natural price of wheat.

The variations in the rate of discount, therefore, are, in truth, only the *sign* of the evil. The real evil is the altered proportion between capital and credit, and a variation in the rate of discount is the corrector of the evil. To attempt to keep the rate of discount uniform, when the proportion between capital and credit is altered, without taking any means to restore the due proportion, is to thwart and contravene the natural law, just the same as an attempt to fix the price of wheat; but if the proportion between capital and credit can be restored without altering the rate of discount, then there is no reason why a uniform rate of discount should not be preserved, and quite consistently with the natural law, for although variations in the rate of discount correct the real evil, yet these variations are also a great evil. The simplicity, beauty, and perfection of action in this natural law, as in all the laws of nature, is marvellous, and produces a multitude of results which are not, perhaps, at first, very obvious. If capital be leaving the country and becoming scarce, compared to credit, every principle of nature shows that the value of money must rise, *i.e.* the rate of discount must rise; and this has a tendency to prevent the outflow of bullion, and to attract it from abroad; on the other hand, if capital be flowing into the country, and likely to become too abundant, compared to credit, a fall in its value, or a fall in the rate of discount, *repels* it from the country. If a nation be visited with a great failure of the crops, it can buy such food from foreign countries only with its commodities or its money; it cannot send its credit in payment abroad. If commodities be too dear, it must pay with money, and credit in this country is the great producing power, and *for a time* is a great sustainer of prices, by enabling people to withhold their commodities from the market. Now, raising the rate of discount curtails credit, forces sales, and thereby lowers the prices of commodities, and makes it less profitable to export specie, and more profitable to export goods. Moreover, this rise in the value of money here, *i.e.*, the low price of debts and commodities, tempts buyers from neighboring countries to bring their money here. It thus causes an influx of bullion, and restores our currency to a uniformity of value with that of neighboring countries. Again, if this nation have to spend a great part of its money in buying foreign corn, it is quite clear that it has not got so much money to spend in purchasing goods; an over-production of goods, therefore, can only end in a disastrous fall of prices. And here, too, the beautiful action of the natural law is manifest. So enormous a proportion of the commodities of this country are produced by the credit system, that a rise in the rate of discounts just hits profits between wind and water. Consequently, a rise in the rate of discount retards and curtails production in proportion to the diminished consuming powers of the nation, and so prevents such a ruinous fall in price as would necessarily follow an undiminished production, accompanied by a diminished power of consumption. But, this result is a great disturbance to trade and a great loss to the country, and still the question remains, whether, with a mixed metallic and paper-currency, the same result cannot be produced with less disturbance to trade than by raising the rate of discount beyond a certain fixed *maximum*.

In fact, when a commercial crisis occurs in a country, it invariably means that more persons are wishing to sell than there are persons to buy; or, at least, at remunerative prices. A commercial crisis invariably arises from a lack of purchasers, which is, in fact, over-production. True prudence, therefore, shows that, in all commercial crises, *production should be curbed.* It is much better not to produce at all, than to produce and be obliged to sell at a loss. To produce and be obliged to sell below the cost of production is loss of capital. It is better, therefore, not to employ the capital at all, than to lose it. Raising the rate of discount, therefore, acts as a timely warning to producers to hold hard, but, in that case, especially with a paper-currency, it may be better still not to discount at all, than to disturb the uniform rate of discount.

Now, what is the necessary consequence of an attempt to thwart this great natural law? In time of scarcity of food and a necessary export of money to buy it, if the rate of discount be kept unnaturally low, nothing but money will go; commodities are too dear, they will not go. Again, money being kept at an unnaturally low rate here, no one will bring it here from neighboring countries, consequently, great quantities of money will go out, and none will come in, till at last, the circulating medium will be nothing but "promises to pay," and no money to pay them with. Then, at last, violent convulsions, total destruction of credit, every one wishing to sell, and no one wishing or able to buy.

On the other hand, if Capital, when flowing in with too great abundance, be not repelled by a due diminution in the value of money—*i.e.* a fall in the rate of discount, or a suspension of discount,—capital will continue to flow in until it be so superabundant that a violent fall takes place. Persons who are accustomed to depend on the incomes they derive from the interest of money, suddenly find that their means are seriously diminished; then wild speculations find favor in the public mind, promising higher profits, and then the community goes through the cycle of bubble speculation, extravagant credit, ending in a commercial catastrophe.

The object to be aimed at should be to preserve a uniform rate of discount in this country, and at the same time to maintain a uniformity in the value of the British Currency with that of other countries. If money, that is, gold or silver, be made artificially cheap in this country, that is, cheaper than it is in neighboring countries, persons in this country will export it to where it is of greater value; they will buy foreign securities, they will import foreign commodities. On the other hand, foreign nations will flood this country with their securities; just as the Americans did in 1839, when the Bank kept down the rate of discount below its proper level; because they can sell their securities at a better price here, than in their own country. But in neither of these cases would an alteration in the rate of discount be necessary, if that uniformity in the value of the currencies can be otherwise preserved.

When the Americans wished to sell their debts, and found that, in their own country they could get only £90 per cent. for them; whereas, they could get £97 per cent. for them in England; as a natural consequence they sent them to England for sale, and took away the cash. The only way for England to have stopped this would have been to give no more for these securities than the Americans themselves would give; in other words, to maintain a uniformity in value between the currencies of the two countries.

When the Foreign Exchanges are unfavourable to this country, the simple meaning of that is, that it is profitable to export gold. But, where is the gold got from for exportation? From the Bank of England. And how is it got from there? By getting hold of the Bank's "promises to pay" gold on demand. Now, when the Bank of England knows that a multitude of persons are trying to get hold of its promises to pay, for the purpose of demanding gold for them, and to carry that gold out of the country, it would be folly in the Bank to be multiplying its "promises to pay" in all directions, and selling them cheap.

When gold is leaving the country, nothing can bring it back again here, except selling our commodities, or debts, cheaper than other nations.

As soon as the exchange becomes so unfavourable as to make it profitable to export gold, an immense number of bills are fabricated for the purpose of being sold for the sake of the premium; and these will continue to be fabricated as long as the rate of discount is kept below that of neighboring nations. Now, raising the rate of discount, or stopping discount by a moderately fixed *maximum*, strangles all such operations in the birth.

If the rate of discount be kept below its natural level, it stimulates and encourages production so much beyond the powers of consumption that, it must necessarily terminate in an aggravated fall of prices. In that case a timely raising of the rate of discount to the fixed *maximum*, would be a warning to producers to contract their operations.

It is, then, an incontrovertible fundamental truth in Monetary Science that, Capital and Credit form the circulating medium, and that they must increase and decrease together. An increase of Currency without an increase of Capital, has no effect but to diminish the value of Currency.

The same thing happens if, when Capital is destroyed, Currency be not destroyed with it. If a metallic currency increase faster than capital, the natural law provides a remedy; the metallic currency is immediately exported. But, with an inconvertible paper-currency, this cannot happen; and, when capital is destroyed, currency remains in circulation. When this goes on for any great length of time, or to any considerable extent, the inevitable result is, a depreciation of the paper-currency, which is shown by the rise of the market above, what is called, the Mint price of gold. This was eminently exemplified in England in the years subsequent to 1810. The extravagant speculations were followed by an enormous destruction of capital; but the currency which was issued to represent it remained in circulation, and soon manifested itself in a rapid fall in the value of paper. It was impossible that paper ever should right itself, unless this superfluous currency were destroyed, and this was brought about by the destruction of the issuers of it.

Such are the principles which must regulate the money of all countries. If the money consisted only of the precious metals, these principles would be perfectly simple and self-regulating. But, in most civilized countries, the money consists partly of the precious metals, and partly of paper, of no intrinsic value, but of an artificial value, dependent wholly on credit.

To adapt this artificial and complex system to the natural and simple system, opens a great variety of questions, and although these are to be determined by analogy with natural principles, yet, if the same reasoning be followed out with the artificial system of a mixed currency, as with the natural system of a purely metallic currency, the conclusion will be erroneous, and the result confusion. This is the error of Lord Overstone, and of all those who advocate his theory of variation. And this is the great error of the Bank Charter Act of 1844.

The principle, so clearly laid down and explained by Mr. Macleod, in his work before referred to, has been here more particularly noticed for the purpose of expressing a distinct assent thereto, as a general principle, but also for the purpose of distinctly dissenting to the application of this principle and the reasoning therefrom to the Bank of England, constituted as it is, under special circumstances, to carry out a system entirely artificial.

It may be useful here to add a few remarks on the true meaning of money, which is so much capital taken out of the common stock for a special purpose, an important distinction overlooked by most writers.

Prominent among these is M. Wolowski, Member of the French Institute, etc., who is regarded by some in this country, and many on the Continent, as an authority on the subject.

M. Wolowski not only loses sight of this distinction, but he attaches to money a property which it does not possess, and he makes this fundamental error the foundation of many other errors.

As the translator, from the original Latin into French, of two old Tracts on Money, by Nicholas Oresme and the celebrated Copernicus, M. Wolowski has endeavoured to support some of his own notions on this subject by bringing forward the crude opinions of those old and forgotten writers, and by referring to some imperfectly expressed ideas by that eminent Frenchman, Turgot.

M. Wolowski has been so obliging as to present to the Author a copy of this work.*

* 'Traictie de la Premiere Invention des Monnoies, de

It is evidence of commendable industry, but misdirected zeal.

Viewed in the obscure light of those distant times, the opinions of Oresme and Copernicus on the subject of 'Money' are more curious than useful. They show a surprising light of intelligence for those times, but, viewed in the clearer light of the present day, are opinions of little practical use, and, used as M. Wolowski has used them, are not only not useful, but are injurious, as tending to confusion, and to support errors such as those into which M. Wolowski has himself fallen and is misleading others.

It is only some of M. Wolowski's commentaries thereon which will be here noticed, and with the view only of rendering them harmless.

M. Wolowski considers money of gold and silver or other metals to be of *intrinsic* value, exchangeable for and synonymous with merchandise, and, therefore that, money is merchandise.

He attempts to support this fallacy by reference to the following propositions of Turgot:—

"Toute marchandise a les deux propriétés essentielles de la monnaie, de mesurer et de

Nicole Oresme. Texte Français et Latin, d'après les Manuscrits de la Bibliothèque Impériale. Et Traité de la Monnaie de Copernic; texte Latin et traduction Française; Publiés et Annotés par M. L. Wolowski, Membre de l'Institut.'

représenter toute valeur; et dans ce sens toute marchandise est monnaie."

"Réciproquement, toute monnaie est essentiellement marchandise."

"L'or et l'argent sont constitués, par la nature des choses, monnaie et monnaie universelle, indépendamment de toute convention et de toute loi."

These expressions are not exact, but, in the sense in which they are used by Turgot, they are not open to much objection.

M. Wolowski, however, makes use of these expressions for a very different purpose, when he uses them to support the false reasoning, which runs through all his arguments against the extension of credit issues, in favour of limiting those issues by high rates of discount.

There is no reason to suppose from any of the writings of Turgot that, he would have so used his definition of money, or that he intended to restrict credit by the hard and inflexible rules prescribed by M. Wolowski. On the contrary, such a view is inconsistent with all that we know of the opinion of Turgot on this question from his writings.

But if the words of Turgot in their true sense and meaning do support M. Wolowski's views, then all that can be said is that, Turgot was as much in error as M. Wolowski is.

Money is correctly described as the measure of value, and *in this sense*, Turgot says all money is merchandise. He does not say, as M. Wolowski says, "the money paid for the merchandise is the exchange of one intrinsic value against another intrinsic value," but that, the money is the measure of the value of the merchandise.

This is a conventional form of expression, but it is not accurate.

There is no value either in the money or the merchandise, and there is no *intrinsic* value in anything.

The value consists in the human labor expended in the one and the other, and the money measures the labor, which alone constitutes the value.

In the merchandise and in the gold the value of the labor has been already paid for.

In the merchandise, to the manufacturer.

In the gold, to the digger.

The money is the measure of the value and the acknowledgment of the debt, and the debt, though legally discharged by the money, is not really satisfied until the money be transferred into other hands.

The money simply measures the value of the service rendered and transfers the debt thereby incurred, and the holder of the money has a claim for a like amount of value or services, so measured and yet to be rendered.

The money is the measure of the debt or service, the measure of value; but the value is in the service rendered, not in the money, for that is of no value.

There is no value in gold or silver or in any material thing.

The value consists in the service rendered by getting the thing wanted for its use.

In the case of the gold, in getting it out of the earth.

In the case of the merchandise, in manufacturing it out of the raw material.

Gold is of no more value than gravel, and there is no value in either.

Value is merely a conventional term when applied to any material thing, and is as inaccurate as the conventional term *circulation*, when applied to bank notes in circulation.

When a gold sovereign is given for a cart-load of gravel, the debt thereby incurred, for the service so rendered, is discharged by the gold sovereign.

The value of the service rendered is measured and the debt incurred is acknowledged and discharged by the gold sovereign.

But, though the debt be thereby discharged, the value of the service in return is not received until the gold sovereign be again transferred or applied to produce an equivalent service to the holder, and if he lose the sovereign the service in return is never received, but the debt is still satisfied and discharged, thus proving that neither the gravel nor the gold was of any value, and that the gold sovereign did nothing more than transfer the debt, and also proving that, for value, mutual services must be rendered.

The payment of the money is for the service rendered in delivering the utility that was wanted, and the money paid commands the equivalent service.

The money measures simply the value of the service rendered, and *to be* rendered in return.

The materials given and received are the utilities of Nature given gratuitously to all, and, therefore, of no value.

If the gravel were as scarce and as useful as the gold, and if the gold were as plentiful but no more useful than the gravel, a cart-load of gold would be required for a piece of gravel of the size of the sovereign.

The diamond has its peculiar usefulness, and its great beauty and rarity make it a desirable possession. But it has no more value than a common gravel stone.

The value consists only in the service rendered, whether imaginary or real.

If a person after spending fifty years of his life in searching for a diamond were then to find one, those fifty years would be to him the measure of its value, though that might not be the measure of the value to the person desiring to purchase the diamond.

But for the diamond itself there could be no payment, for there is no one entitled to receive payment, any more than for the air we breathe or the water we drink, and these are never paid for, though we do pay for the service of bringing the water to us.

It is, therefore, by conventional usage only that we talk and write of the *value* of things, and Turgot was not exact when he wrote :—" Gold and silver are constituted, by the nature of things, money and universal money, independently of all convention and all law."

Gold and Silver are so constituted,—not by the nature of things, independently of all convention and of all law, but by convention and law, independently of the nature of things.

This was afterwards partly recognised by Turgot when he added :—" L'usage de l'argent a beaucoup facilité la séparation des divers travaux entre les differénts membres de la société."

Coventional usage arises out of, but cannot alter, the nature of things. The nature of things is unchangeable, and on that property conventional usage is formed. Circumstances may and do change conventional usage, but the nature of things never.

Gold and Silver and Copper are the chosen measures of value for their peculiar properties, not for any intrinsic value, for there is none.

These metals are chosen for such purpose, because there are no other known articles, in equal abundance, so little liable to be affected by change of circumstances.

Circumstances are always changing, and conventional usage accommodates itself to those changes. But the nature of things never changes.

Nature works by immutable laws.

These may be disregarded, but can never be violated.

The laws of Nature work universal beneficence. To disregard them does not violate them, but perverts the intended good to evil.

The gratuitous services of Nature are given equally to all, and when all make equally good use of them, all will equally enjoy them, not otherwise.

If all would avail themselves of Nature's gratuitous services, those services would be more largely appropriated.

Obstacles would be removed and the way made more easy for all.

Labor would be set free, and the sources of all services and all property would be thereby enlarged.

Value would be created where no value was before, and value is all that man can ever create.

Capital would increase and be distributed more equally.

Credit would be extended on a firmer basis.

Industry, prosperity, and happiness would increase.

Pauperism would diminish, and with it guilt and wretchedness.

This is the Equalisation to which Nature points. DIGITUS DEI EST HIC.

There is no other equality in Nature than this.

Nature's gratuitous services are given equally to all, and, being gratuitous, nothing ever has been or ever can be given in exchange for them; but as *value* arises only from exchange of services, Nature's gratuitous services never have been and never can be of any value.

These services are *utilities*, but only when used.

Air, light, water, gravitation, electricity, etc., are utilities when used, but, though essential for our existence, we give nothing in exchange for them, and they have no value. The water, if we can never obtain it, is even of no utility to us. The service is rendered by bringing the water to us, and in this service, if received in exchange for another, is the value. The service is rendered by human efforts and may be rendered gratuitously, in which case, however great the service, there is no value. Our own efforts may bring the water to us, and in that case we avail ourselves of the gratuitous service of Nature, for which nothing can be given in return, and there can be no value; or another's efforts may bring the water to us in exchange for something else, and that exchange of services creates value. In the one case, there is no exchange of services and no value, but simply one's own efforts in taking the gratuitous service of nature for the gratification of one's own want; in the other case, there is another's efforts in exchange for something else, and there is value acknowledged and returned; in both cases the gratuitous utility of nature is appropriated without anything given in return, and when the service is exchanged for another, it becomes a service of value.

Therefore, every man enjoys *gratuitously* all the utilities furnished or created by Nature, on condition of taking the trouble to appropriate them, or of returning an equivalent service to those who render him the service of taking that trouble for him.

Even the air we breathe ceases to be of service to us when we cease to respire it. In the midst of the most fertile soil, with every advantage of climate, without human efforts, acting in concurrence with the gratuitous utilities of nature, we should derive no service, and starvation must ensue.

In common language it would be said by metonymy ;—Such a quantity of land is *worth* such a quantity of gold, as if the value had passed physically into those bodies ; and this is just what M. Wolowski and most other Economists do say. But it is easy to see that, if the common form of expression enable us to state the results, the scientific expression alone reveals to us the true causes.

Thus, we see, Nature gives freely and equally to all. But here equality begins and ends. The gifts of Nature, though equal to all, are of no value to any. As the race is to the swift and the battle to the strong, so is the value of services. Nature has given no equality here. Why, then, should Man look for equality where Nature has never given it and clearly never intended it?

Why should Man seek to obtain by *force* more than Nature has given? What right have men to impose upon each other anything by *force*, but *justice?* The right to force a man to be just is the right of legitimate defence. Now, individuals in the aggregate can possess no right which did not pre-exist in individuals as such. If, then, the employment of individual force be justified only by legitimate defence, the fact that, the action of government is always manifested by force should lead us to conclude that, it is essentially limited to the maintenance of order, security, and justice.

All action of governments beyond this limit is a usurpation upon conscience, upon intelligence, upon industry, in a word, upon human liberty.

The liberty of labor to each and every man implies the liberty to enjoy the fruits of his own labor. To deprive him of any part of the fruits of his own labor is to deprive him of the liberty of labor, or to make him a slave. If it be right to deprive him of part, it may be right to deprive him of all. But it must be shown to be just, before it can be proved right to deprive him of any.

Now, all Governments exercise this right by force, but no Government has ever shown that it is just or even necessary or expedient.

These views, so opposed to long established habits, are treated by many as paradoxical, and the distinctions as merely fanciful.

But the question is of too much importance to be so easily disposed of. Indeed, it is essential for a correct understanding of the Bank Question that, the distinction between UTILITY and VALUE should be clearly seen and acknowledged.

Many of the errors of M. Wolowski and other Economists and Financiers would have been avoided, if they had kept in view this distinction in their reasoning on this Question.

To introduce a paradox or word-quibble would be very unworthy on such an occasion as the present.

This distinction involves a principle of essential importance.

To many it will appear absurd to say that, Gold and Silver are of no value. But, when the ground of their misapprehension is removed, what now seems to them an absurdity may then be seen to be a simple but important truth.

The great fundamental error of all Economists, and which has involved them in endless difficulties and bewildering contradictions, arises from confounding VALUE with UTILITY.

There is not and never can be value in anything, the production of Nature.

There is only UTILITY.

Value supposes something rendered and something received in exchange, as an accepted equivalent; or, a service performed in exchange for another service; an interchange of services or supposed services, for whether real or fanciful is immaterial, if accepted.

The service is of value and the value is represented in many ways. Sometimes by a piece of gold or silver or copper, or some other substance, sometimes by labor or skill.

Nothing but *service* can constitute *value*, and value implies services exchanged.

There is no value in gold, as would be more clearly seen if there were no one to receive it in exchange for services.

All services rendered by Nature being utilities, given gratuitously, must, therefore, be put out of the question.

We cannot interchange services with the Creator. We have nothing to give in exchange. When we break bread we give thanks, nothing more. This is no service in return, but only an humble acknowledgment.

"The Earth and the fulness thereof," all the elements, all creation, are the gratuitous services to mankind, and, therefore, cannot constitute value, because it is essential for value that services should be exchanged. Here can be no exchange.

Value, then, can exist only between man and man, and can be only the measure of services exchanged. These services must all be comprised in and expressed by one word,—*efforts*. This is a better word than *labor*, because efforts comprise all, which labor does not.

This distinction between VALUE and UTILITY must ever be preserved in the mind. This is no play upon words, but is an essential distinction for the preservation of a most important principle.

Now, to apply this distinction to the present question.

Property, as it is called, is what belongs to man.

If he hold, as his own, a thing brought to hand by the efforts of man, it is property of value. But he has created nothing. He has only made what he has found subservient to his wants. He has availed himself, by his skill and labor, of the natural utility of things already made to his hand. He has by the skill and labor of himself and others brought these things together for his own purpose. But he has brought the skill and labor of others together by capital or credit.

If, in the production of wealth,—which includes everything that is exchangeable, — the action of Nature be combined with the action of man, the first, gratuitous and common in its own nature, remains gratuitous and common in all our transactions; the second alone represents *services, value;* the action of man alone is remunerated.

That alone is the foundation, explanation, and justification of what is called Property.

Whatever is the action of man is a property or possession, and, as such, is of value.

A house is the action of man, and, as such, is a property or possession of value.

Land is not the action of man, and, as such, is not a property or possession of value.

Gold and Silver are not the action of man, and, as such, are not property, of value.

A house is the result of human efforts and skill, or services, and thus becomes property, of value.

Land cultivated or otherwise converted to useful purposes by human efforts and skill, or services, thus becomes property, of value.

The same of Gold and Silver and all other created things. These are made property, of value, by human means.

Therefore, relatively to each other, men are proprietors only of the value of things, *conventionally.*

In transferring products from hand to hand, what they stipulate for exclusively is, *value;* that is to say, reciprocal *services;* all the qualities, properties, and articles, which these products derive from nature, being obtained into the bargain.

This is the true meaning of *Community*, the admirable phenomenon, the most touching dispensation of Providence to the creature—the phenomenon of *progressive community*.

Wealth, taking the word in its general acceptation, results from the combination of two agencies,—the action of Nature, and the action of Man.

The first is *gratuitous* and *common*, by the destination of Providence, and never loses that character.

The second alone is provided with *value*, and, consequently, *appropriated*.

With the development of intelligence and the progress of civilisation, the one takes a greater and greater part;—the other a less and less part in the realisation of such given utility.

Hence, it follows that, the domain of the GRATUITOUS and the COMMON is continually expanding among men, relatively to the domain of VALUE and PROPERTY.

This is a consoling and suggestive view of the subject, entirely hidden from the eye of science, so long as we continue to attribute value to the co-operation of Nature.

Men of all religions thank God for His benefits. The father of a family, blesses the bread which he breaks and distributes to his children;—a touching custom that reason would not justify were the liberality of Providence otherwise than gratuitous.

For the discovery of this first principle we are indebted to that illustrious but humble-minded Frenchman, Bastiat.

How little we have understood and do now understand or appreciate this first principle is lamentably evident in our present system of taxation.*

We seek by every means in our power to make the liberality of Providence otherwise than gratuitous.

We have been, at one time or another, taxing all the gratuitous services which He has rendered to us in the various and bountiful productions of nature, except air, and many of these we still continue to tax.

We tax the laborer in his own labor, and we select for heaviest taxation those things which are most needful for the poor, thereby making the tax most oppressive on those who are least able to bear it.

* 'The People's Blue Book: or, Taxation as It Is and as It Ought To Be.' Third Edition, p. 392.

We justify this on the ground of necessity,—a good ground if true.

But,—Is it true?

As shown in the 'People's Blue Book,'—It is not true.

It is impossible that it should be true.

There never can be a necessity for us to baffle the designs of Providence.

And,—Can the creature ever baffle the designs of the Creator?

We can make the attempt, and that we do in many ways, but never without bringing down misery—remediless misery and suffering—upon ourselves and others.

When we see clearly, in the laws of nature, the provisions of a merciful Providence for our welfare, we, as rational human beings, shall cease to frame our laws with a view to counteract those beneficent designs.

We shall see it to be wiser and better to make our laws in conformity with the Divine laws—to declare that, the gratuitous services of nature shall be gratuitous to all.

We shall see that, the rights of property will thereby be in no way infringed, but, being acknowledged, will be better respected.

We shall see the folly of attempting to benefit the few by inflicting injury on the many.

We shall distinguish between Utility and Value.

We shall take from Value when realised, and leave Utility free and undiminished.

We shall distinguish between the laborer's own labor, and the labor of others acquired by capital.

It is through confusion and injustice, which have arisen from the want of this distinction, that such writers as Proudhon have found favour, when, in their folly, they have exclaimed:—"La propriété, c'est le vol;"—verifying the old proverb:—'One fool makes many.'

But the worst folly is that which makes the greatest number of fools, and that is the gigantic folly of all the civilised Governments of the world.

As Adam Smith made value reside in matter, he could not conceive capital as existing otherwise than in an accumulation of material objects.

How, then, can we attribute value to services not susceptible of being accumulated or converted into capital?

Among the different descriptions of capital, we give the first place to tools, machines, instruments of labor. They serve to make material forces co-operate in the work of production; and, attributing to these forces the faculty of creating value, people were led to imagine that, instruments of labor, as such, were endowed with the same faculty, independently of any human services. Thus, the spade, the plough, the steam-engine were supposed to co-operate simultaneously with natural agents and human forces, in creating not only utility but value also. Who, then, is to receive that portion of value which is independent of all human services?

The error of Proudhon, viewed scientifically, has its root in the prior error of Adam Smith.

Capital, like natural agents, considered in itself with reference to its own proper action, creates utility, but never creates value. The latter is essentially the fruit of a legitimate service. In the social order, capital is not an accumulation of material objects, depending on material durability, but an accumulation of *values*, that is to say, of *services*, and in the business of exchange there is nothing but a *mutuality of services.*

So Adam Smith and his disciples have assigned the principal value to labor under the condition of materiality.

Value must have reference to *effort*, a word more comprehensive and, therefore, preferable to *labor*.

But value can spring only from efforts exchanged—from reciprocal *services;* because value is not a thing having independent existence, but a relation.

The word, *service*, implies necessarily, the idea of transmission, for no service can be rendered which is not received. It implies also the idea of effort, without taking for granted that the value is proportionate.

To say that, value resides in labor, induces us to suppose that value and labor are proportional, and services are reciprocal measures of each other.

This is contrary to fact, and a definition contrary to fact must be defective.

The value may be estimated as much by the labor saved, as by the labor performed.

Ships, carriages, steam-engines, and other machines,—the instruments of labor,—are, like the soil, producers of *utility*. If that utility have value, it is paid for. The word value implies right to payment. But, to whom is the payment made? To the proprietor of the machine, without doubt. Is it for a personal service? Then, say at once, the value is in the service. But, if you say, it is necessary to make a payment first for the service, and a second payment for the utility produced by the machine, independently of the human action, which has been already recompensed, then, to whom does this second payment go, and how has the man, who has already been remunerated for all his services, a right to demand anything more?

The truth is that, the utility, which is produced by nature, is *gratuitous*, and, therefore, *common*, like that produced by the instruments of labor. It is gratuitous and common on the condition that, we take the trouble—that we render the service—of appropriating it; or, if we give that trouble too, or demand that service from another, that we cede to him in return an *equivalent* service.

Thus, it will be seen, *utility* is complex; one part we owe to the action of nature, another to the action of man. With reference to a given result, the more nature has done, the less remains for human action to do.

The co-operation of nature is essentially *gratuitous;* the co-operation of man, whether intellectual or muscular, exchanged or not, collective or solitary, is essentially *onerous*, as the word, *effort*, implies.

As what is *gratuitous* cannot express *value*, since the idea of value implies onerous acquisition, it follows that, the notion of value would be erroneously conceived if we were to extend it, in whole or in part, to the gifts or to the co-operation of nature, instead of restricting it exclusively to human co-operation.

We are told that utility is the foundation of value, and as utility is inherent in the air, we are led to think that it is the same in regard to value. Here is an evident confusion of ideas. The value springs exclusively from the service rendered.

If, in laying down the principle that, utility is the foundation of value, the meaning be that, the service has value because it is useful to him who receives it and pays for it, this is only a truism implied in the word, *service*.

But we must not confound the utility of the air with the utility of the service. These are two utilities distinct from each other, different in nature, different in kind, which bear no proportion to one another and have no necessary relation.

There are circumstances in which, with very slight exertion, by rendering a very small service, or saving very little trouble, one may bring within reach of another an article of very great intrinsic utility. As in the case of the glass of water brought to the man dying of thirst, or in the case of the diving-bell, which furnishes air to the diver.

We must have a point of comparison, and that can only be in the *service* rendered in return. The reciprocal demands will depend on the relative situations, on the intensity of the desires, on the greater or less need, and on a multitude of circumstances, which demonstrate that the value is in the service, since the value increases with the service.

It is in the services, thus compared, that the value resides, and not at all in the natural utility. The exertion may be more or less great; that makes a difference in the value, not in the utility.

All this is so admirably summed up by Bastiat that, it is here given in his own words, translated.

"Let us accustom ourselves to distinguish utility from value. Without this there can be no Economic Science. I give utterance to no paradox when I affirm that *utility* and *value*, so far from being identical or even similar, are ideas opposed to one another.

"Want, effort, satisfaction;—here we have man regarded in an Economic point of view. The relation of utility is with want and satisfaction. The relation of value is with effort.

"Utility is the good, which puts an end to the want by the satisfaction.

"Value is the evil, for it springs from the obstacle, which is interposed between the want and the satisfaction. But for these obstacles, there would have been no effort either to make or to exchange; utility would be infinite, gratuitous, and common, *without condition*, and the notion of value would never have entered into the world.

"In consequence of these obstacles, utility is gratuitous only on condition of efforts exchanged, which, when compared with each other, give rise to value. The more these obstacles give way before the liberality of nature and the progress of science, the more does utility approximate to the state of being absolutely common and gratuitous, for the onerous condition, and, consequently, the *value*, diminish as the obstacles diminish.

"All that *serves* us is *useful;* and, in this respect, it is extremely doubtful whether there be anything in the universe (whether in the shape of forces or materials), which is not useful to man."

It would far exceed the limits of this work to attempt to show the application of this principle in all its details; but a few remarks may assist the reader in applying it for himself to a very important point in the Bank Question.

M. Wolowski, commenting on the before-quoted proposition of Turgot,—that, "Gold and Silver are constituted, by the nature of things, money and universal money, independently of all convocation and all law,"—proceeds to build on this false foundation, thus:—

"Voilà donc l'or et l'argent constitués monnaie et monnaie universelle, et cela sans aucune convention arbitraire des hommes, sans l'intervention d'aucune loi, mais par la nature des choses. Ils ne sont point, comme bien des gens l'ont imaginé, *des signes de valeur;* ils ont eux-mêmes une valeur. S'ils sont susceptibles d'être la mesure et la gage des autres valeurs, cette propriété leur est commune avec tous les autres objets qui ont une valeur dans le commerce."

Here M. Wolowski assumes the whole question, which he is considering. He assumes, if gold and silver, constituting universal money, be susceptible of being the measure of other values, that property is common to all other objects, which have a value in commerce.

He assumes that, "independently of all convention and all law," gold and silver constitute universal money of Intrinsic Value, and are, therefore, a good measure of value for all other articles of commerce having, what he calls, "*intrinsic* value."

M. Wolowski speaks of value as something *external,* and he then speaks of *intrinsic* value—two ideas self-contradictory and inconsistent.

He says that, gold and silver has *intrinsic* value, but that a bank-note is only the *representative* of value.

Adam Smith admits that, gold and silver, if it would exchange for nothing, would have no value.

J. B. Say says that, the value of gold and silver consists only in what they will buy.

How, then, can the value of gold and silver be *intrinsic?*

How can anything have *intrinsic* value unless it have the things it will exchange for inside itself?

Money of gold and silver will exchange for land, houses, horses, carriages, corn, etc., and each of these, M. Wolowski says, is the value of the money with respect to that commodity.

But, which of these is its *intrinsic* value?

M. Wolowski leaves us here without any answer.

There is only one true answer, and that is:—Nothing can have an *intrinsic value*, and value can exist only in services mutually rendered and received, or for which an equivalent is given in return.

All the gifts of Nature are *Utilities*, given gratuitously and equally to all, and for these nothing can be given in return.

M. Wolowski reasons illogically, and hence his endless errors.

But, in this way most modern Economists reason, and hence the common confusion.

On this sort of false foundation the National

Banks of England and France and all other countries are established.

The false principles are partially counteracted, but never removed.

Concurrent circumstances, coincidence of events, periodically occur to expose the fallacy, and the consequent ruin restores the former state of things, which continues until the recurrence of similar circumstances or like coincidences produce like results.

Thus, the hidden evil remains to work partial ruin and temporary recovery, and by these alternate changes, from unforeseen causes, human skill and foresight are baffled, the rules by which to distinguish between prudence and rashness are confounded, the most honorable pursuits are made the most perilous, and, by these repeated and unforeseen shocks to trade and industry, the best interests of every country suffer the most serious losses and permanent injury.

The true distinction between Capital and Credit is lost sight of, and Credit, without Capital, is expected to do all the work of Capital, or Capital is expected to do all the work without Credit.

This is the confusion consequent upon the common error.

The true properties of Capital and Credit are not understood. Each is expected to do the proper work of both, though both are necessary to enable each to do the proper work of each.

All the gold and silver in the world would be insufficient for the work to be done by Capital, aud without Capital there can be no safe foundation for Credit. For a safe foundation, Credit must always be in a certain proportion to Capital, and that proportion, being always dependent on circumstances, can never be exactly defined.

Within the proper proportion, Credit operates to precisely the same result as Capital.

But, to say that Capital and Credit are the same, is a confusion of terms.

Capital can exist without Credit, but Credit can have no existence without Capital.

Money of gold and money of paper, payable in gold on demand, are precisely the same in effect; but payments in money of gold are payments in the universally acknowledged measure of value, and payments in money of paper, payable in gold on demand, are only promises to pay in that measure of value.

It is, therefore, manifestly as inaccurate to say that Capital and Credit are the same, as to say that, Gold and Paper are the same materials. It is confounding cause and effect, and this is the common error of most Economical Writers.

Bills and Cheques, which are not money, are promises to pay at a certain time in money of gold, or money of paper, payable in gold on demand.

The gold is of no more value than the paper, but the gold, being the universally acknowledged measure of value, is more generally received than the paper, which is only a promise to pay in gold, and on the faith of this promise the paper is made by law equal to the gold.

It is, therefore, manifestly inaccurate to say that,—"gold and silver are constituted by the nature of things, money and universal money, independently of all convention and of all law."

It is manifest that, this state of things is only by convention and law.

When the paper-money of the Bank of England was not convertible into gold, still the measure of value was gold.

The depreciation of the Bank notes was the consequence of the excessive issues, and the depreciation was the evidence that the measure of value remained unchanged.

The credit is the measure of the value of the paper, and credit is a variable measure; but the measure of the value of the money is gold, and gold, for all practical purposes, is an invariable measure.

There is no value in the gold or in the paper, but the gold is more generally received as the measure of value, than the promise to pay according to that measure.

If it were *certain* that the promise would be performed, the promise would be as good as the gold. There would be, in effect, no difference, and the actual difference, in the materials, would be in favor of the paper, as occupying a smaller space than the gold and, therefore, the most convenient of the two.

Under these circumstances, money of paper and money of gold would be equally efficient, and Capital and Credit would be, virtually, one and the same; but that can never be so, practically, until the promise be equal to the performance.

Now, money, being capital, is so much withdrawn from the common stock, and measures services performed, but for which no equivalent services have been rendered; the money being the measure of the debt or service due, and thereby transferred.

But, by convention and law, the money paid discharges the debt to the party receiving, and transfers the debt to the party paying.

It is, therefore, manifestly for the benefit of every country to enlarge credit on a safe basis, for the purpose of saving the waste of capital when coined into money.

The coinage of metallic money is so much capital wasted, by withdrawing it from a productive to an unproductive state; in the same way as land, taken for a railway, is so much land withdrawn from cultivation.

If credit can be made to supply the place of capital, so much capital is saved for the purposes of production; just as the land would be saved if the railway could be made in the air.

It is, therefore, the policy of every nation so to apply its capital as to enlarge the limits of credit to the utmost possible extent, consistently with safety, though what these limits are can be learnt only by experience.

Now, it is just the opposite course which has been pursued by England and France, and by all the other civilised nations of the world. They have all attempted to make Credit equal to Capital, without the employment of capital in a due proportion; not less absurd than to attempt to make a railway in the air. They have done nothing to support Credit, but everything to destroy it.

By an unscientific contrivance between the Government and the Bank of England, the Bank of England has substituted credit for capital to the amount of £15,000,000. This amount of credit is expected to do all the work of the same amount of capital, and the Bank is liable to repay this amount in gold coin on demand, the fact being notorious that, there is not an ounce of gold in the Bank to meet such a demand, if it were made.

The credit thus obtained, if that were all, would be, practically, harmless. But that is not all.

The same error is carried on, and the Bank of England, without capital, is powerless, for all the purposes of a National Bank, whenever credit is strained by unusual pressure.

It is the same with the Bank of France, and no where is credit carried to its legitimate extent on a sound principle.

The law establishes a monopoly in the Bank of England. This monopoly operates to restrict instead of to enlarge the safe limits of credit, and thereby favors the large capitalists at the cost of the whole commercial community, and to the incalculable loss and injury of the trade and industry of the country.

To prove all this, and to show the remedy is the object of this Volume.

But, in making this attempt, a feeling of despondency arises to weaken the effort.

The self-consciousness of the truth of a doctrine avails nothing for proving it, and the conviction that, ignorance, prejudice, and powerful party interests are opposed to the truth, is very discouraging.

He who now makes this attempt has very little personal interest in success or failure, the cost of time and labor, to say nothing of any other cost, which he has thus voluntarily imposed upon himself, being the same either way.

On this Question he has no confidence in the independence of any Government, or in the wisdom of Parliament, or in the intelligence of the People.

But he has great confidence in the influence of the large capitalists, and he has no doubt that they will exert their influence to the utmost to maintain the *status quo* with the *uti possidetis*. And yet, with these feelings he retains the conviction that, the truth will prevail in the end.

The definition of the true meaning of *value* distinguished from *utility*, though given by the Author, some years ago, in the 'People's Blue Book,' was intentionally kept out of the two former editions of this work, and would not have been here introduced, but for the purpose of exposing and refuting the erroneous views of M. Wolowski and other writers of authority on this subject.

In a question like this, already sufficiently complicated, it was thought better not to complicate it further by introducing any new abstractions.

But when Economists of reputed authority build on a foundation of their own making, in disregard of principle, and when they can be refuted only by exposing the unsoundness of their foundation, it becomes a matter of necessity to point out the original defect, even at the risk of all the cynical criticisms likely to follow.

It was only at a recent interview with M. Wolowski that, the Author was fully impressed with the necessity of entering into this definition of the true meaning of the word, *value*, and he has, therefore, taken this further trouble in the present Edition.

This is no pedantic distinction, no logomachy, or word quibble. It is a substantial difference of essential importance for a clear understanding of this question.

But the word, *value*, in its conventional sense is a convenient form of expression, if not used to support error, and if the true meaning be kept in mind.

The word, *value*, may, therefore, very likely be found used in its conventional sense in other parts of this volume, being considered, with this explanation, of so little importance as not to be worth the trouble of altering.

It is convenient to use words in their conventional sense, provided that they do not lead into error, and to avoid this risk it is sometimes necessary to use many words where a single word might appear to convey the true meaning.

In the following chapters the Author will endeavour to express his meaning by the simplest words in their ordinary sense, but he must, as Adam Smith said, in his celebrated work,—very earnestly entreat both the patience and attention of the reader; his patience in order to examine a detail which may, perhaps, in some places appear unnecessarily tedious; and his attention in order to understand what may, perhaps, after the fullest explanation, appear still in some degree obscure, for it is worth running some risk of being tedious to be sure of being perspicuous, and after the utmost pains to be perspicuous, some obscurity may still appear to remain in some parts of a subject in its own nature extremely abstracted.

CHAPTER V.

MONEY PANICS.

THERE are three kinds of Money-Panic.

1. Panic arising from a drain of Gold from the Bank of England.

2. From a contraction of Credit.

3. From the combined results of the contraction of Credit, and the diminished amount of Bullion in the Bank of England.

These Money-Panics have been more frequent since the Bank Act of 1844, than before.

Of these occurrences the following have been the most serious, and are said to have arisen from the following causes:—

1793 and 1797. These panics arose from the drain of Gold sent Abroad, for subsidies and loans to our Allies. These Gold Panics were partially relieved by the advance of Exchequer Bills, on the deposit of merchandise, but ultimately by the Restriction Act of 1797, making the Bank of England Notes, in effect, a legal tender. This Act continued in force until Sir

Robert Peel's Bill in 1819, enacting a return to Cash Payments.

The effect of the suspension ef Cash payments on the public funds and on the stock of the Bank of England is expressive of the sense of the country on that measure.

The price of the funds in the month of March, 1792, was as follows:—

Three per Cent. Consols. . . .	97⅛
Four per Cents.	195⅝
Five per Cents.	120
Bank Stock	219

On the 6th of April, 1797, about a month after the Bank of England had suspended payments in cash, the price of the funds was as follows:—

Three per Cent. Consols. . . .	47¾
Four per Cents.	60⅝
Five per Cents.	72¾
Bank Stock	121¾

These facts seem to furnish a conclusive answer to the advocates for inconvertible Bank paper.

1810. This Panic arose from over-trading in produce and excess of Exports, when the Bank of England raised its Discounts from 13 millions in 1808, to 20 millions in 1810, an increase of 53·8 per cent. This was a Credit Panic, as the Bank of England then had the power of issuing an unlimited amount of inconvertible notes.

1815. This Panic arose from the inflation of mercantile Credit, and vast speculations in Cotton and other produce, when eighty Banks suspended payment. This was a Credit Panic, as the Bank of England still continued to issue inconvertible notes.

1822. This Panic was caused by the Bank of England reducing its Discounts from 15 millions to 3 millions, in order to secure the convertibility of the Bank-Note; and by the contraction of Bank of England and Country Bank-Notes from 48 millions in 1818, to 26 millions in 1822. This was a Gold Panic, lowering the price of the British Funds, the stocks of goods held by the mercantile and trading interests, and agricultural products, to the extent, as estimated, of 200 millions; and, allowing that only one-fifth part of such investments was forced on the markets during the Panic, it may be assumed that, the total loss, including the failure of Banks and Mercantile Houses, the partial closing of Mills, and non-employment of workmen, was not less than £30,000,000.

1826. This Panic arose from excessive (*i. e.* unprofitable) speculations in foreign Mines, in Cotton and other products, called *over-trading*, but really, *unsuccessful trading;* also from the increased issue of Notes, which gradually rose from $33\frac{1}{2}$ millions, in 1823, to 41 millions in 1826, an increase of 22·3 per cent. This Panic is estimated to have lowered the prices of funded and other property, the stock of goods held by the mercantile and trading interests, to the extent of 300 millions, and the assumed loss by the different parties is estimated at 45 millions. During this Panic the Gold in the Bank of England was reduced below a million, and the Credit of the Bank was saved only by the issue of about 2 millions of £1 Bank of England notes accidentally found in the Bank.

1832. This Panic lowered the price of Public Securities and other property, to the extent, as estimated, of 100 millions, causing a loss to the trading and other interests, estimated at 15 millions.

1836–37. These Panics, called the American Panics, originated with and were chiefly confined to Mercantile Houses, connected with the United States. The loss was estimated by the Manchester Chamber of Commerce, for that City alone, at 40 millions.

The amount of Gold in the Bank of England had decreased to such an extent that its credit was maintained only by a loan of 2 millions from the Bank of France.

1847. This Panic, which was caused by a

bad harvest, and great speculations in Corn and Railways, was brought to a crisis by the surplus purchases of Corn by the French Government being sent to this Country in the months of June and July, to the extent of about 70,000 quarters, which were weekly forced upon the market by the Messrs. Rothschild, at prices much below the current rates. For several successive weeks there was, in consequence, a fall of 8*s*. or 10*s*. a quarter, finally reducing prices from 96*s*. to 56*s*. Such a fall as this in the value of Wheat brought to a state of bankruptcy a large number of Houses connected with the trade in Corn, and this was followed by many other Houses engaged in general trade, which brought on a Money Panic. The amount of Gold and Silver Coin and Bullion in the Bank of England was reduced, on the 23rd October, to £7,865,445, and the Bank reserve of notes to £1,547,000; and the Credit of the Bank was saved only by the Government authorizing an addition to its issue of 2 millions of notes.

This Panic is estimated to have lowered the price of funded and other properties 400 millions, and the loss to the funded and other interests is estimated at 60 millions.

1857. This Panic arose from a Money-Panic in America, which brought down a great number of our large Mercantile Houses, connected with America, and was followed by the failure of several large Joint Stock Banks in the North of England, arising from improvident advances by the Managers of such Banks. The Gold in the Bank of England was reduced to 6½ millions, and the notes in reserve to £957,000, and the solvency of the bank was only sustained by another authorized issue of 2 millions of notes. This Panic is estimated to have lowered the prices of funded and other property 400 millions, and the loss to the fund-holders and other interests, and the failure of the Banks, and other Mercantile Houses, is estimated at 80 millions.

Thus, the aggregate loss to the community generally from the Panics, between the years 1819 and 1857, may be fairly assumed to have been not less than £270 millions, of which £140 millions are since the Bank Acts of 1844–45.

At the end of the year, 1864, after an Autumn of severe difficulty, this country was still suffering under a pressure on the money-market amounting almost to a money-panic, although the amount of Bank of England notes in circulation on the 28th of December, 1864, was £19,700,985; and of gold coin and bullion in the Issue Department was £13,386,475; and the reserve of notes in the Banking Department was £8,663,490, and gold and silver bullion £714,499; making the total amount of notes in circulation, including Bank post bills £19,810,435, and the total amount of coin and bullion in the Bank £14,100,974. And the Bank-rate of discount was 6 per cent.! the average of whole year exceeding 7 per cent.!

This state of things culminated in the remarkable crisis of the 11th May, 1866. All money-panics may be properly called credit-panics, and the judgment of posterity will be that, all these might have been prevented.

It is impossible, however, in the face of these facts, to assume that the solvency of the Bank of England, or the convertibility of the note, was made more secure by the Act of 1844, than it was before.

In support of this opinion, the actual state of the Bank of England at any period of time might suffice, and the Weekly Return on the 23rd October, 1847, is taken accidentally as an example.

LIABILITIES.

	£.	£.
Notes Issued	21,865,445	
Deduct held by the Bank .	1,547,270	
		20,318,175
Public Deposits		4,766,394

Other Deposits		8,580,509
Seven days and other Bills		947,013
		£34,612,091

ASSETS.

In the Issue Department:		
Gold Coin and Bullion . . .	6,745,354	
Silver Bullion	1,120,091	
	£7,865,445	
In the Banking Department:		
Gold Coin and Silver . . .	447,246	
		8,312,691
Balance which the Bank could not pay in Gold or Silver		£26,299,400

Again, on the 11th November, 1857, the day before the suspension, the state of the Bank of England was this:—

LIABILITIES.

	£	£
Notes Issued	21,141,065	
Deduct held by the Bank .	957,710	
		20,183,355
Public Deposits		5,314,659
Other Deposits		12,935,344
Seven days and other Bills		853,075
		£39,286,433

Assets.

In the Issue Department:		
Gold Coin and Bullion . .	6,666,065	
In the Banking Department:		
Gold Coin and Silver . . .	504,443	
		7,170,508
Balance which the Bank could not pay in Gold or Silver		£32,115,925

Thus, it appears that the convertibility of the Bank Note, so far as it is secured by the Act of 1844, is a mere political fiction.

It was said, in 1844, by Mr. Samuel Jones Loyd (now Lord Overstone) that the Bank Charter Act of 1844 "has been justly described by its author, (Sir Robert Peel) as the complement of the Bill of 1819, as the further step which was necessary to render that measure complete, and to render to the Public every possible security for the maintenance of specie payments. *This is the true object of the measure; and by its efficacy, or otherwise, in this respect, the success or failure of the measure ought to be tried.*"

How, then, stands the question with regard to the Bank Charter Act of 1844? It was suspended by a Government Letter in 1847, again in 1857, and again in 1866. On an inquiry into the circumstances of the first suspension, the

Bank Charter Act was decidedly condemned by a Committee of the House of Lords, and it only escaped a similar fate in the House of Commons Committee by the accidental absence of two members of that Committee. Of the seventeen witnesses examined before the Committee of the House of Commons in 1848, thirteen condemned the Act, and four supported it. Among its four supporters were three Directors of the Bank of England, and Mr. Samuel Jones Loyd. Among those who condemned it were the late Mr. Samuel Gurney, the largest money dealer in Europe, Mr. George Carr Glyn, the eminent London Banker, Mr. Bates, of the House of Messrs. Baring, Brothers, & Co., and Mr. Birbeck, the recognised representative of the Country Bankers of England. At this time Lord Ashburton (formerly Mr. Alexander Baring) a financial authority, at least, equally high with Lord Overstone, pronounced it, as his judgment, that the Bank Charter Act "*was a great experiment which had signally failed.*" But it now stands condemned by the fact, that it has *signally failed* on the three occasions on which it has been put to the trial. It stands condemned by the very test which Lord Overstone himself propounded, namely, its efficiency in giving to the Public "*every possible security for the maintenance of*

Cash Payments." It also stands condemned by the community in general as a most unjust and unwise measure, carried by the undue influence of the great Capitalists, against the true interests of the country at large, as the rich man's law, by which the rich are made richer, and the poor are made poorer; as the Usurer's law enhancing, by artificial restrictions, the value of money above its natural price; and as a complication of deceptions and delusions, disgraceful to the intelligence of an enlightened and enterprising people.

Such is the effect of the Bank Charter Act of 1844.

But it is not intended by these remarks to impute to the promoters of this measure anything more than an imperfect knowledge of the principles on which alone our artificial monetary system can be established on a safe basis.

The injurious consequences to the country from these money-panics, directly and indirectly, are so extensive and various that, it is impossible to estimate, with anything like accuracy, the aggregate of losses to the country from these causes.

The first effect of every crisis, however originating, is an impression of exaggerated fear of the unknown.

The certain consequence of this shock to public credit is, a rush to the banks for notes, not for want of money, but for want of confidence, and, with many, for a speculative object.

It is said that, the banks, for self-preservation against this impulse, must proceed without delay to realise bills in hand and to raise the rate of interest.

But, from the suddenness and gravity of the crisis, these means may be, and generally are, very feeble, and if the panic continue, then nothing remains but to suspend for a short time cash payments, the effects of which are the more grave, being a measure of necessity.

But, desperate as is that measure, the consequences are, perhaps, less injurious than if the same object were accomplished by means of restrictions in credit and usurious interest.

If the sacrifices were directly at the cost of the Banks, in compensation for the privileges accorded to them, the case would be very different, and the Public would only have to congratulate themselves on seeing these institutions so well fulfilling the object of their creation. But it is not so, and everybody knows that, the difficulties and charges, which are involved in the rise of the rate of interest and the diminution of the amount of discounts, are borne by the Public, the interests of which, the Banks say, their mission is to protect.

The example of the past is yet too present to the memory of all for it to be necessary to show that, the effects are really such as are here pointed to.

It is, therefore, not a matter of doubt that, the diminution of discounts occurs exactly at the time when credit is most wanted : confidence failing, it is necessary to supply that confidence by means of real resources, and as these resources can be no longer procured by credit, even with good bills, or their realisation becomes too costly, it is necessary to have recourse to the sale of merchandise ; but, as in such circumstances the supply very far exceeds the demand, there results a fall and deterioration in the price of the merchandise, and, consequently, a diminished production.

It is then that disasters accumulate and ruin overwhelms.

The depreciation of all bills brings to destruction the strongest houses, which are forced to realise, and the misery, consequent on this state of affairs, reaching the working classes, complicates and involves all.

Such are the indisputable results of the overhigh rate of interest and reduction of the amount of discounts.

It is assuredly to be regretted that, the Banks of Issue in all countries are not sufficiently powerful, do not rest on a sufficiently large basis, and have not an organisation sufficiently perfect to put them in a state to maintain, at all times and under all circumstances, the National Credit, on terms which may be legitimately demanded of them.

To show what may be legitimately demanded of the Bank of England, and how all that can be reasonably desired or wisely attempted may be easily and safely accomplished, is the object of this volume.

But, under the present Chapter, a few remarks may be usefully made on the Panic of May, 1866, which will be long remembered for its peculiar origin and disastrous consequences, and as fixing the final doom of the Bank Charter Act of 1844.

Although the panic was unexpected, yet a state of uneasiness had long previously existed in the City. That uneasiness began in the first week of October, 1865, when the Bank of England suddenly raised the discount from 4½ to 7 per cent. This was the *minimum* rate for first-class short bills, and advances on other securities were charged still higher.

On the 9th of October, many first-class bills could hardly be discounted at 10 per cent. Then the uneasiness amounted almost to panic, and any great failures at that time would, certainly, have produced a panic.

Trade was then perfectly sound, and there was no drain of gold for export, the imports then largely exceeding the exports, nor was the demand for discounts unusual for that time.

There was no reasonable explanation of this great and sudden rise in the Bank-rate of discount, unless in the interests of the Bank of England, as a private banking establishment.

In December, 1865, a slight drain of gold for export occurred, and in the beginning of the year, 1866, the Bank of England raised its *minimum* rate of interest to 8 per cent.

Notwithstanding this increased cause of uneasiness, affairs went on as usual in the City of London, until the month of March, when the Joint Stock Discount Company collapsed. This was the first sign of the coming panic.

Distrust then became general in the City of London, and money was obtained with difficulty on the best security. With the increase of this difficulty distrust spread, and the great Joint Stock Discount and Financial Company of Overend, Gurney, and Co. was singled out to be brought down by "speculators for the fall," who drove down the price of the shares, till shareholders and customers caught the general alarm, and then came the run for deposits.

In the extremity of their distress, the managers applied to the Bank of England for assistance; but the application was refused, and then, to the dismay of the City of London, the doors of Overend, Gurney, & Co. were closed.

The same result would have followed in the panic of 1857, if on that occasion the Bank of England had not made the critical position of the then private firm of Overend, Gurney, & Co. the ground of application to the Government for suspension of the Act.

Thus, the law, regulating the whole monetary system of the kingdom, was, on that occasion, suspended by the Government on the representation of the Directors of the Bank of England, at the instance of one private firm, and thereby the general distrust was arrested, the panic was stopped, and that private firm was saved, before the crisis came.

What comment on the law can be stronger than such a fact!

But the origin of all these City panics is, want of confidence in the banking system, and, therefore, the true term, applicable to every crisis, is,—a banking or credit crisis.

There was no mistrust in the Bank of England note—there never has been any mistrust in *that*,—neither was there any drain of gold for export or for internal use.

There was nothing in the commercial relations of the country to account for the catastrophe. Trade was perfectly sound before and even after the crisis, and, though the panic extended throughout the kingdom, the crisis may be said to have been confined to the City of London.

The real cause of the panic was simply a general distrust of our banking system, under the control of the Bank of England.

The Public lost faith in the establishments where they had deposited their money, but the want of faith was originated in the Bank of England. The depositors made a sudden and simultaneous rush to get back their money again into their own hands, and it is well known that, some great Capitalists in the City, took very effectual means for aggravating the alarm. The sole feature of this crisis was a run for deposits, originating in a general want of confidence in the banks and financial establishments in the City of London.

A run for deposits carried to an extreme extent must bring down the strongest banks. No bank can pay at once all its deposits, or even any large portion of them, without a National Bank amply filled with the means and at all times ready to supply them.

There being no such National Bank, it is, therefore, only a simple truth to say that, if the panic, which prevailed in London on Friday, the 11th of May, 1866, had continued for another day, there was no bank in London, not even the Bank of England itself, and, certainly, no bank in the country that was safe. In one day demand was made for half the deposits in the Bank of London.

The reserve of notes in the Bank of England was down to £415,000 for London and all the branches. Now, half a million is no extreme issue for all the country branches taken together, and if they had happened to make such an issue about the 15th of May, 1866, the Act of 1844 must then have broken down. Indeed, the Act may be regarded as having broken down, because the Bank Directors could not have allowed their reserve to dwindle down to this trivial amount, unless they were well assured that, they could break the law with impunity at their pleasure. The Bank Directors possessed and relied upon an illegal guarantee, though they availed themselves of it only for the benefit of their own shareholders. This is no reflection on the Bank Directors, nor on the Banks in general, but on the Bank Act, which controls the Bank of England and regulates the system of banking in England.

It was not the collapse of the Joint Stock Discount Banking Company in March, nor the subsequent break-down of the great discount-house of Overend, Gurney, & Co. in May, nor of the other great Joint Stock Banks, which quickly followed,—the English Joint Stock Bank, the Imperial Mercantile Credit Company, the European Bank, the Bank of London, the Consolidated Bank, and the Agra and Masterman's Bank,—it was not there that the primary cause of the distrust was to be found,—as generally supposed,—though, undoubtedly, those misfortunes aggravated the distrust.

The primary cause was in the universal distrust in the Bank of England, and those misfortunes were only the natural and inevitable consequences of the system.

Many charges of mismanagement are made against those fallen establishments, but when the charges are examined they are found to be all reducible to one single error of not sufficiently distrusting the weak and treacherous system of the Bank of England. No doubt, that was great mismanagement, but that was all. The helpless position of the Bank of England, and the mode as well as the motive of its actions were all too well known to leave any excuse for those who parted with control over their own money and relied for help from that quarter in the time of need, that time being sure to come, sooner or later, to those establishments which placed their money, however profitably, beyond their own reach when wanted.

The knowledge of that fact made the mismanagement of those establishments inexcusable, and their fall opened the eyes of others to their true danger, in the Bank of England.

That was *the cause* of the panic, and that alone.

Under a properly organised system of credit every one of those fallen establishments might have been perfectly solvent.

If the Bank of England had been in a position to render legitimate assistance, not one of those establishments need have fallen. This has been since proved by established facts. Their liabilities were great, but their capital was great and ample under a properly organised system of credit. But the Bank of England, instead of being the supporter, is the destroyer of Credit.

Public Credit is sacrificed for the private gain of the Bank of England, the great capitalists, and the money-jobbers.

The Bank of England took the most effectual means in its power for that end and object, and when those means were strengthened for the declared purpose of enabling the Bank of England to afford relief to other establishments, the Bank of England still withheld relief for the same end and object.

When the Government boldly but wisely interfered by suspending the Law, and thereby placed £5,000,000 of additional currency at the disposal of the Bank of England, for the avowed purpose of saving the sinking establishments, no part of this grant in aid was allowed by the Bank of England to be brought into use. On the contrary, it was withheld, if not for the purpose of reaping the profits of the ruin, such, at least, was the effect. The profits of the Bank of England were thereby enormously increased, and in this very simple way. These fallen establishments, before their fall, held about thirty millions of deposits, and made advances on bills, &c., to the trade of the country to a like extent.

The stoppage of these establishments, therefore, was the cause of great embarrassment throughout the country. The depositors could not get the use of their money, and the commercial customers could not get their usual advances. The deposits had been reduced by the run upon them, but the amount in hand at the time of he stoppage was about sixteen millions sterling.

This immense sum, though it will ultimately be repaid with interest, became, for the time, unavailable to its owners. Meanwhile, what were the owners to do?

All the banks were nearly drained of their money by the run for deposits, with the exception of the Bank of England, in whose favor the Act was suspended. The consequence was that, the unfortunate depositors could get no assistance, even upon the best securities, but through the Bank of England. The commercial or discount customers of the fallen establishments were in the same predicament. Their only chance of obtaining the advances indispensable to carrying on their business was through the Bank of England on its own terms.

All the discount business of the suspended establishments came to the Bank of England, as also a considerable portion of the depositors, who required loans to compensate the lock up of their own money. What is more, all the money in the hands of those suspended establishments was, according to law, transferred to the safe-keeping of the Bank of England. This money the Bank could lend out freely, to the last shilling, on its own exorbitant terms, with the knowledge that it could not be called for by its owners until the judicial liquidation of the fallen establishments had been accomplished.

In this way the Bank of England obtained not only an immense addition to its loan-business, but also a great addition to the money deposited with it, and which it could use freely in carrying on this extension of its business. The Bank, in fact, became possessed of all the money of the suspended establishments, free of immediate liability to repayment: while the depositors, the rightful owners, had to come to the Bank of England begging for advances.

Thus, the Bank of England, in so far as it granted any of those advances, was simply lending to those unfortunate borrowers their own money at an exorbitant rate of interest.

Throughout this panic the conduct of the Bank of England was in all respects that of a private bank, regarding only its own interests. An immense accession to its business was thus gained, and for accommodation the highest prices were extorted. Advances were made only for the shortest periods and upon the very best securities. Even Government securities were accepted only at the charge of 12 per cent. and, latterly, advances were refused on these securities at any terms. Not that Consols and Exchequer Bills were unsaleable or mistrusted, but that the Bank of England might need its own notes for payment of its own deposits.

From the sudden and great increase in the monetary requirements of the commercial community, the supply of money under the Act was quite inadequate to the wants, the whole amount of notes allowed to be issued by the Bank of England, available for the banking department, being actually less than the amount of deposits in the London and Westminster and the Union Joint Stocks Banks together.

There was plenty of capital, but an insufficiency of currency, and to make up the deficiency capital was sacrificed.

The estimated deposits in all the banks is £400,000,000 (probably a high estimate), but the whole banking currency of the kingdom is only about £40,000,000.

On Friday, the 11th of May, 1866, the Bank of England had no more money in hand than was absolutely necessary for its own safety, and was powerless for obtaining any more.

It is, therefore, obvious that, if a like run for deposits had been made on the Bank of England as was made on the other banks, the Bank of England must have stopped payment. Its reserve of notes, £415,000, at the end of that day, makes this manifest as a necessary and unavoidable consequence.

The banks could not get money for their

money's worth. Their assets, therefore, were not available.

That was the difficulty.

This state of things sufficiently explains the conduct of the Bank of England, and its motive for refusing to avail itself of the power conferred on it by the authority given for the suspension of the Act.

The Directors may affect to treat with silent scorn any such imputation, or they may attempt to justify their acts by their motive. But their acts is all that the Public have to do with, and their motive as Bank Directors was, doubtless, honorable, though whether it were so or not, is quite immaterial in this question.

In this question facts and results alone are material, and these are undisputed.

The Act was suspended, or, rather, the authority for suspending its operation was given on the responsibility of the Government; but this was intended for the benefit of the whole community, not of the Bank of England alone. But the benefit, in fact, was to the Bank of England. The benefit to the community, and to the commercial community especially, was little more than imaginary, and consisted in the partial restoration of confidence, by the power thus vested in the Bank for meeting the wants of the Public.

The Bank, guided by its own interests, as a private bank, refused to exercise that power for the benefit of the Public; the profit which would have resulted therefrom being wholly reserved to the Government. In fact, the operation of the Act was not suspended. The actual benefit, therefore, to the Public was in the confidence partially restored by the fact that, the suspension of the Act was authorised to the extent of allowing the Bank of England to issue £5,000,000 additional notes. But that confidence was greatly diminished by the subsequent conduct of the Bank Directors, which rendered the authority of the Government for the suspension of the Act, so far as the Public was concerned, little better than a treacherous deception, though for the Bank shareholders a substantial gain. The real ground of complaint is not against the Directors of the Bank of England, or against the Government for such an exercise of authority, but against the Act which rendered such an exercise of authority neeessary. All must be agreed in the wisdom exercised on this occasion by the Government, as regards the simple question of the suspension of the restrictive power of the Act over the issues, though why it should have been accompanied with the condition of 10 per cent is not apparent.

The suspension of the Act, under any circumstances, is a great service to the Bank of England, by relieving the artificial restriction upon the issue of its notes, which never have been distrusted, and still leaving the Bank at liberty to play its own winning game at the public expense, free from the risk of an artificial bankruptcy; for the Bank of England is as liable to this kind of failure as any other bank. A large portion of its deposits consists of the cash reserves of other banks, and on the 12th of May, 1866, any two of the large London banks, by simply combining to demand payment of their own money could have made the Bank of England insolvent.

The authorised suspension of the Act, therefore, was only a measure of common prudence and justice, as well to the Bank of England as to the whole community, and to the commercial community most especially. But that such a measure should be necessary is a disgrace to the Nation and a gross injustice to all the other banks in the kingdom, especially to those for which this measure of relief comes too late. On this last occasion, the direct benefit was to the Bank of England only; for, as regarded all other banks and commercial establishments of the country, the restrictions of the Act were kept in force.

The absurdity and injustice of such a system are too manifest to need any comment, and that a system so manifestly absurd in principle, and so practically unjust, should be continued after twenty-two years of fatal experience is astonishing.

The Corn Laws were a striking instance of the stolid stupidity of the British Government, and of the ignorant apathy of the British People; but the outrage against common sense and justice, in placing the whole of the monetary arrangements of this great commercial nation in the power of one privileged and irresponsible body, whose private interests are in direct opposition to the public interests, and the continuance in this course after the experience of twenty-two years, is something so unaccountably stupid that, with astonishment and distrust are unavoidably mingled indignation and contempt.

The authorised suspension of the Act was, in effect, another special privilege conferred on the Bank of England, in addition to the privileges already so unwisely bestowed upon the Bank; so unwisely because so imperfectly for the object, thereby vesting in the Bank of England a monopoly intended for the benefit of the Nation, operating for the benefit of the Bank shareholders, but ruinously for the trade and industry of the country.

The Bank of England is in no respect different from any private bank, except as holding this monopoly for the issue of its notes as legal tender money.

To confer special and exclusive privileges upon a private bank is an injustice to all other banks, and thereby to the whole community.

To suspend the law whenever it operates by its restrictions to threaten the safety of the Bank of England, and at the same time to maintain those restrictions against all other banks, is only to increase the monopoly and to make it more monstrous and grotesque.

To intrust such a power in a body of private individuals is opposed to all experience, and, without impeachment to the purity of the Bank Directors, places them in an invidious and false position. But they make no profession of disinterestedness. They avow that the Bank of England, so far as banking is concerned, is a private establishment; that they are responsible only to their shareholders; and that, as Directors, their sole rule of conduct is to manage the Bank as profitably as possible.

The fall of solvent banks and financial establishments is a loss to the community, but is a gain to the Bank of England. The removal of so many rivals is the addition of a large amount of deposits and discount business to the Bank of England. The suspension of the Act makes the Bank safe for the extension of its profitable business; for, being less anxious about its own reserve, it can discount more freely at its own high rate of 10 and 12 per cent., and without fear of competition. It holds the power in its own hand and refuses to relax its hold for the benefit of any other establishment than its own. The suspension of the Act is for the Bank of England only; for the community the Act remains in force. Though not suspended in fact, the whole benefit is virtually obtained by the Bank of England, as if the suspension were a fact. The Government wisely took upon itself the responsibility of authorising the suspension of the Act, and most properly conferred upon the Directors of the Bank of England the power of exercising that authority or not, at their discretion. But the Government thereby conferred a despotic and irresponsible power upon a private establishment, and the managers of that private establishment, in their discretion, exercised the power so entrusted to them to increase the gains of the shareholders of that private establishment, without any regard to other establishments or to the interests of the community at large.

It is true that, the authority was given on the strange condition of preserving the *minimum* of accommodation at 10 per cent. But in that consisted the special favor to the Bank of England, and the loss of the intended benefit to other banks and the community.

It was obviously for the benefit of the Bank of England not to avail itself of the authorised additional credit of £5,000,000, as long as it had any available money of its own for the purpose of discount, because the whole profit then went to the Bank, instead of going to the Government.

The Bank of England, therefore, had the whole benefit of this additional credit, though the Public had none of it, but only a little more accommodation from the Bank at 10 per cent.

That strange condition of 10 per cent. was, therefore, another special and exclusive favor to the private establishment of the Bank of England. The Directors knew perfectly well that, on their application, the same authority would have been given by the Government at any lower rate of interest. The Directors knew that perfectly well, and Mr. Gladstone, then Chancellor of the Exchequer, subsequently made a statement in the House of Commons to that effect.

The Directors, skilfully but artfully, made no application to the Government at all, not even for suspending the Act. They knew that the Act made its own suspension a State necessity. They wisely let affairs take their natural course. They saw the inevitable ruin, and they knew themselves to be safe; moreover, they saw their own profit in the general ruin, and they wisely, as managers of a private banking establishment, bided their time in graceful and dignified composure.

But, what of the Government?

There are many persons who think that the scandalous disgrace to the Government of the country on this occasion was instigated by *extenuating circumstances*. Those persons are weak enough to believe that, the Bank of England, by its generous and disinterested efforts, mitigated much of the misery of this most lamentable crisis.

Not a bit of it. Generosity and disinterestedness are totally out of the question.

The Bank of England reaped a rich harvest, as the subsequent division of profits among the Shareholders shows, to say nothing of the substantial increase under that significant head, "REST," for which they are thankful.

On the 17th of May, 1866, Mr. Gladstone, Chancellor of the Exchequer, informed the House of Commons that,—"The advances made by the Bank of England, on Government Securities, on

Friday, the day of the panic, amounted to £919,000; on Saturday, to £747,000, and on the three subsequent days various amounts, making up the total amount advanced on these securities in five days to £2,874,000. Then, with regard to the accommodation of commerce in general, the best measure that can be given of the manner in which the Bank has exercised its functions is shown in this—that it has made advances upon bills, and has discounted bills to the extent of £9,350,000, making a total of advances and discounts in five days of £12,225,000."

Mr. Gladstone was quite right in bringing forward these facts in defence of the Government of which he was a leading member, and in omitting to state the rate per cent. at which "the advances and discounts in five days" were made.

It would not be discreet here to fill up, if that were possible, this *hiatus* in Mr. Gladstone's statement. It will be enough to state that, the profits of the Bank of England on that memorable and lamentable occasion were sufficiently enormous to deprive the Bank of England of all claim to generous or disinterested conduct, and that, without the suspension of the Act,—or the authority given for its suspension,—those profits could not have been made.

But what was the cause which rendered necessary the advance by the Bank of England of this extraordinary sum of £12,225,000 in five days?

That is the question,—a question which Mr. Gladstone has not answered,—and he has shown himself as unable to answer it as his successor showed himself to be, when he supposed the difficulty to have arisen from "the want of capital."

Probably, Mr. D'Israeli did not know, when he gave that answer to the Deputation which waited upon him that, the deposits in the banks in this country were estimated at about £400,000,000 sterling, or more than half the National Debt.

All this is very discouraging to those who see where the mischief lurks, and are looking for the Government to expose and remove it. But the men who ought to see it see only the creations of their own fancies, and these are the men who direct the legislation for this greatest commercial country in the world!

As long as the Bank of England enjoys special and exclusive privileges and is allowed to act as a private establishment, it is useless to expect that it will neglect its private interests for the public good.

Now, it is evident that there was ample motive for the Bank of England declining to avail itself of the power entrusted to it of suspending the Act of 1844.

If the Bank of England had exercised that power and had discounted freely at 4 per cent., even to half the authorised amount, it is perfectly clear that, the panic in the City of London on Friday, the 11th of May, would have ceased on the following day; and if the Bank rate of discount had been at 4 per cent. instead of 10 per cent. on that Friday, there would have been no panic at all.

In either case, Overend, Gurney, & Co. would have obtained the required assistance, and for which they could then have given perfectly good security.

The other Banks and Financial Establishments would then have been able to convert their securities into currency, at the cost of an inconsiderable deduction from their ample profits.

Either there would have been no crisis at all, or the crisis would have ended with the first disaster. All the subsequent failures of the great Banks would have been spared, at least, for that time, and there is no reason to believe that, any of the commercial suspensions, which so quickly followed, would have taken place at all.

The other banks would then have been able promptly to resume their ordinary operations, even if those operations had suffered any interruption, which is most improbable.

But the Bank of England would not have reaped so rich a harvest at the expense of the other banks and of the community. It is more profitable to issue 25 millions of notes at 10 per cent. than to issue 30 millions at 4 per cent., and the profits of the additional issues, beyond the amount limited by the Act, would have gone to the Government, not to the Bank of England.

Towards the end of June, 1866, the bullion in the Bank of England had reached the respectable total of £14,851,000, and still the bank râte of discount was 10 per cent., though at the same time the rate of the Bank of France was 4 per cent.

Towards the end of July, 1866, the bullion in the Bank of England was £13,716,829, and still the bank rate of discount was 10 per cent., though at the same time the rate of the Bank of France was 3½ per cent., and in a few days later 3 per cent.

Since the passing of the Act of 1844, there is no other example of a stock of bullion of this large amount coincident with a rate of discount higher than 4 per cent.

It is true that the Bank of England regulates its rate of discount to a great extent by the amount of its notes in reserve independently of the aggregate stock of gold in the two departments; but, with a less advantageous state of the bullion, the Bank rate of discount had never before been maintained at anything like the *minimum* of 10 per cent., and the circumstances of the time, so far from justifying so high a rate, were precisely those which should have recommended a rate below even 4 per cent.

It was well known that about £5,000,000, in Bank of England notes, were stored up in the various banks of the country in preparation for the panic period. This cash was not really wanted, and was not actually used. When the terror of the crisis was over, all this money flowed back to the Bank of England, to be again advanced on its own terms to its own profit. If the Bank rate had been sooner lowered, these millions of Bank notes would have sooner returned to the Bank reserve, and the narrow balance, which is supposed to justify the maintenance of the high rate, would have been instantly increased to justify the low rate. The demand for notes was wholly artificial, and was created by the very precautions which the Bank took to meet it.

The motives of the Bank Directors, whatever they were, were clearly productive of ruin to many, and of results most unsatisfactory to all, excepting only the Bank Shareholders and those capitalists and money-jobbers who prey upon the weak and necessitous or unwary.

From the 11th of May to the 16th of August, 1866, the Directors of the Bank of England were, practically, entrusted with the power of manufacturing paper-money to the amount of £5,000,000, at their own sole will and pleasure, and this special privilege was conferred on them on the express condition that the *minimum* Bank rate of discount was preserved at 10 per cent., a condition which could operate only for the benefit of the Bank.

It was a great mistake on the part of Government to impose any such condition, but it was a greater mistake on the part of the Bank Directors to avail themselves of that condition for the benefit of their shareholders, as the consequence will, probably, be, and, certainly, ought to be, fatal to their Bank Charter Act.

It is hardly to be expected that, the commercial community will much longer be content that, the Directors of the Bank of England should be entrusted with the special and exclusive privilege of regulating the currency of this country at their own sole pleasure and profit, or that the present restrictive system, under the Act of 1844, should be much longer continued.

It must be evident to all, who have carefully regarded the facts, that the money panics in this country have been brought about or greatly aggravated by the restrictions upon the currency under this Act.

In the year, 1847, the bullion in the Bank of England having been reduced to a *minimum* amount, the notes issued for circulation were reduced to a corresponding amount, by the operation of the Act of 1844.

The Bank reserve being diminished in the same proportion, the Bank was unable to supply the demand for currency, which had been occasioned by the immense advances of capital in the execution of railways.

In like manner, the financial difficulties consequent on the Crimean War, when the public expenditure had increased from 54 to 82 millions, combined with the diversion of capital for meeting the exigencies of the Government, created demands for currency which the Bank of England was powerless to supply. The amount of bullion at the Bank being then at the lowest ebb, the issue of notes became most restricted at the very time when the currency was most wanted.

The same effect was reproduced by the same cause in the year, 1866.

With these instances the year, 1852, furnishes a very striking and elucidating contrast.

In the year, 1852, the amount of bullion in the Bank of England was larger than in any previous or succeeding year, and then the issue of notes was at the highest and the Bank reserve at the *maximum*.

In that year the Bank of England was able to meet all the demands for currency, and by such conversion of capital, represented by bills of exchange or other good securities, the public credit was sustained, and the productive industry of the country was promoted.

The judicious operations of banking, which make capital more active and productive than it otherwise would be, must have the same effect in increasing the productive industry of the country, as if the capital of the country were by so much actually increased.

The true policy of the Bank of England must, therefore, be, never to diminish the amount of notes in circulation below, but always to keep them up to, the requirements, and in time of temporary difficulty or extraordinary demand to issue more freely.

The Bank of England has never acted on that policy, and, sometimes with reason, pleads the Act in extenuation or excuse. The practice of the Bank of England has been, whenever it could avail itself of this excuse, to advance the discount to 10 per cent. and the effect of such exaction upon trade was well described by Mr. Watkin in his speech on Currency and Banking, reported in *The Times* of August 1st, 1866, when he said:—

"He knew a firm, which had carried on a foreign trade for 40 years, with sufficient capital for their purposes; but as their returns took nine months to arrive they were obliged to obtain advances, for which they paid 5 per cent. They told him that, as long as that was the rate they could get on very well, but that when the rate was raised to 10 per cent. it was destruction to their trade."

It is for those who object to restrict the Bank of England from exacting a higher rate of interest or discount than 4 per cent. to state their reasons for such objection.

The Government must now see the necessity of meeting this Question with a little common sense, and on official responsibility.

All Banks should be equal in the eye of the law.

One bank only should be authorised to issue notes, and, in return for this privilege, the maximum rate of interest and discount for *that Bank* should be 4 per cent.

The whole profit of such issue should belong to the Government, and the Government should be responsible for the notes issued.

The monopoly would then be in the State for the benefit of the community.

All Banks alike would then be subject to the same restrictions.

As the Royal Mint is for the coin of the realm, so the Bank of England would be for the Notes of the State, for, theoretically and practically, the Mint is a Royal or State establishment, notwithstanding it is open to all who bring bullion to be coined, and the difference between bullion and paper makes all the difference in this question.

The Bank of England would be the National reservoir of the notes, but subject to the restrictions and conditions imposed by the State.

The State could have no other control over the issues.

The Bank of England would have none of the profits of the issues, beyond the ordinary profits of banking, and against the exclusive privilege of issue, would be the 4 per cent. *maximum* rate of interest and discount for the Bank of England, leaving all other banks free to discount and lend at their own rates.

Thus, as regards banking, all the banks would be, substantially, on equal terms.

The Bank of England, as the National reservoir of the notes, the Credit Money of the State, would hold a commanding influence, but that influence could be exercised only for the public good, not for the private benefit of the Bank of England.

The privilege conferred on the Bank of England would be so little for the benefit of the Bank, that the whole of the advantages which the Bank would derive from its customer, the State, would barely compensate for the loss of profits, which the limited and restricted privilege, so conferred, would of necessity involve. But the compensation, whatever that may be, must be made certain and sufficient, and must be paid by the State, not partially and precariously, as at present, by the commercial community.

The Bank of England, thus constituted, would be a National Establishment for the Organisation of Credit in England.

To show on what safe and easy terms this great national benefit may be secured is the object of the following chapters.

CHAPTER VI.

THE BANK ACTS.

It will be convenient now, for some readers, to take a short review of the Bank Acts, commencing with the Bank Restriction Act, passed 3rd May, 1797. The following are the principal features of this Act:—

1. That the Bank should not be compelled by any Action at Law to pay its Notes on demand, otherwise than in its own Notes, and the Bank had power to apply to the Court to stay proceedings. No costs were allowed in the Action against the Bank, unless the Court were of opinion that the Action was brought to ascertain the amount of the debt demanded.

2. The Bank to issue Cash only for sums less than 20*s*. and for the services of the Army, Navy, or Ordnance, by an Order in Council.

3. The Bank not to issue any money in Cash, or Notes, by way of loans or advances to Government.

4. The Bank may receive sums of money not

under £500, and engage to pay three-fourths in Cash of the sum deposited.

5. A sum not exceeding £100,000 may be advanced for the accommodation of the persons dealing as Bankers in London and Westminster, and the Borough of Southwark, in such manner as the Governor and Company shall deem expedient.

6. To the Bank of Scotland, and the Royal Bank of Scotland, £25,000 cash may be advanced to each.

7. Payment in *Notes* to be considered payment in *Cash*, if accepted as such.

8. The Public Revenue to be received in Bank Notes by Collectors of the same, except in sums less than 20*s*. or fractional parts of a pound.

9. The Bank may pay in Cash by giving five days' notice to the Speaker of the House of Commons.

It is remarkable that in this Act no provision was made for rendering the Notes of the Bank of England a *legal tender*, probably from the hostility which at that time existed against the introduction of such a principle.

The Bank Act Of 1819.

The following is an Abstract of the Act of 1819, commonly known as Sir Robert Peel's

Act, from the influence which he exercised in passing it through Parliament. But it will be seen that, as it had reference only to the Bank of England, it could, therefore, exercise very little influence over other Banks of Issue, either as regards their solvency, or, what is called, the general convertibility of the bank notes.

This Act, 59 Geo. III. c. 49, passed 2nd July, 1819, continues the restrictions contained in several Acts on payments in Cash by the Bank of England, until the 1st May, 1823, and provides for the resumption of Cash payments, and permits the exportation of Gold and Silver.

Sect. 1. Sets forth the object of the Act, and continues the restriction of Cash payments by the Bank until the 1st May, 1823, and after that date the Bank to resume payments in Cash.

Sect. 2. Requires the Bank to pay its Notes in gold, on demand, at the rate of £4. 1*s*. per ounce, from 1st February to 1st October, 1820.

Sect. 3. Requires the Bank to pay its Notes in gold, on demand, at the rate of £3. 19*s*. 6*d*. per ounce, from 1st October, 1820, to 1st May, 1821.

Sect. 4. Requires the Bank to pay its Notes in gold, on demand, at the rate of £3. 17*s*. 10½*d*. per ounce from the 1st May, 1821, to the 1st May, 1823.

Sect. 5. The Bank is permitted to pay its

Notes in gold, on demand, at a less rate than £4. 1*s*. 0*d*. per ounce, from the 1st February to 1st October, 1820, and between the 1st October, 1820, and the 1st May, 1821, at less than £3. 19*s*. 6*d*., but not less than £3. 17*s*. 10½*d*. per ounce, by giving three days' notice in the *London Gazette*, specifying the particular rates at which the payments shall be made.

Sect. 6. Payments only to be made in ingots, or bars, of 60 ounces of standard fineness.

Sect. 7. Sums of less than 40*s*. to be paid in Silver Coin.

Sect. 8. The Bank may pay in the coin of the realm from 21st May, 1822.

Sect. 9. The Bank is required to deliver weekly Accounts to Government, and to publish Quarterly statements of its Accounts in the *London Gazette*.

Sect. 10. The gold and silver coin of the realm may be melted down, manufactured and exported without any restriction or penalty,

Sect. 11. All the Acts which prohibited the melting or exportation of gold and silver, from the 9th of King Edward the Third, to the 13th and 14th of Charles the Second, are repealed.

Sect. 12. Oaths respecting the export of silver, and so much of the Act 6 and 7 William the Third, as prevented persons, not being a trading

Goldsmith, or Refiner of silver, from buying or selling silver bullion under a penalty of six months' imprisonment, are abolished.

Sect. 13. Clipping or diminishing the Coin of the Realm, to be subject to penalty.

The Bank Act, 3 & 4 Will. IV., c. 98. 1833.

By this Act the Bank Charter was renewed in 1833, and extended to 1855, but with a proviso that it should cease in August, 1845, upon 12 months' notice being given, and repayment of the Debt due by the State.

Several important changes were introduced by this Act. By the 3rd Section, the exclusive privilege of the Bank, with regard to partnership exceeding *six* persons, was abolished. Persons discounting Bills of Exchange or Promissory Notes, were not to be subject to the penalties of the Usury Laws. Bank of England Notes were first made a legal tender for all sums above £5, except at the Bank or its Branches, so long as it continued to pay its Notes on demand in *gold coin.* Country Joint Stock Banks were first allowed Agents in London. By this Act *one fourth* of the debt due to the Bank, namely, £3,676,700, was to be paid off, which was effected by a transfer of £4,080,000, in 3 per Cent. Reduced Annuities for the amount. The Bank was also to deduct £120,000 per annum from the charge of managing the Public Debt. The Accounts were, in pursuance of the Act, to be published quarterly in the *London Gazette*.

The Bank Charter Act Of 1844, 7 & 8 Vict. c. 32.

By this Act the Bank Charter was again renewed for a period of ten years, on 12 months' notice being given *after* the 1st August, 1855. This Act can scarcely be said to refer simply to the "*privileges*" of the Bank alone,—inasmuch as it contains clauses which completely changed the entire monetary system of England. The professed object of these changes, as stated by Mr. Henry Goulburn, then Chancellor of the Exchequer, was "to prevent as much as possible, fluctuations in the currency, of the nature of those which have, at different times, occasioned hazard to the Bank, and embarrassment to the country." But the principal alteration in the Act was, the separation of the *Issue*, from the Banking, Department, an alteration which has, to the present moment, given rise to the most varied opinions amongst those who oppose, and those who support, the measure.

That the Act has failed to prevent fluctuations in the currency it needs no argument to prove.

for, in the crisis of October, 1847, this separation of the Bank into two Departments was thoroughly tested, and, as admitted by Mr. Morris, the Governor of the Bank, in his evidence before the Lords' Committee, although the Bank held £8,439,000 in bullion, and a reserve of £1,600,000 in notes, on the 30th of October, 1847, had the Bank been called upon for notes beyond that amount, it must have stopped payment, [Lords' Report, Question 22], notwithstanding the large amount of bullion in its coffers.

The Government Letter was addressed to the Governor and Deputy Governor of the Bank of England, by Lord John Russell, Premier, and Sir Charles Wood, Chancellor of the Exchequer, dated, Downing Street, October 25th, 1847.

By this Act the power of the Bank to issue its Notes was regulated as follows, namely, that a sum, equal to £14,000,000, should be issued on Government securities, of which the debt due to the Bank, amounting to £11,015,100 should form a part, and the remainder to consist of other securities, amounting to £2,984,900 ; any excess of this sum in the Issues to be represented by gold and silver coin and bullion, the proportion of the latter to be only *one-fourth* of the whole amount of the metallic security.

The form of the Weekly Account to be rendered by the Bank is given in the Act. By this form, the "Notes Issued" on the debit side of the Issue Department is calculated to mislead; for it does not represent the notes actually in *circulation*, but, simply, the extreme limit of the *power* to issue at such a date. The form does not exhibit the Notes actually in the hands of the public, except by an operation of figures, taken from the *Banking* Department, whereon the Credit side will be found, "Notes £—" which, if subtracted from the "Notes Issued," leaves £— the sum in the hands of the Public. As the Bullion in the Issue department diminishes, the "Notes" in the Banking Department diminish also; and hence the alarm at this last item when reduced to a low figure; and it has been considered by the highest authorities that the placing of the Bullion in the Issue Department, against the £14,000,000, which ought to be balanced by the Bank Debt and Government Securities, is a great error, and one calculated to create great alarm about the bullion when no danger exists.

The Act also limits the Issues of all existing Banks to a fixed amount, according to an average of *twelve weeks* preceding the 27th April, 1844, under a penalty of forfeiting a sum equal to the excess.

No new Banks of Issue can be established, and any Banker ceasing to issue his own notes cannot re-issue such notes.

The Bank to allow a deduction of £180,000 per annum from the charge of managing the Public Debt.

These are some of the principal features of the Bank Act of 1844, of which the following is an Epitome :—

The Bank Charter Act of 1844, 7 *&* 8 *Vict. c.* 32.

An Act to regulate the Issues of Bank of England Notes, and for giving to the Governor and Company of the Bank of England certain privileges for a limited period. [12th July 1844.]

1. Preamble.

2. The separation of the Issue from the Banking Department, to commence on the 31st of August, 1844.

3. The proportion of Silver Bullion to Gold, not to exceed one-fourth.

4. All persons may demand notes for gold bullion, at £3. 17*s.* 9*d.* per ounce.

5. The Bank may increase securities in the Issue department, and issue additional Notes equal to one-third of Country Notes, ceased to be issued.

6. Weekly returns of the Bank to be published.

7. The Bank to be exempt from Stamp Duty, or Composition on their Notes.

8. The Bank to deduct £180,000 per annum, on the charge for the Public Debt.

9. The Bank to allow the profits on increased circulation to the Government.

10. New Banks of Issue prohibited.

11. Restrictions upon Banks of Issue.

12. Bankers ceasing to Issue cannot re-issue their notes.

13. Limitation of Bank Issues to a fixed amount.

14, 15, 16, Sect. regulate the union of Bank partnerships.

17. Penalty on Banks issuing in excess.

11. Issuing Books to render Accounts.

19. Mode of ascertaining the average amount of Bank Notes of each Banker in circulation during the first four weeks after the 10th October, 1844.

Banks Of Ireland Act, 1845, 8 & 9 Vict. cap. 37.

The principal features in this Act are as follows:—

Sect. 5. Repeals 33 Geo. II. c. 14, s. 15, so far as prohibits public officers from being partners in Banks.

Sect. 6. Bank of England notes *not* allowed to be a *legal tender* in Ireland.

Sect. 8. No Banker, who was issuing his own Notes on the 6th May, 1844, and on the 1st May, 1845, allowed to exceed the average amount of Notes he had in circulation during the year preceding the 1st May, 1845, allowed to exceed the average amount of Notes he had in circulation during the year preceding the 1st May, 1845, such circulation to be certified by the Commissioners of Stamps, and after that date no uncertified Banker allowed to issue Bank Notes in Ireland.

Sect. 12. Banks permitted to relinquish their Notes in favour of the Bank of Ireland by an Agreement in writing, and the Bank allowed to increase its Issues to the same amount, exclusive of gold and silver coin.

Sect. 13. No Banker having relinquished the right to issue Notes can resume his Issues.

Sect. 16. Every Issuing Bank to render weekly accounts to the Commissioners of Stamps and Taxes, distinguishing the Notes of £5 and upwards from those below that value; and also to deliver an account of the total amount of gold and silver coin held at the head office, etc.

Sect. 18. The Commissioners of Stamps and Taxes to make monthly returns of every Bank of Issue, containing the average amount of notes in circulation, and also of the amount of gold and silver coin held by each Banker, and publish the same in the *Dublin Gazette*.

Sect. 20. The amount of Silver Coin not to exceed *one-fourth* of the gold coin held by such Bankers; and no Bankers to issue notes on silver to a greater extent than one-fourth part of the gold coin.

Authorised Issues of Irish Banks, £6,354,494.

Banks In Scotland Act, 1845, 8 & 9 Vict. cap. 31.

By this Act, passed in 1845, the Scotch Banks of Issue were assimilated to the Banks of Issue in Ireland, by fixing a limit to their authorised Issues, based on an average amount of Notes in circulation during the year preceding the 1st May, 1845, such amount not to be exceeded, except the excess of such issue be covered by gold and silver coin at the *head office*, in the proportion of *one-fourth* of silver to three-fourths of gold. Only the Banks specified to issue Notes under £5; and Bank of England Notes not allowed to be a *legal tender* in Scotland.

Authorised Issues of Scotch Banks £3,087,209.

CHAPTER VII.

THE GOLD COINAGE.

The standard fineness of the gold sovereign is 22 carats out of 24, the representative of fine gold, or 11-12ths of fine gold, and 1-12th of alloy; and the standard *weight* of the same coin is 123·274 grains troy, which constitute the money integer in which all values are reckoned; the quantity of fine gold in the sovereign is, therefore, 113·001 grains troy. This standard of weight and fineness, to represent the pound, was fixed by Sir Isaac Newton in 1717, when Master of the Mint.

It is a common error to consider these regulations as a "standard of value;" whereas, they only constitute a standard *measure* for estimating the relative value of different things compared with gold.

The common expression "Mint Price," is a term equally vague and uncertain. There is no such thing as Mint price, applicable either to gold or silver. The Mint authorities, in their management of the Coinage, are simply authorised to coin a given weight of bullion, either gold or silver, of a specified fineness, into a certain number of pieces of a given denomination, according to regulations laid down in a document called the "Mint Indenture." It is this that gives to all the coins a certain fixed legalized value, as currency, which can never be departed from but by the authority of parliament.

Many attempts have been made by different Statesmen and others to preserve a uniform value between the *coin* and the *bullion* from which it is manufactured, but without effect, as the nominal value, given to *coin* in one country, ceases to exist the instant it enters another country; and it is estimated only by the quantity of fine metal contained in it.

The market price, and the Mint value of coins, therefore, simply indicate their actual value as *bullion* in the first case, and their nominal value as *coin* in the second; and as long as both are allowed to be freely exported and imported from one country to another, this distinction will always exist.

Gold is, therefore, properly made our legal tender for any sum above 40*s*., and as the £5 Bank of England Note represents 5 gold sovereigns, and promises to pay that amount of gold on demand, gold is, therefore, not only the basis of our monetary system, but also of the credit currency of the country. The importance, therefore, of making this basis as secure as it can be made, cannot be too highly estimated, and to withhold any aid which can be given to this security is a manifest departure from the avowed object and policy.

Now, it will be shown that this object and policy have been departed from by preventing silver from being brought in more fully to aid and strengthen the basis of gold, and that the credit currency of the country has thereby been greatly and injuriously restricted.

That the fundamental principle of the convertibility of the Bank of England Note into gold is established and carried out by the Act of 1844, is admitted.

Bank of England notes to the amount of £14,000,000 (now £15,000,000) are guaranteed by a like amount of Government Securities pledged for their protection, and all Bank of England notes beyond that amount are secured by an equal amount of precious metal, ready to be produced at a moment's notice, and to be paid over to any holders of notes claiming their redemption.

For this credit circulation of notes there is no anxiety, long experience having established no fact that, the amount of Bank of England notes in constant circulation is never so low as £16,000,000, and, therefore, that for this amount, at least, gold will never be demanded.

The important question, then, is, whether or not the fixed line or limit for the issue of Credit-notes be correctly drawn at £15,000,000.

If £14,000,000 were the correct limit in the year 1844, £15,000,000 can hardly be the correct limit in 1867, when the Trade and Expenditure of the Country are nearly doubled.

The limit must have been too high for 1844, or too low for 1867, or, more probably, too low for both periods.

But, what is the safe rule for fixing the limit?

The answer is,—the depreciation of the bank-note.

But how is that to be proved?

The answer is,—by the gold leaving the country.

And what does all this come to?

Simply this:—That the limit for the issue of Credit-notes is correctly fixed when the amount meets the requirements of the country, and the notes do not depreciate.

Now, the contrivance of the Issue Department, separate and distinct from the Banking Department, may be likened to an Automaton moved by machinery, acting with the same regularity and with no more discretion. It provides for the safety of the Bank, but not for the requirements of the country; it prevents the Bank of England from becoming insolvent, though it does not prevent it from stopping payment; and it makes insolvent multitudes who are engaged in legitimate trade and enterprise, but are deceived by the legerdemain movements of this Automaton into looking to the Bank of England for the help which it cannot give. The Automaton, that is, the Issue Department, has no discretion, and the Banking Department has no power; and so, between the two, the honest trader and the enterprising speculator are led on to their ruin. This is called the wholesome correction of over-trading, a vague and unmeaning expression, as it is generally used.

The absurdity consists in confining the Issue Department to a mechanical movement in which there can be no discretion, the machine being so constructed that, when sovereigns are dropped in, the like amount in Bank Notes is given out; and when Bank Notes are delivered in, the like amount of Sovereigns is dropped out. There might be good reason for the fixed action of this machine, if the circumstances which brought it into action were always the same, but to suppose that the same action can be equally applicable to different circumstances is as much opposed to common sense as to all experience. For instance, when the amount of the Banking reserve is so low as to create a panic in the Money Market, the mechanical hand of the Automaton holds with inflexible grasp the bank-notes which are wanted, and that grasp can be relaxed only by gold which is not wanted. And again, when the stock of bullion is so large that the amount of Notes in circulation is redundant, suddenly the bullion is taken out to be shipped to the foreign market, and as suddenly the Notes are seized and held fast by the mechanical hand of the Automaton.

Then comes another money-panic, and in either case it is stopped only by the sudden rise in the rate of discount, and the consequent loss to the trade of the country, and the ruin of many concerned in it.

Now, in the first instance, if the banking reserve could be strengthened by a supply of notes to meet the demand; and, in the second instance, if the notes in excess of the demand were gradually withdrawn until the efflux of gold ceased, in both these instances the money-panic would be avoided.

Here is discretion required which Bank Directors may be safely entrusted to exercise, but which can never be exercised by any mechanical contrivance.

It is a great mistake to suppose that gold is or ever will be wanted in this country in any considerable quantity *as money*, as long as this country maintains its pre-eminent position in commerce and the power of obtaining gold when it is wanted.

There never has been any want of gold in this country since the resumption of Cash-payments in 1819.

The want has always been of bank-notes convertible into gold on demand.

The want of gold has never been *as money*, but as a *commodity*, or article of merchandise.

All that we have to do, and all that we can do *prudently*, to keep the needful supply of gold in this country is, to keep the price of gold as steady as we can in the general market, and that is to be done only by preserving, as nearly as may be, the equilibrium of value between British and Foreign Money.

As long as the Bank of England Note is the representative of the gold coin of the realm, and known to be convertible into gold on demand, the power of the Bank of England to obtain supplies of gold in the open market at all times will be maintained by a large banking reserve, beyond the influence of capitalists and speculators, when controlled and regulated by intelligent, experienced, and impartial Directors. It may often be necessary to reduce the amount of bank-notes in circulation; but all money-panics have been increased in intensity by too great and sudden a contraction of the currency, and by the sudden and enormous rise in the rate of discount. With a large banking-reserve, supported by a large and independent real capital, and under judicious management, the ordinary bank-rate of discount would be between 2 and 3 per cent. and would rarely exceed 4 per cent., and then only under extraordinary combinations of political or natural causes.

A bad harvest causes a sudden and large importation of corn, for which, usually, the payment is in gold. At such a season the exchange of notes for gold will be at its largest. But, take the case of an abundant harvest, safely garnered. Can it be wise to require the same stock of gold to be kept in the Bank of England, when it is known that the gold will not be wanted, as when all the exchanges of corn-growing countries were enforcing remittances in gold?

Such a proceeding would be opposed to universal practice in all the ordinary transactions of life; and any attempt to fix a reserve which shall fluctuate precisely with the fluctuating wants of the community is manifestly beyond the power of human foresight and design. All that can be wisely done is to allow an ample margin to meet present wants and probable contingencies, to be from time to time enlarged or reduced as altered times and circumstances require.

No mechanical contrivance can be a rational agent or a safe instrument for the issue of bank-notes as the currency of a country, nor was there ever any ground to justify such an absurd attempt. It is impossible to maintain that there was any such ground in the face of the fact that, the Bank of England, from the year 1819, to the year 1844, did so manage its notes that, they never suffered a moment's depreciation, and all through that period supplied this country with a perfectly convertible, safe, and confidently trusted currency of paper; and that a highly-developed currency of notes in Scotland, founded on an exceedingly slender reserve of gold, had been doing its work with uninterrupted success for more than a century, effecting an unrivalled economy of expensive coin, and intensely valued by the population.* Theorists may say that the

* "The Bank Charter Act."—*Home and Foreign Review*, No. 8, page 414 et seq.

convertibility of the Bank Note was in great danger at various times, and that the paper notes of Scotland were inadequately sustained, but the facts refute the charges. Every practical witness declares that, never, since Cash payments were resumed, has the Bank of England Note been held in less estimation than the sovereign; and that, at no time, since that period, has the public preferred gold as safer than the note. The Bank of England has often been severely pressed to supply money to claimants; but the difficulty has been as much in finding notes as gold, and the public was indifferent which of the two they carried away. The supply of Notes was insufficient to meet the demand and to keep up a suitable reserve. There never was a greater run upon the Bank than in the year 1825, and then the stoppage of the Bank was saved by the lucky discovery of one million of unburnt one pound notes. These were eagerly taken by the public, and proved to be the equal and the match of gold. Great authorities have said that the bank-note was then exposed to imminent peril; but the very reverse is the truth. The bank-note then, as now, or at any period since 1819, has never been exposed to the slightest risk of depreciation. This fact is the assurance that the solvency of the responsible issuer is a complete guarantee for convertibility; and it is confirmed by experience, that the Bank of England and the Bank of Scotland have been found to be solvent and responsible issuers. Therefore, if the Bank Act of 1844 have made a solvent and convertible currency, the Bank of England and the Bank of Scotland have done the same before.*

If the state of the bullion in the Bank in 1825, 1847, 1857, and at other periods of alarm, be referred to, and if it be said that the note was brought to the border of the precipice, and the country within the danger of the suspension of cash payments, the inference is wrong. The true answer is, see with how little gold the note circulation of the Bank of England was and can be sustained. Amidst the terror of traders and the crash of falling firms, when panic convulsed every mind, and the strongest houses trembled for existence, when money was not to be had, discount not to be bought, the rate of interest rising, and the whole City on the verge of ruin,—one thing, and one thing only stood unshaken. Bank Directors had lent away all their deposits; the Bank reserve was gone; commerce in vain shrieked for more relief; the Bank tottered to its foundation; but its note never lost the public confidence for one instant. No one asked for gold when the note was offered.

* *Ibid.* page 415 et seq.

Why was this?

Because the note was the mere instrument of currency for the transfer of debt or commodities; and because the solvency of the note was unquestioned, the number in circulation being in no excess over the daily requirements of the public, and the note being in no way dependent on banking and its incidents, its prosperity or its disasters.

No measure, therefore, was needed to secure the convertibility of the bank-note, which was never in danger, being as secure before 1844, as it has been ever since. All the danger has arisen from the smallness of the Bank's reserve for banking and currency liabilities conjoined. The portion required for paying notes on demand was ample for that purpose, but small in comparison with that which remained, which was much too small for the banking business. It was that inadequacy which caused all the agitation and all the danger, that danger threatening the Bank in its banking affairs only. The danger was in the small reserve of notes, not in the stability of the note. If a few millions more of notes had been held in the Banking reserve, the cry of danger would never have been heard.

Upon the ground assumed by the framers of the Act of 1844, it is clear that the line should have deen drawn at sixteen millions, and not at fourteen millions.

But why should the Banking reserve be reduced for securing the convertibility of the Bank note which has never been brought into question, even when, for this purpose, there was no reserve at all?

Under the pressure of a heavy export of gold, the stock of gold in the Issue Department has sunk to eight millions, and once to a little only above six millions. Lord Overstone thinks eight millions a very proper amount. But this is, in fact, an extravagant waste, justified neither by reasoning nor by experience.

For what, but banking purposes, is any reserve of gold required?

To secure the convertibility of the note.

Why is convertibility demanded?

To prevent the depreciation of the note:—to guard it against discredit:—to protect it from discount: to keep it on equality with gold.

But that is already done without any reserve of gold. That is effectually done by the Government guarantee. The proof was seen when the mixed banking and currency reserve stood as low as three millions, or even one million.

Since the resumption of Cash payments in 1819, the Bank of England note has never suffered discredit or depreciation. The notes were known to be issued by a solvent body, and to circulate only in such numbers as required to satisfy the actual wants of the public for effecting their ordinary transactions, and the public were willing to hold those notes, and not to send them in for payment, as long as the number did not exceed the want, simply for their usefulness, as convenient instruments for effecting their ordinary transactions in buying and selling, instead of exchanging.

In the face of such facts and all experience, it is nothing but an idle waste of an enormous sum of public money to keep such a reserve as is kept, or any reserve, for the mere purpose of securing the convertibility of the note, which is already secure, and has never been questioned.

The danger alleged by Lord Overstone and his party is a mere bugbear to frighten those who understand little or nothing about this question, and who still associate the large combined reserve of former days, for the double purpose of banking and currency, with the single object of providing for the currency alone.

Eight millions may be a proper or even a low figure for the banker's reserve of the private corporation of the Bank of England; but it is a sheer waste in the cellars of the Bank, for securing the convertibility of the Bank notes only.

It may be safely left to the Directors of the Bank of England, as it is left to the managers of all other Banks, to determine what amount of gold is needful to be held in reserve for their Banking purposes. Probably they will come to the conclusion that two millions of sovereigns will be an ample reserve for all their purposes.

When we see, as we have seen, that in the worst times of pressure on the Bank for gold in exchange for notes, the reserve does not sink below a million of sovereigns still at command in the Issue Department, what further evidence can be required to show that a large reserve is mere waste? What possible end can a larger supply secure?

But if the gold in the Bank of England be exhausted? What then? Will the Bank of England be in a worse situation than any other Bank in like circumstances?

Nothing of the sort. A most efficient remedy is at hand, ready for instant application. Suppose forty millions of Consols, or other Government Securities, at the command of the Bank, and then nothing would be more easy than to sell a million or two of stock, and thus procure gold or notes from the open market.

That this country will always hold a large amount of so convenient a currency as Bank-notes is certain. But suppose every note sent in for payment. What then?

Sale of the Consols. Nothing more.

And if it took a little time to get together so large a quantity of gold; what then?

Wait a little time. Nothing more. The Bankers would not lose anything. Nobody would lose anything. This would be no money-panic. This would affect no legitimate traders. It would affect only the speculators in gold,—the conspirators against the currency,—and the loss would be on them. The Bank-note would be as sound and as safe as ever.

But this is only meeting an absurd hypothesis with an absurd and impossible example. Twenty-two years have now elapsed since the Issue Department of the Bank of England was entrusted with the uncontrolled management of the issue of Bank notes, beyond the amount of the credit issues, and during that period the City has been convulsed, in 1847, 1857, and 1866, by three of the severest commercial pressures on record; but never once has the bullion descended to six millions. Six millions of the original gold on which the Issue Department was opened have reposed undisturbed in the vault in which it was then deposited. Not an ingot has been disturbed. The whole has remained in that vault, and of no more use or value to mankind than when imbedded in the rocks of California or Australia. If such facts and reasoning fail to make manifest the monstrous absurdity of the present system, further reasoning is only a waste of time, and the change must be left to be effected by the necessity which time and further experience will show, and that experience will be dearly paid for.

What the People are now paying for their experience is a very simple calculation.

If £8,000,000 be a satisfactory minimum for the store of bullion, as Lord Overstone says it is; and if £2,000,000 be a satisfactory minimum, as here shown to be; the question raised is upon £6,000,000 at the least, or £300,000 a year, at 5 per cent.

But if these £6,000,000 can be sold abroad for their equivalent in food, clothing, and raw materials for the laborers of England it is not too much to say that capital applied to average industry yields a profit greatly more than 30 per cent. in the wages to laborers, and in the several profits of the many hands through which a commodity passes before it is finally consumed. But taking it at 30 per cent. only, and on £6,000,000 only, we have £1,800,000, as the lowest sum which, year after year the Issue Department of the Bank of England costs the People of England.

The principle of the Act of 1844, in so far as it separates currency from banking, is theoretically correct; but, in so far as it brings the whole of the currency under the fixed and immutable law of the Issue Department, is both theoretically and practically incorrect. This separation is required only for securing the convertibility of the Bank note, and would not be required if the note were otherwise secure. With a metallic currency only, it is manifest that such separation could answer no purpose whatever. Therefore, if the Bank Note be otherwise secure, as it is proved to be, the mixed currency may be regarded as if wholly a metallic currency.

But, practically, it has been proved that, the Issue Department, working by its inflexible law, withdraws so large a portion of the mixed currency from circulation,—for the unnecessary purpose of securing the convertibility of the Note, already secure,—that the Banking Department of the Bank of England is left with an insufficient supply of currency for the necessary accommodation of the Trade of the country, which is thereby left open to all the inconveniences of a want of currency for ordinary transactions, and also to the losses consequent on the fluctuations in the value of money, arising from the continual variations in the state of trade, further aggravated by speculation in the open market in gold.

These are evils which no irrational agency or fixed mechanical contrivance, like the Issue Department, can correct. The bank-note does not belong to the Banking Department, but to the Issue Department. The Bank of England has no more command over the issue of bank notes for the accommodation of trade, than any other bank in the kingdom.

The Issue Department sells bank notes to all comers, having first sold fourteen millions to the Bank of England, and demands gold from the Bank and from all the rest of the world for any quantity of bank-notes which may be wanted.

Nothing can be more complete than this contrivance for securing the convertibility of the bank-note; but nobody has ever questioned the convertibility of the bank-note, since it has been convertible, because it has never been in danger. Therefore, this contrivance fixes the amount of bank-notes in circulation, as a substitute for gold, at £14,000,000, (now £15,000,000,) which, if the proper amount for 1844, cannot be the proper amount for 1867. All the same reasoning for fixing that amount in 1844, is equally applicable to extending the amount to £40,000,000 in 1867. Not to extending it to an irrational agency, but to the intelligent and experienced Directors of the Bank of England, who have no more personal interest in the question than any other members of the community. It is one thing to provide a safe currency, and quite another thing to provide banking accommodation.

The Issue Department effectually provides the former, as far as it goes, but as effectually prevents the latter; and the great mistake of the Act of 1844 is, in not providing a sufficiency of bank-notes for the necessary wants of the country. The Act assumes a want of gold without the means of getting it; whereas, the want has been of Bank of England notes only; because, with these notes there has never been any difficulty in getting gold in the market, since that market has been open and free to all buyers.

But it was another mistake to make the Bank of England an open market to all the world for buying and selling gold, by making it compulsory on the Bank of England to give its notes for gold. It is one thing to make it compulsory to give gold for notes, and quite another thing to make it compulsory to give notes for gold. There can be no good reason for making the Bank of England a market for gold, especially if the Mint be open and free to all (as it professes to be), to bring their gold to be coined, free of charge, the necessary detention and loss of interest being a sufficient charge. There are many obvious reasons against such a compulsory power upon the Bank of England, which ought to be as free as any other Bank to buy gold when and where it pleases, and only when it pleases.

However excellent in theory may be the principle of the Act of 1844, in the separation of currency from banking, yet, the details of the Act, which limited the credit currency of Bank of England Notes to an amount manifestly inconsistent with that principle and the necessary wants of the country, have not been productive of a single advantage which was not enjoyed before; and the inflexible line which was then drawn has inflicted incalculable evils on the whole country. If the line for the credit issues had been so drawn as to leave an ample margin, to be dealt with by rational instead of irrational agency, and if that line had been from time to time enlarged to meet the enlarged demands of an ever increasing population and trade, nothing can be imagined more perfect for its objects than the Bank Act of 1844. But confined as it is in its operation by inflexible rules, nothing could be more fatal than this enactment has been to all benefit from the principle thus carried out.

The folly of assuming that the money-market of this country can be always wisely regulated by rules as unyielding as the movements of a machine, has been shown by the frequent and disastrous failures.

Nothing can be more unwise than to lay down inflexible rules for government on any subject, and, of all subjects, this is the least suitable for such an attempt.

If, in former days, the Directors of the Bank of England sometimes acted injudiciously as Bankers, banking is now much better understood, and it were better to take the chance of their being wiser now, than to submit the direction of the Bank of England wholly to irrational agency. It is a great cost to the country to pay £1,800,000 a year for a little more theoretical nicety, and a great deal less of practical benefit in the management of our bank-note issues.

The public would soon learn that trade and discount have no more connection with the issue of notes from the Bank of England, than of sovereigns from the Royal Mint, and they would soon learn to care as little for the number issued of the one as of the other, when they saw an ample reserve of notes in the Bank. When they became accustomed to look upon the issue of bank-notes as in no respect different from the issue of sovereigns, they would cease to feel any uneasiness about the necessary supplies of either or both, or about the convertibility of the note, which was fully protected by securities. These securities, unlike the bullion in the Bank-cellar, involve no loss of capital, but yield their dividends to whomsoever allotted. It is true that, these securities are only Government Debts, but it is also true that, these Debts are secured by the whole capital of the kingdom.

With respect to the restoration of the One Pound Note, that is a question on which some difference of opinion exists. There seems, however, to be no good reason for returning to One Pound Notes, and the additional facility thereby given to forgery, seems to be a strong reason for discontinuing them. But Lord Overstone gives another reason deserving of attention in the following remark: "As a general principle, I think that the system established in England is unquestionably the right one; and that it is desirable that the smaller monies of the country should be in the metallic form, and principally for this very obvious reason, that alarm and panic are liable to arise amongst those classes where the intelligence and education are the least."

It is a common but erroneous belief that, a greater amount of gold in the Issue Department implies an increased reserve in the Banking Department of the Bank of England, and, therefore, a larger fund for the accommodation of trade. This is a common notion even amongst generally well-informed and commercial men. But this is a mistake. The gold in the Issue Department does not belong to the Bank of England, but to the holders of Bank of England Notes; and the amount of gold in the Issue Department may be large or small without affecting in the smallest degree the banking reserve of the Bank of England. No one ever heard it said that the amount of sovereigns in circulation strengthened the reserve of the Banking Department, but there would be as much reason for saying this, as for saying that the notes, or the gold which is held in close pawn for the notes, can add the smallest fraction to the Bank reserve. Such a mistake as this shows that the Bank Act of 1844 is not understood, the fact being that the Issue Department is nothing but a factory, separate and distinct from the Bank of England, for the making and selling of Bank of England Notes, not exclusively for the Bank of England, but for all Banks, all firms, and all persons, who come to buy, or to exchange gold for notes, or to sell gold as well as notes. The gold is the stock-in-trade, and whether the stock be large or small concerns only the Issue Department, and not the Bank of England, any more than any private firm, in which relation the Bank of England stands to the Issue Department. If the stock of gold be larger than is wanted, the surplus treasure must be consigned to the cellar. This in no way concerns the Bank of England, further than the loss of so much capital to the country. Merchants and Traders do not so deal with their capitals. If they did it would be much the same thing. All these are private affairs, though public losses.

There is another common delusion, which invests gold with a mysterious and peculiar importance, as if it were distinguished from all other commodities by some qualities too mystical to be intelligibly described. Gold is but one of the infinite number of commodities, subject to the same laws, obeying the same influences, bought, sold, and exchanged by precisely the same rules. These commodities have all their peculiar usefulness when used, and, though more or less costly to buy, may be equally useful, when used. But of all these, there is not one which is of the smallest use, unless it be used. Now, it seems as if gold were considered by many to be an exception to this general rule, and that its chief use consisted in not using it at all.

The six or eight millions of sovereigns and uncoined gold in the Bank cellar are considered to be doing their good work best in the dark, and out of human sight or touch!

But why should this commodity be the only exception to the universal law of supply and demand?

Is iron less useful than gold?

But who advocates the hoarding of iron and keeping it unemployed?

What is the ground of fear that the supply of gold in England will ever be less than the demand?

English exports, or English exported manufactures, far exceed the value of the foreign raw materials of which they are composed; and this means that foreign countries are always indebted to England. If this be so,—and nobody doubts it,—where is the doubt about our getting gold when we want it? The greater difficulty is in getting rid of it, when we have got it.

If eight millions of sovereigns be required by the Bank of England for cashing its notes presented for payment, let the Bank have them; but it is quite enough for the Bank to get them when they are called for; they never have been called for during these last twenty years, and never were wanted, or, at least, never would have been wanted if notes payable in gold had been supplied. But if two millions be enough to meet all wants, why keep seven or eight millions idle and unproductive?

This is the question to be answered.

Another common delusion is, that the Issue Department makes money cheaper or dearer as the circulation expands or contracts, and thereby steadies prices, checks speculation, and furnishes a solid basis for the calculations of the legitimate trader. This assumes that sovereigns and bank-notes alone form, what is called, "the circulation," and that these alone are the regulators of prices.

Here again is fiction upon fiction.

Where have these philosophers learned that coin and bank-notes constitute the currency of the country, and that these are the regulators of prices?

What is their idea of currency and its functions?

They seem to exclude from their idea all cheques, bills, and book-credit, and yet these answer the same purpose as coin and bank-notes. When, by the withdrawal of gold for exportation the number of bank-notes in circulation is reduced, the public are compelled to use more cheques, bills, and book-credit; and if bank-notes were extinguished altogether, the only effect would be a larger use of the substitutes.

They say that prices rise when notes and sovereigns are abundant, and fall when these are deficient; and they say that, the Issue Department controls the circulation; therefore the Issue Department controls or regulates prices. But this is an unfounded theory, contradicted by all experience.

The Issue Department has no control whatever over the circulation, which is entirely under the control of the public, who may take as many or as few notes in exchange for gold as they please; and the prices of commodities depend on the supply and demand.

If the doctrine were true that, the Issue Department controlled the circulation, and also controlled prices, then the one doctrine would destroy the other.

But the doctrine being altogether wrong, the conclusions are wrong.

Supply and demand are always more or less affected by the money-market, which affects credit, and credit affects prices; but the solvency of the bank-note, not being in question, does not affect credit. That the Issue Department does very injuriously affect credit, by restricting the issue of notes within too narrow limits, has been too frequently proved by experience; but in no other way does this affect prices than by affecting supply and demand.

It is a fact not generally known, or, at least, the consequences are not generally understood, that more gold is imported into this country than the country has any use for, and if the surplus quantity be not immediately exported, it is deposited in the vaults of the Issue Department. For the buried gold vouchers are given in the form of bank-notes, and these, if not wanted, fall into the common reservoir of the Banking Department, and form its reserve. The bullion and the notes are then simply inoperative, waiting till wanted; or, the bullion is sent abroad, and notes for the same amount are cancelled.

Such being the simple facts, it is clear that, the Issue Department is merely a safe and convenient place for depositing the gold till it is wanted, and that the notes, which are issued as receipts for the gold, are but the vouchers for the quantity so deposited. Now, it is manifest that, the Issue Department does not keep these notes out of circulation, because they have never been in circulation.

The fluctuations, therefore, in the reserve of the Issue Department, to which so much importance is attached, simply and solely indicate the movements in the market of gold, and as the balance of trade in favour of England is almost always causing a flow of gold into England, there can be no ground for alarm with regard to a supply of gold sufficient for all the purposes for which it can be required in this country.

In times of commercial difficulty the alarm is not for gold, but notes.

For nine-tenths of all the great commercial transactions of this country bills and cheques do the work, and gold and notes are little more than small change for the retail trade and payment of wages. For proof of this it is only necessary to enquire how the wholesale dealers make their payments, and how the clearing-houses settle them.

These enquiries will dispel many of the delusions about currency, by showing how small a portion of the currency of this country consists of gold and notes.

When this is shown and understood, but not before, the monstrous proposition of Lord Overstone, before the Select Committee of the House of Commons, on the 7th of July, 1857, will be fully exposed. Speaking of the Act of 1844, he said:—"By this means effectual security is obtained that the paper money in the country shall at all times conform to what would be the amount of a metallic circulation. Of this there can be no doubt. The paper money of the country, under the Act of 1844, conforms strictly in amount and consequent value to a metallic circulation; those fluctuations in amount, and those only, which would occur under a present mixed circulation of gold and paper, as regulated by the Act of 1844."

Would Jones Loyd & Co. confirm this proposition? Would they say that, if Bank of England Notes were withdrawn, they would use as many sovereigns in their business as they now use notes,—sovereigns for notes, pound for pound?

In that case, a large establishment of carts and horses and trusty porters would be required for the carriage of the precious material, assuming that it would be found in sufficient quantity. But then, as now, the principal instrument of transfer would be cheques and bills, which rest on no such costly foundation as gold, but on the solvency of the issuer. It would be sufficient for him to get the gold when it was wanted; in the meantime his cheque or bill would fill the place of the bank-note; and if bank-notes were withdrawn, cheques and bills would fill their place, not gold.

But Bank of England Notes, carrying with them the stronger evidence of solvency, are, for general use, the more convenient and safer means of transfer than the cheque or bill, and to subject the more convenient instruments to the risk of scarcity when most wanted, by making their numbers dependent on the demand for gold, is to subject those who want the notes and cannot get them to the risk of ruin, for the benefit of those who have been able to hoard the notes, or the gold which can command them.

This is an inevitable consequence of the Bank Act of 1844.

The trade in gold in England is carried on by Merchants, Brokers, and Refiners.

Where there is no demand for export the gold is sold to the Bank of England, which is bound to purchase it at the rate of £3. 17*s.* 9*d.* per ounce, standard.

The movements in the price of bullion are proportioned to the amount sent to the Bank.

The slightness in the variations in the price of Gold arises out of several conditions, the most important being that, the commodity and the money which pays for it, and in which its price is stated, are the same material. It is a mere exchange of gold for gold.

£3. 17*s.* 10½*d.* in Gold Coin, will weigh one ounce.

Again, the English Mint being free to coin the commodity into money, *without charge*, a vendor not satisfied with the Bank price of £3. 17*s.* 9*d.*, and not having regard to the loss of interest during the operation, would send his bullion into the Mint and have it coined into money, when every ounce would yield him £3. 17*s*. 10½*d*.

The whole bullion trade between France and England is in the hands of a few houses; the calculations are very nice, and it is sometimes difficult to see how the profit is made.

The Bank of England professes to sell Bar Gold at any time when it has any to sell, at £3. 17*s*. 10½*d*. per ounce, standard.

The Mint is free. There is no seignorage upon Gold Coin.

The value of an ounce of Bar Gold is equal to an ounce of Gold Coin, with some very minute variations, not worth mentioning.

CHAPTER VIII.

THE SILVER COINAGE.

It will be convenient here to consider some of the principal changes which have been made in the Silver Coinage, as affecting the money of the country.

In the year 1816, the old silver standard of coinage was abolished, and the pound weight of silver, which had been coined into 62*s*., was then coined into 66*s*., of which 4*s*. were taken for seignorage. The effect of this change was to reduce the pound sterling, or 20*s*., from 1,718,709 grains of fine silver, to 1,614,545 grains.

The Act which limited silver as a legal tender to £25 was repealed, and the legal tender was reduced to 40*s*.

By the Act of 1816, 56 Geo. III. cap. 68, silver, which was a universal medium of transfer, was almost prohibited in England. The Mint was closed against the Public, and the coinage of silver money has been, since that time, wholly in the hands of the Government.

The limitation of the silver coinage, as a legal tender, to 40*s*. was judicious: but it is difficult to discover any principle in restricting the quantity of the silver coinage, which would be always regulated to the want by the limitation of the legal tender.

It appears, from a memorandum issued in 1819, that the Silver Coinage Act of 1816 was part of the scheme by which the Crown usurped the right of regulating the *quantity* of silver money that should be in circulation, because it was considered that, "while the coinage of silver is in the hands of the Government, they have the power of regulating the amount, so as neither to be in excess or deficiency." But, this is a power quite unnecessary to be in the hands of the Government as more silver would not be coined than is wanted.

The coinage of the money of the realm is properly a Royal Prerogative, but to restrict the quantity is not. The Royal Mint should be open to the coinage of silver as well as gold free of charge, and our standard, being in gold, has nothing to do with this question.

As this Memorandum is a document remarkable chiefly for its reasoning, the whole of it is here given.

Memorandum upon the Issues of the Silver Coinage.

"Under the authority of the 56th Geo. III. cap. 68, a new silver coinage was prepared, and by a proclamation, dated the 29th day of January, 1817, all the old silver coin of the realm was exchanged throughout Great Britain; this operation was performed by a simultaneous arrangement, and the whole exchange was effected in a fortnight, with a very few exceptions in distant and obscure places, where a few days further time was allowed to the inhabitants to bring in their old coin. The silver coin in the Isle of Man, and Guernsey, and Jersey, was in like manner also exchanged.

"Some silver, which had been in circulation and appeared to be French coin, was received at the Mint at the market price of the standard silver it contained; and some heavy old coin, which had been hoarded, was likewise exchanged there for new coin. Three months were allowed for these operations.

"The amount of silver coinage in Great Britain, previous to the new coinage, was estimated at the Mint to be about £5,000,000; £2,500,000 of which was supposed to be in old coin, and the remainder in Bank tokens; the estimated amount of the coin appears to have been nearly correct; but what Bank tokens were in circulation it has not been possible for the Mint to determine.

"The amount of coin issued in exchange was £2,600,000. 1*s.* 2*d.*, the amount coined from the old silver coin £2,007,902. 16*s.*, amount coined from bullion, since purchased from the Bank, £516,684; total of new silver coinage issued to the present day, £5,124,636. 17*s.* 2*d.*

"The new coin thus issued being £5,124,636. 17*s.* 2*d.*, and some of the distant parts of the country, and some of the manufacturing districts being still desirous of more silver coin for the accommodation of exchange in their internal traffic, it is probable that the amount of Bank tokens outstanding was more than the Mint calculated; it is certain that the sum already coined is not sufficient for the convenience of the country.

"The silver coined from the bullion furnished by the Bank since the old silver coin has been exhausted, has been lodged in the Bank on account of the Government; and it is distributed to the bankers of London, that it may be circulated throughout the country for the accommodation of the public, and in some instances large sums have been issued for particular districts. At present a supply of about £35,000 a week is furnished by the Mint for these purposes, and it is proposed to continue to coin at this rate, till the Government have ascertained that there is no want of change in the country. This gradual supply seems to be sufficient to prevent any inconvenience to the public.

"The Mint, having constant communication with the Bank and the London Bankers, is enabled to afford information on the state of the silver currency to the Lords of the Treasury; and their Lordships, being also in possession of other means of knowing the wants of the country, regulate the issues in such manner as they conceive will best afford the necessary accommodation throughout the kingdom, 'for the facility of exchange and commerce,' without throwing into circulation any superabundance of silver. The silver coinage can never, therefore, while it is preserved upon its present footing, exceed the amount which the Government, from the best information they can procure, conceive to be necessary for the accommodation of the public.

"The 11th and 12th sections of the 56 Geo. III. cap. 68, clearly point out the principle upon which the silver coinage was to be, and has been, issued. It is merely a coin of exchange for the convenience of the country, and not being a legal tender for more than the very limited amount of forty shillings in any one payment, cannot be the standard of value, and is, therefore, not liable to produce any difficulties or inconveniences that were felt when the coins of the two precious metals were received in payment to an unlimited extent, and were both of the intrinsic value of their denomination.

"The limitation of the legal tender of the silver coin, and the lowering of the value of it by the deduction of the seignorage of four shillings in the pound troy, place it precisely on the same footing in our circulation, in point of principle, with our copper coins. They are a legal tender as far as twelve-pence in any one payment, and they are at present about 72 per cent. above their intrinsic value, which seignorage, however, produces no mischief, as the coinage of copper, like that of silver, is entirely in the hands of the Government. The silver coins are a legal tender to forty shillings, and the seignorage taken from them is about 6 per cent. Both coins serve for change, and change only, and can never be brought into competition with, or used for the purchase of, the gold coins. This is the view taken of them by the late Lord Liverpool and Dr. Adam Smith, who both recommended the system of silver coinage as established by this Act. Dr. Smith says, the legal tender of the silver coin should be limited to change of a guinea; the Act limits it to the change of a double sovereign, it having been in contemplation, when the law passed, to coin pieces of that denomination of the value of forty shillings. By this Act, the Crown, by proclamation, may empower the subject to bring silver bullion to the Mint, to be coined at the rate of sixty-six shillings to the pound Troy, *sixty-two* shillings to be delivered to him, and four shillings to be retained as seignorage.

"No such Proclamation has been issued, and the coinage of silver has been entirely in the hands of the Government; they have the power of regulating the amount, so as neither to be in excess or deficiency.

"The effect of deterioration or debasement of the silver coin limited as it is, as a legal tender, to forty shillings, is to ensure its remaining in circulation until the price of standard silver in the market rises beyond 5*s*. 6*d*. an ounce. Until such a rise, there can be no inducement to melt the silver coin, or sell it as bullion; and even if the price of silver bullion should rise so high as to make it the interest of holders to dispose of it as bullion, it would not be possible for them to exchange it for gold coin, the limitation in the tender preventing them; nor would they have an opportunity of collecting any large quantities, as the Government have it in their power to keep the supply of silver coin within such limits as to render it impossible that the public should part with their change, even if they could, by melting it and selling it as bullion, realize a small profit.

"The principle upon which the silver coinage is carried on, makes no difference whatever in the price of silver bullion in the market, its price will be regulated by the proportion of gold to silver in the market; and were the Mint to be thrown open by Proclamation to the public for the silver coinage, no profit could accrue to any individual bringing silver bullion to the Mint, unless he bought it at a lower rate than 5*s.* 2*d.* per ounce, the old Mint price, as he would receive but 62*s.* for his pound of silver, 4*s.* being retained out of the 66*s.* by Government as a seignorage. He would be neither better nor worse than he was under the old system. There is, in fact, now no Mint price of silver governing that of the market; its market price will vary in proportion to the quantity of silver which a given quantity of gold will purchase; for example, if one ounce of gold purchase 150,725 ounces of standard silver, the market price of silver will be 5*s.* 2*d.* per ounce; but if one ounce of gold will purchase only 14 ounces of standard silver, the market price ounce, at that proportion, will be 5*s*. 6¾*d*. The same thing takes place in the price of copper. The Mint price of copper is 2*s*. per pound avoirdupois; that is, the pound is cut into 24 pence. But the market price of copper, in cakes, or in bullion, varies from £112 to £168 per ton, or from 1*s*. to 1*s*. 6*d*. per pound. The market price of copper at present is £130 per ton.

"As there is no silver coin of the realm recognised as a standard, there cannot, therefore, be any effect produced upon the relative prices of gold and silver bullion in the market by the present mode of coining and issuing our silver coins; those prices must be affected by other causes, in fact the relative proportions of the two metals in the market for the three years which have elapsed since the Coinage Act passed have kept to very near the old Mint proportions.

"The averages are as follows:—

"In 1817, 15·270 ounces of silver = 1 ounce of gold, which gives the price of silver at 5*s*. 1*d*. per ounce.

"1818, 15·095 ounces, which gives the price of silver at 5*s*. 1¾*d*. per ounce.

"1819, 14·8674 „ „ 5*s*. 2¾*d*.

"Within the last six months the proportion of silver has risen (and from the last quotation of the price of gold it was 14·909) but this may be accounted for from the great demand for dollars for the East Indies, a circumstance of frequent occurrence in the history of our currency.

"W. W. Pole,
"Master and Worker of
"May, 3rd, 1819." "His Majesty's Mint.

The Act of 1816, therefore, constituted a new era in the history of our monetary system; for it placed our silver coinage entirely in the hands of the Government, not only to superintend the management, but also to regulate the *quantity*, a privilege which had for ages been enjoyed by the people, as their constitutional right.

By this Act the country was placed, in regard to its circulating medium, under the two-fold monopoly of the Government and the Bank of England; and the legal tender of the country, in which all the principal money transactions are carried on, was confined within the narrowest possible limits. By what right the Government took upon itself to regulate and control the *quantity* of money in circulation, has never been shown; and, as regards the silver coinage, the pretence of keeping out of circulation a *superabundance of silver*, is a sheer absurdity, as a *superabundance* never could remain in circulation.

This memorandum says that, the silver coinage "is merely a coin of exchange, for the *convenience of the country*," and that seems to be the strongest reason for leaving the country to regulate the amount.

The Memorandum also says that, both the silver and copper coins "serve for change, and change only, and can never be brought into competition with, or used for the purchase of the gold coins." This is a most extraordinary assertion, and the more strange as immediately following the declaration that, the silver money was issued as "a coin of exchange for the convenience of the country." If 20*s*. be given for a sovereign, a sovereign may be considered the equivalent in exchange for the 20*s*.; therefore, each possesses the same power of purchasing commodities in the market; and, therefore, there can be no reason why silver should not purchase gold, as well as any other commodity, at the market price. To say, therefore, that the silver coinage will not purchase gold, when it is admitted that the one will exchange for the other, is absurd; and there is nothing to prohibit any one from making this exchange from day to day, and thus obtaining gold or gold coins, if he please.

The Act of 1816, therefore injuriously discourages the importation of silver into this country, which would otherwise be the best market in the world for silver, as it is for gold; and the Act of 1844, which limits the proportion of silver to one-fourth of gold in the Issue Department of the Bank of England, and thereby narrows the basis of the Bank of England note circulation, is another and serious injury to the country.

It is impossible to discover on what principle the Government has assumed to itself the power of regulating and controlling the money of the country, by this direct interference with the silver coinage,—and thereby contracting the amount of bank-notes in circulation. This is an infringement of the rights of the British people, for which there is no sanction in history, and was unknown until the introduction of the system of paper-money, now monopolised by the Bank of England, that paper-money being made equal in value to the coin of the realm. No other Government but our own has ever declared that a "superabundance" of silver money was an evil to be remedied by legislation.

The closing of the Mint against the public, for the purpose of vesting a monopoly of the coinage in the Government, was a most injurious and unjustifiable infringement of an ancient and constitutional right in the people, and could have been permitted only under a mistaken view of policy. So far from this being the true policy it is exactly the reverse, the true policy of every country being to encourage by every means the importation of all marketable commodities, of which the precious metals have always been the least hazardous, because always the most marketable and least liable to fluctuations in price. That such was the policy of former Governments, before the introduction of bank-notes, may be seen in the statutes on record, showing that every encouragement was then given to the public to carry gold and silver to the Royal Mint to be coined, nor was the prerogative of the Crown then used for any other purpose than as a guarantee for the genuineness of the coinage, the *quantity* being left free and uncontrolled in the hands of the public.

The Coinage Act of 1816 was, therefore, a great wrong to the whole British Nation, and, until this law be repealed, our monetary system cannot be placed on a perfectly sound basis. What would be said if the Government undertook to regulate by legislation the quantity of cotton necessary to supply the wants of Manchester, the wool for Leeds, the flax for Belfast, or the supply of fruits and vegetables to Covent Garden Market, or of merchandise in Mincing Lane,—that there may be neither an excess nor a deficiency? How much rather, then, should the country be free to regulate the amount of money by which its entire transactions are carried on, than to commit it to the keeping of a few gentlemen at the Treasury and at Tower Hill.

It will be said that gold and silver do not come under the same principles as other commodities, and that some restrictions should be placed upon money to prevent rash and ruinous speculations. But such reasoning as this can have no weight when applied to metallic money. What country has ever been known to have too much of it? Instances of its mis-use are numerous; but no instance of its superabundance has ever been known.

The Act of 1616 is only a part of the policy carried out in the Act of 1844, the 3rd section of which limits the amount of silver bullion in the Issue Department to *one-fourth* part of the gold coin and bullion. Here is the same principle at work as in the Act of 1816.

Every possible contrivance is resorted to for limiting the real money of the country to the narrow basis of gold, and when that is diminished below a certain point the whole superstructure of credit falls.

The principal objections, therefore, to the Act of 1816 are, that the Government has taken to itself wholly a right which belonged wholly to the public; and that it has placed the credit of the country upon a narrower and less secure foundation, by exercising a power, in connection with the Bank of England, by which the basis of that credit must always be subject to more disturbing, if not dangerous, fluctuations than it otherwise would be.

By the 9th section of the Act of 1816, the power of taking silver coin, plate, or bullion, to the Mint, to be coined into money, was prohibited, except by a Proclamation from the Crown, restoring the privilege; but as that proclamation has never been made, it may be fairly assumed that, it was never the intention of the Government that the privilege should be restored.

When the Government took upon itself to regulate the amount of the silver coinage, so that there might be neither "an excess nor a deficiency," it ought to have shown how it would undertake to guarantee a sufficiency. Instead of this, it is in evidence before the Committee appointed to examine into this subject, that the Mint never coined any silver money, except when it could make a profit upon the purchases of silver bullion. Therefore, the supply was never regulated to meet the demands of an increasing population, or to rectify foreign exchanges, or to meet an increase in the price of commodities, or in any way by which it could be brought in to meet the demands or necessities of the public.

The arrangements which are at present in operation at the Mint, with regard to the silver coinage of the country are, in plain language, part of the machinery for confining the control of the money of the country in the Bank of England and the Government.

It is evident that, all the reasoning in the Memorandum to show that the price of silver is regulated by the proportion of gold to silver in the market, and that, if the Mint were thrown open to the public for the silver coinage no profit could accrue to any individual bringing silver bullion to the Mint to be coined, unless he bought it at a lower rate than 5*s.* 2*d.* per ounce, has nothing to do with the question of the people's right, and is no argument in defence of the Government monopoly; nor is it any argument for confining the basis of credit to gold, although gold be the only legal tender above forty shillings.

If the argument be used to prove that, such an increase in the metallic currency of the country might enlarge the note currency of the Bank of England to a dangerous extent, by carrying it beyond the means of convertibility into gold on demand, this is a mere fallacy, though on this fallacy it is clear that, successive Governments have proceeded in establishing our present system, and that the Act of 1816 is as much a part of the restrictive system of our money laws, as either the Act of 1819, or 1844, and that the theory which they intended to act upon would not have been completely carried out if either of these legislative enactments had been omitted.

Those who have entertained the notion of maintaining the relative value between gold and silver, which is a mere delusion, have in fact sacrificed the permanent interests of the country to maintain the present monopoly; instead of bringing into more general use one of the precious metals, which is universally recognised amongst all nations as a circulating medium, in aid of the internal and external commerce of the kingdom, and as a means of extending the basis of our paper currency, of which long experience has proved that, there is always great abundance when not wanted, and great scarcity when most in demand. This is the inevitable result of attempting to regulate by an artificial law what can be only self-regulating, by the natural law of supply and demand. Every money-panic which has arisen to convulse our trade and commerce, may be traced to these legislative enactments for regulating and controlling the money, and through the money, the credit of the country.

Some of the foregoing remarks on the silver coinage have been taken from an excellent Article on the subject in the Supplement to the "Bankers' Circular" for the 28th April, 1855, a very useful weekly periodical, then conducted with great ability by the Proprietor and Editor, Mr. Henry Ayres, and which deserved better support than it received from the Bankers in particular, and the Public in general.

Those who desire further information will do well to refer to the evidence taken by the Committee in 1819 on this subject, and particularly to the evidence of Mr. Mushett, one of the officers at the Mint, who enters with great minuteness into the question of the silver coinage, and furnishes very striking illustrations of the fallacy of his own reasoning for confining the circulation of the Bank of England Notes to the basis of gold. It is unnecessary here to pursue further this important branch of the inquiry, as it will be reverted to in the subsequent pages.

Thus, in the year 1816, an Act was passed, which abrogated the whole of our ancient laws relating to the Silver Coinage, and converted into a Government department, under Government control, the Mint, which had been for ages a National Institution, open to the public for free coinage, under certain regulations. The coinage of silver was no longer to be open to the public and free, but was to be regulated by Government both as to *quantity* and quality, through the medium of the Bank of England and the Treasury.

The old-standard, introduced in Queen Elizabeth's time, of coining the troy pound weight into 62*s*., was repealed, and a new standard of coining it into 66*s*. was substituted; the Mint authorities retaining 4*s*. on each pound as seignorage, or rather more than 6 per cent., the standard of fineness remaining the same. Silver by tale, which had hitherto been a *legal tender* in all transactions up to £25, was reduced to 40*s*., and gold was made the only legal tender for sums exceeding that amount.

The Act, therefore, completely changed two of the fundamental principles of the English monetary system; *firstly*, by restricting the *quantity* of silver money by legislative interference; and *secondly*, by making a scarcer metal, and one more difficult to be obtained, the only legitimate metallic medium of transfer beyond 40*s*., and, subsequently made, the only basis of our Banknote circulation.

By a reference to the Coinage Acts of this country down to the passing of the Act of 1816, it will be seen that every facility was given for the "*encouragement*" of coining monies; while this Act prohibited the people from exercising *one of their most ancient and most undoubted privileges.*

England is the only nation where the people have not free access to the Mint, at all reasonable times, for the purpose of converting bullion into the legal coin of the realm.

However politic it may have been to alter the standard *weight* of the silver coinage (an alteration which had been advocated by the highest authorities of former times) the closing of the Mint against the Public, and thereby restricting the *quantity* of the silver coinage, was an abuse of Parliamentary power that no eminent authority has ever sanctioned, and no argument has ever justified. For this great wrong and injury to the country there is only one remedy, and that is in the repeal of the Silver Coinage Act of 1816.

The following is a brief Epitome of the Act 56 Geo. III. c. 68. June, 1816:

Sect. I. 18 Car. II. c. 5, as to coining silver brought to the Mint without charge, repealed.

Sect. 2. 7 & 8 Will. III. c. 1, as to weight and fineness of silver coin, under Mint Indenture, and so much of 14 Geo. III. c. 42, as requires 62*s.* to the pound troy of silver, repealed.

Sect. 3. 38 Geo. III. c. 59, prohibiting silver coinage, repealed.

Sect. 4. The pound troy of standard silver, eleven ounces two pennyweights fine, etc., may be coined into 66*s*.

Sect. 5. Old silver coin of the realm brought to the Mint, may be exchanged for its full nominal value in new silver coin.

Sect. 6. Treasury may appoint persons to receive old silver coin, and exchange the same for new, at any places throughout the kingdom.

Sect. 7. After the end of the period appointed for receiving old coin of the realm at the Mint all old coin deficient in value may be cut by the person to whom it is tendered.

Sect. 8. Provision for the loss arising from the deficiency, and recoinage of the silver coin.

Sect. 9. After a day to be appointed by Proclamation, any person may bring silver coin and bullion to the Mint, to be coined at the rate of 66*s*. per pound troy of standard silver, eleven ounces two pennyweights fine, etc., of which 42*s*. per pound shall be delivered to the party bringing in the bullion, and 4*s*. retained for assaying, loss, and coinage.

Sect. 10. Such sum of 4*s*. per pound shall be applied to the expense of coinage, and the surplus (if any) carried to the Consolidated fund.

Sect. 11. Gold coin declared the only legal tender, being of the weight and fineness of the Mint Indenture.

Sect. 12. 14 Geo. III. c. 42, making silver a tender to £25, and afterwards by weight, repealed after a day to be named in the King's Proclamation for that purpose. No tender of silver coin legal beyond 40*s*.

Sect. 13. Current gold coin shall not be received or paid for more or less than its value, according to its denomination, under the penalty of imprisonment for six months.

Sect. 14. When persons who have been convicted shall be again guilty, the Clerk of the Peace shall certify former conviction.

Sect. 15. Indictments not to be traversed.

Sect. 16. On prosecution it shall not be necessary to prove money lawful.

Sect. 17. All other Acts relating to silver coin extended to this Act.

Sect. 18. Act not to affect payments in Bank of England Notes.

Sect. 19. This Act not to affect payments of revenue in Ireland, in Irish Bank tokens.

It is a fact worth notice that, from 1803 to 1809, the price of gold under the Restriction Act was maintained at £4 per ounce.

CHAPTER IX.

THE BANK OF ENGLAND: AND THE DISORGANISATION OF CREDIT.

It is a remarkable fact that the law, regulating the money of the greatest commercial country in the world, is to be found only in the Charter of a Banking Company.

But this is an anomaly which time seems to have reconciled us to, nor is it very material, if it do not confound things which ought to be kept distinct. But is the distinction so clear as it ought to be?

Many persons, perhaps, are not aware that, the Bank of England, as a Banking Company, in no respect differs from any other Bank.

The fact, that certain special privileges have been attached by the State to the Bank of England, and to no other Bank, in no respect makes the Bank of England different from any other Bank, as regards Banking. Those special and exclusive privileges were conferred professedly for public convenience.

By the Bank Charter Act of 1844, the Bank of England has the privilege of issuing its notes to the amount of £14,000,000 on Government Securities.

This sum was made up of £11,015,100, the Government Debt to the Bank, and £2,984,900, for other claims, making together £14,000,000, which amount, by the lapsed issues of private banks in December, 1855, was increased to £14,475,000, and subsequently by a further addition to £14,650,000. In consequence of the National Provincial Bank of England having commenced London business, and thereby relinquished the right to issue notes, an Order in Council was issued [February, 1866] authorising the Bank of England to increase its issues by £350,000, making the total issue authorised £15,000,000, which is the present amount. Thus, the whole capital of the Bank of England is lent to the Government, and to that extent the Bank is authorised to issue notes, *theoretically* founded on gold, but *really* on the security of the State.

Any notes to be issued in excess of this sum of £15,000,000, must be represented by gold and silver coin and bullion, the proportion of silver to be only *one-fourth* of the whole amount of the metallic security.

The Notes held in reserve, in the Banking Department, must always be equal to the difference between the amount of Notes in circulation, or held by the Public, and the sum of the Credit Issues added to the Bullion in the Issue Department.

By this means it was proposed, by the Act of 1844, to secure the convertibility of the Bank of England Note, an object manifestly accomplished.

The Credit Issue of Bank of England Notes to the amount of £15,000,000, is a simple contrivance to save the Government from paying an old debt to the Bank of England. It would have been more simple and much wiser if the Government had paid its debt, and left the Bank in possession of its capital.

The other arrangements between the Government and the Bank of England are matters merely of convenience, for insuring the punctual payment, half-yearly, of the dividends to the Creditors of the Public Debt. As everybody is perfectly well satisfied with that part of the arrangement, nothing further need be said about it.

The result of all this is, that the Bank of England has no actual capital whatever in possession, but only a claim upon the Government for it; and the effect of all this is that, if the

Bank should have occasion to call in its capital for the payment of its notes, issued on the credit of this capital, the Government would be bound to meet the call, and to pay it in Bank of England Notes, or in gold coin; or the Bank would have to sell the Government Securities and buy gold to answer the call.

But, for these credit issues there is no danger to the Bank of England or to the Government.

Nor can there be any difficulty in the Government paying this debt to the Bank of England.

Since the year 1844, to the present time, the total amount of Bank-notes in circulation has never been so low as £30,000,000, and the present average may be taken at about £40,000,000.

During the same time, the amount of Bank of England notes in circulation has never been so low as £16,000,000, and the present average may be taken at £21,000,000.

During the same time, the amount of Bank-notes in circulation in Ireland has never been so low as £3,000,000, and the present average may be taken at about £5,000,000.

During the same time, the amount of Bank-notes in circulation in Scotland has never been so low as £2,000,000, and the present average may be taken at about £4,000,000.

Thus, it is evident that, if the Bank of England had issued £16,000,000, instead of £14,000,000, of its Notes on Government Securities, the whole of the £16,000,000 would have remained in constant circulation as safely as the £14,000,000 has remained in constant circulation.

It is also evident that, as the issue of the Country Banks diminished, the credit issues might be safely increased in the same proportion.

The lowest amount of Bank of England notes in circulation for the last 20 years and upwards was £16,736,000, on the 16th December, 1848, and the total amount of bank-notes in circulation in the United Kingdom on that day was £30,872,782.

The total amount of gold coin and bullion in the Bank of England on that day was £14,790,000, and the total amount of coin and bullion held by the Bank of England, and the Scotch and Irish Banks on the same day was £17,444,857, and the *minimum* bank-rate of discount was 3 per cent.

The highest amount of Bank of England notes in circulation, for the last 20 years and upwards was £25,075,000, on the 6th August, 1853; and the total amount of Bank-notes in circulation in the United Kingdom on the same day was £40,684,940.

The total amount of gold coin and bullion in the Bank of England on the same day was £17,757,000; and the *minimum* Bank-rate of discount was 3½ per cent.

The ordinary amount of coin and bullion in the Bank of England may be taken at about £15,000,000, the average amount of bullion in the Bank of England from the year, 1849, to the year, 1863, both years inclusive, being £15,171,902.

The ordinary amount of Bank of England Notes in circulation may be taken at £21,000,000, the average amount of Bank of England notes in circulation from the year, 1849, to the year, 1863, both years inclusive, being £20,970,054.

The ordinary amount of the whole Bank-note circulation of the United Kingdom may be taken at about £40,000,000.

The lowest amount of gold and silver coin and bullion in the Bank of England, since the year 1844, was £6,745,354, on the 25th October, 1847, the period of the great money-panic.

The *minimum* Bank-rate of interest then was 8 per cent.

The following Table will show the fluctuations in the Bank of England *minimum* rate of discount from the year 1857 to the year 1864, both years inclusive.

FLUCTUATIONS IN THE BANK OF ENGLAND MINIMUM RATE OF DISCOUNT, 1857 TO 1864.

1857.		1858.		1859.		1860.		1861.		1862.		1863.		1864.	
Date.	Rate per Cent.	Date.	Rate per Cent.	Date.	Rate per Cent.	Date.	Rate per Cent.	Date.	Rate per Cent.	Date.	Rate per Cent.	Date.	Rate per Cent.	Date.	Rate per Cent.
Jan. 1	6	Jan. 7	6	April 20	3½	Jan. 19	3	Jan. 7	7	Jan. 9	2½	Jan. 16	4	Jan. 20	8
April 2	6½	„ 14	5	May 5	4½	„ 31	4	Feb. 14	8	May 22	3	„ 28	5	Feb. 11	7
June 18	6	„ 28	4	June 2	3½	Mar. 29	4½	Mar. 21	7	July 10	2½	Feb. 18	4	„ 25	6
July 16	5½	Feb. 4	3½	„ 9	3	April 12	5	April 4	6	„ 24	2	April 23	3½	April 16	7
Oct. 8	6	„ 11	3	July 15	2½	May 10	4½	„ 11	5	Oct. 30	3	„ 30	3	May 2	8
„ 12	7	Dec. 5	2½	—	—	„ 24	4	May 16	6	—	—	May 16	3½	„ 5	9
„ 19	8	—	—	—	—	Nov. 8	4½	Aug. 1	5	—	—	„ 21	4	„ 19	8
Nov. 5	9	—			—	„ 13	5	„ 15	4½	—	—	Nov. 2	5	„ 26	7
„ 9	10	—	—	—	—	„ 15	6	„ 29	4	—	—	„ 5	6	June 16	6
Dec. 25	8	—	—	—	—	„ 28	5	Sept. 19	3½	—	—	Dec. 2	7	July 25	7
—	—	—	—	—	—	Dec. 31	6	Nov. 7	3	—	—	„ 3	8	Aug. 4	8
—	—	—	—	—	—	—	—	—	—	—	—	„ 24	7	Sept. 8	9
—	—	—	—	—	—	—	—	—	—	—	—	—	—	Nov. 10	8
—	—	—	—	—	—	—	—	—	—	—	—	—	—	„ 24	7

For fluctuations and high rates no nation in Europe comes up to this record of our money-market for the last eight years. No foresight can guard against such changes, and the ordinary profits of trade cannot support such exactions.

From these facts it is manifest that, the Bank Act of 1844 has failed in its professed objects.

It is equally manifest that, at the present time, (1867), the amount of Bank of England notes to meet the requirements of England and Wales cannot be less than £40,000,000, and to meet the requirements of the United Kingdom cannot be less than £50,000,000.

But, moreover, these facts also prove the failure of the professed principle of the Bank Act of 1844, which was, that as the bullion diminished the Act would compel a reduction of the notes in the hands of the Public.

The futility of this idea is shown in the following figures, selected from innumerable examples.

Thus, on the 29th August, 1846, the amount of Bank of England notes held by the public was £20,426,000, and the amount of bullion in the Bank on that day was £16,366,000, and the *minimum* rate of discount was 3 per cent.

On the 10th April, 1847, the amount of Bank of England notes held by the public was

£20,403,000, and the amount of bullion in the Bank on that day was £9,867,000, and the *minimum* rate of discount was 5 per cent.

Here the amount of Bank of England notes in circulation was nearly the same at both periods; but, in April, 1847, the bullion in the Bank had diminished nearly one-half, and the *minimum* rate of discount had risen from 3 to 5 per cent.

This fact seems to be fatal to the Currency Principle of Lord Overstone :—" That when Bank-notes are permitted to be issued, the number in circulation should always be exactly equal to the coin which would be in circulation if they did not exist."

On this fallacious principle the Bank Charter Act of 1844 was formed. The power of unlimited issues was taken away and placed on two foundations only :—

1. A fixed amount of public securities:

2. The amount of bullion in the Issue Department of the Bank.

The amount of Issues upon Public Securities was permanently fixed at £14,000,000, subject to increase by two-thirds, on securities, of the lapsed issues of the country banks,* and every

* " The reason why the Act fixed these proportions of two-thirds, and one-third was, because it was assumed that the

other note was to be issued in exchange for bullion only; so that the amount of the notes issued on bullion should be governed solely by the public.

The details with regard to the existing issues of private banks it is unnecessary here to enter into.

The Bank of England, therefore, as at present established, consists of two separate and distinct departments,—the Issue Department, and the Banking Department,—and although it be true that the Banking Department cannot control the Issue Department, yet, it is no less true that, the Issue Department can and does control the Banking Department.

The Issue Department is, theoretically, as separate and distinct from the Bank of England as from any other Bank, and is simply an office of the State, established for the first time by this Act, and working purely by mechanical agency, or by inflexible rules, for manufacturing and cancelling Bank of England notes, and in this

country banks returned one-third of their circulation in bullion. Therefore, they allowed any country circulation which lapsed, to be taken up by the Bank of England, to the extent of two-thirds upon securities, and the remainder, of course, as before upon bullion." Select Committee of the House of Commons on the Bank Acts, 1857. Evidence of T. M. Weguelin, Esq., M.P. 598.

work obeying a self-acting rule, without any discretion.

The Bank of England furnishes the premises for this office, and supplies the machinery, but does not control it, and for this accommodation is paid by the Government.

The machinery of the Issue Department simply responds to the impressions made upon it by the public. When five sovereigns are dropped in, a Five Pound Note is mechanically given out. When the same or a like note re-appears on another day, the operation is reversed: five sovereigns are given out, and the note is taken and cancelled. These operations are repeated as often as the notes or sovereigns are presented.

The Directors of the Bank of England, as regards the Issue Department, stand in precisely the same situation as all other members of the community. They can get notes for gold, or gold for notes.

The Bank of England is precisely in the same situation as any private or joint-stock bank, and obtains its supplies, whether of gold or notes, precisely in the same way. The only difference is that, the Bank of England has a larger business than any other Bank, and therefore requires to keep in hand a larger amount of gold coin and notes than any other Bank, to meet the ordinary demands upon it. The Bank of England procures its needful supplies of gold and notes precisely in the same way as the bank of Smith, Payne, and Smiths, Child & Co., Coutts & Co., the London and Westminster Bank, or any other bank procures its needful supplies; only these banks keep in hand a much smaller supply of gold than the Bank of England in proportion, because it is well known that the notes can always be converted into gold at the Bank of England whenever required.

The Banking Department of the Bank of England, of course, can do the same.

But all the Banks could do and always have done the same, since 1819, with the same certainty and convenience as now, and without the machinery of the Issue Department.

Why the Bank of England should keep in hand a larger quantity of gold, in proportion to the ordinary demand, than other banks find it necessary to keep in hand, is a question to be answered by the advocates of the present system. At the first view, this practice of storing seems to be more in accord with the system of Joseph and his Egyptian Granaries, than with the modern theory, and if it be right to keep a large public store of gold, it cannot be wrong to keep a large public store of corn and other grain. But that is not done now.

We have now had the experience of twenty-two years for ascertaining the precise effects of the separation of the Issue Department from the Banking Department of the Bank of England.

There can be no doubt that, by this means the convertibility of the note into gold is made secure.

But, if that were equally secure before, as the experience of the twenty-five previous years proves that it was, then the separation of the Issue Department from the Banking Department was, for this purpose, unnecessary.

As it is not pretended by the advocates of this measure that, the separation was for any other purpose than securing the convertibility of the note, it would be unnecessary to pursue this branch of the inquiry further, if it were not for the injurious effects of this separation upon the Banking Department, which will now be considered.

It is generally known that, in the year 1797, the Bank of England was obliged to suspend the payment of its notes in specie.

But it is not so generally known that it was brought to this extremity by the abuse which had been made of its resources by the Government, which had taken not only the whole of the capital of the Bank, but had also taken advantage of its credit for obtaining advances to an enormous amount. It was necessary to relieve the heavy expenses required for the gigantic struggle which Pitt had organised against France; and, by a course of political necessities, the Bank was made to serve as the Treasury Chest.

The British Government by this means avoided too frequent and too large recourse to credit; but it escaped one danger only to fall into another much more perilous: it compromised an Establishment which was the foundation stone of industrial and commercial credit, as well as public credit.

Thus, the capital, which ought to have been reserved for industry and commerce, was wasted in the unprofitable war in which Pitt, the great Minister, as he was called, involved this country with France.

The injury done to this country by thus compromising its credit, and forcing into circulation the inconvertible paper-notes of the Bank of England, was, in the end, a greater loss of capital than the whole expenses of that long and ruinous war, so certain it is that the credit of a country is its most precious possession.

English patriotism, however, on that occasion lifted the country over its difficulties, and the honourable unanimity of the Merchants of London supported the inconvertible note of the Bank of England.

But this did not prevent the depreciation of the Bank-note 25 to 30 per cent.

Sir Robert Peel, struck with the serious inconvenience of this state of things, which had continued twenty-two years, in 1819 formally demanded of Parliament the restoration of Cash Payments.

Of all the measures of that Statesman this was the greatest, and the most salutary; for it changed the face of things by restoring order, and the credit of the country.

The experience thus acquired, at a tremendous cost, established the fact that, a Bank-note circulation can stand only on the basis of the precious metals; also that, the privilege of issuing notes should be confined to one Bank, and that, in return for such privilege, the Bank should be deprived of the power of lending money, not only to the Government, but to any individual.

The success of the measure of Sir Robert Peel in 1819, for limiting the issue of Bank-notes by compelling their payment in gold, encouraged him to attempt a further limitation of the issue of Bank-notes, and this led to the present Bank Charter Act of 1844.

Under this Act the Bank of England is divided into two departments ;—that of Issue, and that of Banking, or discounting and advancing.

This limitation, being too restrictive, has been fatal to the success of the experiment, and has made the Bank Act of 1844, instead of a beneficial measure, one most injurious to the country.

The amount of Bank of England notes, not represented by specie, is now limited to £15,000,000, and this amount of Bank-notes forms the capital of the Banking Department.

The department for Banking, or Discounting, is served with bank-notes, which are issued on credit, and are not likely to be brought in for payment; but, to this amount, (excepting the deposits) the Banking Department is strictly confined, these being the only resources for all its banking liabilities.*

Not only cannot the Banking Department pass beyond these limits, but it must keep, either in bank-notes or in specie, a reserve sufficient for the service of its current accounts, and that is held to be a natural state when the reserve, whether in notes or specie, represents about one-half of the amount of the deposits. When the reserve reaches or exceeds this moiety, that is sup-

* See description of the banking reserve by Mr. Weguelin, page 427, *post*.

posed to be a satisfactory state, and the Bank then lowers its discounts to enlarge its business; on the other hand, it raises its discounts when its reserve in bank-notes or specie descends below this proportion, being obliged in that case to reduce its business, in order not to exhaust its reserve.

This practice of the Bank of England is exemplified in its weekly returns, and the last account in the last year will serve as well as any other for the example.

Bank of England.

An Account pursuant to the Act 7th and 8th Victoria, cap. 32, for the Week ending on Wednesday, the 28th day of December, 1864.

Issue Department.

	£.		£.
Notes Issued .	28,036,475	Government Debt	11,015,100
		Other Securities	3,634,900
		Gold Coin and Bullion . .	13,386,475
		Silver Bullion .	
	£28,036,475		£28,036,475

Banking Department.

	£.		£.
Proprietors' Capital . . .	14,553,000	Government Securities, (including Dead Weight Annuity) . . .	10,824,542
Rest	3,356,854	Other Securities	19,786,541
Public Deposits, including Savings' Banks, Commissioners of National Debt, and Dividend Accounts . . .	8,601,125	Notes	8,663,490
Other Deposits	13,040,643	Gold and Silver Coin . . .	714,499
Seven Days and other Bills .	437,450		
	£39,989,072		£39,989,072

W. Miller, Chief Cashier.

Dated the 28th December, 1864.

According to the supposed rule, all that was wanted to place the Bank in what is called a satisfactory position was, the addition of £1,661,620, to the reserve in the Banking Department. The Bank-rate of discount might then have been 3 per cent., instead of 6 per cent.

With upwards of thirteen millions, sterling, in gold coin and bullion, in the Issue Department, the amount of notes and gold and silver coin in the Banking Department was only £9,377,989, to meet deposits amounting to £22,079,218, inclusive of seven days and other Bills, amounting to £437,450.

If the Bank could have issued only £1,661,620 more of notes, the bank rate of discount, instead of being at 6 per cent., might have been, according to the rule, at 3 per cent., and the average of the whole year, instead of being upwards of 7 per cent., might have been under 4 per cent. It was just this state of things, in a little higher degree, which brought upon the country the disasters of 1847, 1857, and 1866.

In 1847, when the Government authorised the unlimited power of issue, so small was the additional quantity of notes required that, the whole amount taken from the Bank was under £400,000. It was sufficient that the Bank was enabled to use more freely its reserve of notes, being then safe in the power of renewing them if wanted.

In 1857, the notes authorised to be issued in excess of the Parliamentary limit was £2,000,000, and this power the Bank did not fully exercise. It availed itself of this credit to the extent only of £917,000; but the discounts were more freely made, the public confidence was restored, and the panic ceased. Discounts fell immediately four per cent., that is, from 10 to 6 per cent., and later to $2\frac{1}{2}$ per cent.

In 1866 the Government authority, though given, was not used. The Government on these two first occasions acted on the demand of the Bank, and the Bank on the demand of the Public.

Thus, it appears that the Bank of England raises the rate of discount only for want of Bank-notes.

The Bank of France raises the rate of discount only for want of specie.*

The Bank of England has no want of specie. All the gold that is brought to the Bank is buried in the vaults of the Issue Department, and notes are withdrawn by those who bring the gold in exchange. Consequently, this in no way helps the Banking Department for discount.

If the Bank of England see with regret the withdrawal of specie from the Issue Department, by the operations of the Bank of France, that regret is not from any fear for the loss of the gold, but only for the consequence, in a corresponding withdrawal of bank-notes from the Issue Department, thereby diminishing the already insufficient amount of notes in circulation, as proved, with such terrible effect, in these three several periods.

M. Pereire asks this very pertinent question :—

"Dès lors, en quoi consiste cette prétendue solidarité entre notre encaisse et celui de la Banque d'Angleterre?

"Le mal, le véritable mal est dans la dispro-

* "La Banque de France,"—Par M. Isaac Pereire, page 59–60.

portion de l'encaisse de la Banque de France avec le chiffre de ses émissions.

"La Banque de France a une circulation de billets qui dépasse généralement celle de la Banque d'Angleterre de 250 à 300 millions de francs, et, malgré une pareille différence dans le chiffre de ses émissions, son encaisse est toujours inférieur à celui de la Banque d'Angleterre ; cette infériorité a été de 185,891,840 fr. au commencement de la présente année." *

This is noticed by M. Pereire as a very remarkable fact, and so it is, when the relative conditions of England and France are taken into consideration.

The Bank of England, (as M. Pereire truly observes), reduced in a manner to the character of a bank of deposit, can respond no more to the wants of British commerce ; capital is abundant, but its circulation is immediately fettered by an extreme penury of credit-money, an element indispensable in all transactions of a certain importance. In restricting the Issue within too narrow limits, the capital, besides, finds itself deprived of one of the most powerful means of action for lowering the rate of interest.

This opinion, coming from the highest authority on the subject in France, deserves the serious

* Ibid. page 60.

consideration of the authorities in this country, and, certainly, more respectful attention than it has received in the answer of the *Economist*, for Saturday, December 17, 1864. The "slight haze," which that Writer imputes to M. Pereire's exposition, is not there, wherever it may be, and M. Pereire wisely withholds from entering into details which would only enable opponents still further to entangle the question.

That the writer in the *Economist* has not misunderstood M. Pereire's proposition for replenishing the reserve of gold by sale of Government Securities is clear from the manner of referring to his proposition as not clear.

But the opinion of M. Pereire is entitled to, at least, as much weight as the *dictum* of an anonymous writer in the *Economist*.

A National Bank ought to be a reservoir of money for supplying the wants for the trade and industry of the country, and, consequently, a National Bank ought to be so organised as to be able to satisfy all legitimate demands on reasonable terms. A National Bank ought to be this, and nothing more.

The inconvenient consequences of the fluctuating and high rates of discount to which this country has been subject since the passing of the Bank Act in 1844, are of such deep importance to the country as to justify the demand for a remedy, especially when the cause is attributed by so many high authorities to that Act, which was passed with the professed view of producing the very contrary effect.

But if the limit of the credit circulation were fixed to meet the want in 1844, it seems hardly reasonable to suppose that, the same limit shoul be suitable to the altered circumstances of twenty two years later, with population and trade so greatly increased.

That is, certainly, a deplorable system which creates establishments for the avowed object of aiding and protecting trade and industry, and practically only developes the production of profit to those who are the agents employed to carry out the system.

But this appears to be the practical effect of the Bank Act of 1844, in its operation on discounts;—serious and often ruinous loss to trade; great and often inordinate gain to the Bank. It is difficult to imagine any parallel to this departure from the professed principle, of conferring benefit on the community, for that is the professed principle of the Bank Act of 1844, not increasing the profits of the Bank of England.

On what other principle than public benefit could the Government justify the appropriation of £14,000,000 of the National Debt to a Banking Company?

Every successive Bank Charter Act shows the intention of the Government to cut down the profits of the Company, and though the yearly allowances have been reduced, yet, by the much higher rates of discount since 1844, the profits of the Bank must have been very largely increased, and in much larger proportion must have been the losses inflicted on the community.

The Bank of England might well consent to confine its profits to its own capital when the average rate of discount is doubled, and was, during the whole of the year, 1864, more than double what ought to be the average rate in this country.

The very fact that, since the year, 1844, a National Discount Company has been established close to the Bank of England, and has been paying upwards of 20 per cent. per annum on the subscribed capital, is a strong condemnation of the Act of 1844, for such a Company could hardly have existed previously to that Act.*

What can be more conclusive evidence of the

* "The Report of the National Discount Company, to be

vicious system of the Bank of England than the fact that, during the year 1864, when the Bank-rate of discount was 8 and 9 per cent., the Joint-Stock Banks did not trouble themselves with the variations of the Bank-rate, but allowed to their depositors the same rate of interest as before?

The only answer is that, the vicious system of the Bank of England raises the rate of discount when money is most wanted, and, instead of keeping the rate steady between 2 and 3 per cent., keeps it in a state of continual fluctuation, and raises the average to more than double.

If the true object of the Bank of England, as the National Institution of Credit as well as Banking, were kept more clearly in view, it would be seen that, the Bank of England, as at present constituted, operates so imperfectly for the organisation of credit that, it actually encourages rival institutions for the very purpose of sharing with the Bank of England the enormous profits of those times of commercial distress which itself creates.

presented on the 26th inst., states the available total (including a previous balance of £4,753) to be £70,092, and recommends a dividend at the rate of 20 per cent. per annum, which will absorb £60,000, and leave £10,092 to be carried forward."—*The Times,* City Article, Saturday, July 13th, 1865.

There is no mistake more mischievous than the popular error that, the rate of interest depends on the abundance or scarcity of capital.

At no time can it be said that, there is a scarcity of capital in this country, the fact being that, capital is always in abundance in this country.

But it is equally true that, the lowest rate of interest has not been found in those nations which have had the most capital.

To prove this, it is only necessary to compare the history of Spain and Portugal with Italy, Holland, and England.

After the discovery of America, a great quantity of gold and silver was spread over the world, and the price of these metals was considerably lowered, but the rate of interest did not vary.

The same result has followed the working of the mines of the precious metals in Australia and California.

Whether it be possible to influence the rise and fall of the rate of interest, is a question which does not admit of a simple answer.

This question is a compound of the economical and the political.

In the economical point of view, the rate of interest expresses the supply and demand of capital.

In the economical point of view, the lowering of the rate of interest is the direct result of the abundance of capital, and the tendency to a low rate in this country is the evidence of that abundance.

In the political point of view, the rate of interest is influenced by the relative situation of the class which possesses the capital, and the class which employs it, of the more or less independence of the one towards the other, of the importance of wealth in the social position, and its influence in the administration of public affairs.

In this country, notwithstanding the continual fluctuations, the interest of money has, until the last fifteen years, shown a constant tendency to lowering.

A little elevation of interest is a sign of prosperity in trade, and without a certain elevation there is a lack of encouragement to industry.

This is the indispensable condition for the development of labor.

Enterprises are then multiplied, and a fruitful energy then animates all portions of society, salaries augment, consumption extends and invites production, savings are formed, and the increasing accumulation of capital comes with a new power to give life to creations of all kinds, for the which industry, science, and the arts concur to ameliorate and ennoble the conditions of human existence.*

This is the eloquent language of M. Pereire, and millions in this country will respond to it.

M. Pereire regards it as one of the first duties of the Government, to exercise its power for accelerating the natural tendency of the rate of interest to fall; and is of opinion that the Government, as one of the largest consumers of capital, must always have a powerful influence over this question.

Nor is the natural tendency of the rate of interest to fall without compensation to landowners and capitalists, for the value of all real and personal property is thereby directly affected.

It is, therefore, not so much the fixity of the rate of interest that is to be desired, as the fixity of the *maximum* at such a rate as will permit capital to be distributed in the manner most conducive to industry, and as long as the interest on the public debt is fixed at 3 per cent., the *maximum* for the Bank rate of discount should never exceed 4 per cent.

Extraordinary occasions may occur to raise the interest of money to a higher rate than 4 per cent., but few, if any, such occasions have occurred in this country, within the last fifty years,

* M. Pereire. "La Banque de France."—page 68.

which might not have been avoided, if the Bank of England had been established and conducted on sound principles.

The rate of interest is never otherwise than relative. It expresses a state of things existing at a given moment, but engages nothing for the future. No one has ever spoken of a *fixed* rate of interest in any other sense than this.

The regulating cause of the rate of interest is no other than the relation existing between the aggregate of the wealth and the aggregate of the wants of a country.

When Turgot founded the Bank of Discount in 1776, and imposed on it the *maximum* of 4 per cent., he no more reckoned on fixing posterity to this rate of interest, than the First Napoleon, when he wrote in these words to M. Mollien :

"Lacken, 15 Mai, 1810.

"Je reçois votre lettre du 8. Ce que vous devez dire au gouverneur de la Banque et aux régents, c'est qu'ils doivent écrire en lettres d'or, dans le lieu de leurs assemblées, ces mots : QUEL EST LE BUT DE LA BANQUE DE FRANCE ?—D'ESCOMPTER LES CRÉDITS DE TOUTES LES MAISONS DE COMMERCE A QUATRE POUR CENT."

In the same way, in 1806, he scolded the Bank for having raised its discount to 6 per cent.

"Berlin, 14 Novembre, 1806.

"Vous devez dire au gouverneur de la Banque que je pense que, dans les circonstances actuelles, IL EST SCANDALEUX D'ESCOMPTER A 6%. Elle ne doit pas qu'elle escomptait déjà à 6 % lorsque les maisons de commerce faisaient leurs opérations sur le taux de 9 %. Il est donc convenable de revenir à l'ancien taux de 5 %.

"NAPOLÉON."

These are the instances given by M. Pereire (page 73 of his *brochure*).

As he remarks, if in 1776 and in 1810, the rate of discount for the great privileged establishments of credit, [" les grands établissements de crédit privilégiés,"] appeared to be at its natural price at about 6 per cent., there was nothing very rash in thinking that we might be able, in our days, to reduce it without inconvenience to 3 per cent. M. Pereire goes on to add, " c'est effectivement ce qu'a voulu et ce qu'a réalisé M. Bineau, en 1852, sous l'inspiration de l'Empereur."

The effect of the reduction of the rate of discount to 3 per cent. by the Bank of France, on the 3rd March, 1852, through the interference of the French Government, is thus described by M. Pereire :—

" L'effet de ces simples mesures ne se fit pas attendre. On sait l'impulsion que reçurent toutes les affaires, l'immense développement que prirent nos travaux publics, par suite de la réduction de l'escompte à 3 % et de l'admission des valeurs de chemins de fer au bénéfice des avances de la Banque de France sur le même pied que les effets de commerce.

"Ce mouvement fut rapide, instantané; l'abondance était revenue avec la confiance, et cependant on sortait à peine d'une situation de trouble et de révolution, pendant la durée de laquelle le capital national était loin d'avoir augmenté."

The creative power of the social forces, when encouraged and brought into action, is seldom taken sufficiently into account: on the other hand, the greatness of the loss which follows the least stoppage in the employment of those forces, and the importance of the capitals lost by the effect of an unproductive expenditure or the false measures which have arrested the completion, are not sufficiently measured.

But though it be true that supply and demand make the general law, which fixes the interest of money, and regulates the rate of discount, yet there is nothing absolute in the rate of interest; it varies more or less according to the relation of the supply to the demand; and it is easy to show how, under our artificial system of finances, this general law can be influenced and modified so as to steady and lower the interest of money and the rate of discount.

Banks, and Joint Stock Banks especially, have been formed for the object of bringing cheap capital to labour.

They perform the intermediate part of uniting and concentrating capitals, on the one hand, and on the other, of distributing them among the various parties in the great social workshop.

It is these Banks which have mainly contributed to break down the usurers and to lower the rate of interest for money; but, at the same time, to give it a certain fixed elevation.

The mechanism of the Banks, which have issued their own notes, has also given marvellous aid in this operation.

This mechanism consists in replacing a portion of the money of the country by the credit-money, —in the substitution, for the office of money, of a capital which costs nothing, in comparison with a corresponding portion of capital in the precious metals, which serves for the wants of exchanges.

But the Bank-paper can circulate on equal terms with the money only on the condition of being convertible into money, of gold or silver, and, therefore, there can never be an excess of issue, unless when the paper has a forced circulation, than which nothing is more detestable.

It is necessary, then, that every bank should hold in reserve, or hold the power of obtaining immediate possession of, a certain proportion of the precious metals in order to comply with this condition.

The proportion depends on the special credit of each bank.

It varies generally from a third to a half of the amount of the circulation; but in this respect it is necessary that, the responsibility of these establishments should be complete, and the guarantees which they owe to the public no Government could be justified in diminishing.

The obligation to maintain constantly the relative state of account recognised as necessary between their treasure chest and their circulation draws away the advantages which are conceded to them. It is even the condition of these advantages.

From this results the necessity to constitute a capital, the object of which is to form a fund for satisfying the demand for repayment of the notes issued; it is useless to add that, this capital serves to guarantee the creditors of these establishments; but this character of guarantee, which it ought to present in every case, is superior to the use that they are able to make of it; it is independent of the mode of placing, of the form under which it is represented.

The banks receive, besides, deposits, whether public or private, on current accounts without interest; except the Joint Stock Banks which allow interest.

The Country Banks can, or rather could formerly, issue paper notes, on which they had no interest to pay, to an amount the double or treble of their capital, and thus realise, with the produce of the sums deposited with them in account current, a benefit triple or quadruple the interest of their social position.

Apart from the £14,000,000 (now £15,000,000) the credit capital of the Bank of England,—which ought to be realised in its treasury,—the ordinary movement, resulting from the play of its operations, leaves disposable in the Banking Department from 5 to 6 millions, and from the bullion in the Issue Department might safely be taken the same amount, thus forming a fund which would carry security to a further issue of Notes to about 10 or 12 millions, and even beyond, according to the wants of the community.

Thus, for example, taking the actual situation of the Bank of England on the 7th September, 1864:—

The amount of deposits, including, (instead of excluding), the bills, at 7 days' sight, being	£19,483,717
And taking one-half for the rule	9,741,858
The Notes and Specie in the Banking Department being only	6,810,582
The deficiency is . .	£2,931,276

In this state of the Banking Department, according to the rule, there is no legitimate reserve for discount, and consequently the rate of discount rises to 8, 9, and 10 per cent.

But if this deficiency of £2,931,276 had been made up out of the bullion in the Issue Department, as it might safely have been, the Banking Department would have been in, what is called, —*a normal condition*, and according to its own rule, might have safely discounted at 3 per cent.; whereas, on the 7th September, 1864, the Bank rate of discount was 9 per cent.

But, if there had been no separation between the Issue Department and the Banking Department, the whole of the bullion in the Issue Dement, the whole of the bullion in the Issue Department would have been in the Banking Department, and the account would have stood thus:—

Bullion in the Issue Department	£12,226,895
Deficiency in the Banking Department	2,931,276
Surplus . .	£9,295,619

If from this surplus were set apart 2 millions to meet the ordinary demand for gold, this would leave £7,295,619 applicable to the further issue of notes according to the want, and the rate of discount might have been safely brought down to 3 per cent.

With such means as these, it is easy to see that the power, even of the Bank of England alone, properly constituted, with real capital, would be sufficient to keep the rate of interest within certain moderate limits; but, with the aid of the enormous capitals united in the other Banks, it is manifest that the money-market is, in a great measure, under their joint control; though, from the periodical inflowing of capital, after payment of the Dividends on the public debt, in the form of deposits, on which no interest is paid, the Bank of England must always maintain the superior controlling power.

With such object the Banks have been instituted. Their mission, as M. Pereire remarks, is to procure cheap capital for industry and commerce. The Public are, therefore, entitled to demand from them an account of the manner in which they fulfil their mission, and to require that such arrangements be made as are best calculated to effect the object.

And after all, it is not these establishments which give credit to commerce; but, on the contrary, it is commerce which gives them credit, in availing itself of their notes, and in bringing to them, without any remuneration, the whole of its disposable funds. It is, therefore, not too much to demand for the public a participation in such advantages in the form of moderate discount.

But, if the power of the Banks be great for good, it is no less great for evil, especially when they are invested with an exclusive monopoly, and their power is without counter-weight.

They can, at their pleasure, use the immense capitals at their disposal for the purpose of raising as well as lowering the rate of discount.

Left to themselves and to the impulses of their own private interests, it is very easy for them to augment their benefits at their pleasure, and so to increase the charges of labor in proportions which cannot be measured by these benefits only, for the loans which they effect are but the smallest fraction of the whole of the operations of the same kind.

It is here that the watchful superintendence of the power is indispensable to prevent such abuse.

Having placed these premises, let us examine into the actual working of the Bank of England; let us see how far it has been faithful to its mission, how far it has comprised and protected the interests of trade and industry, of which it ought to consider itself the guardian.

The facts unfortunately answer these questions.

The Bank of England, as already shown, has been in the habit of regarding the exercise of its privileges as a private affair; the capital which it deducts gratuitously from the circulation is regarded only as private property of the same nature as all other private property, to be used by the Bank for its own profit.

The more abundant is this capital, the greater are the benefits to be derived from it.

The Bank of England has not escaped the common tendency of the country banks of issue, to augment the issue of paper-notes, which cost nothing, without augmenting the proportion of its specie.

Thus, as before shown, on the 7th September, 1864, the amount of notes issued was £26,876,895, and the amount of notes in reserve was £6,067,030, leaving the notes in circulation £20,809,865.

The bullion in the Issue Department was	£12,226,895
And the coin in the Banking Department	743,552
Making together . . .	£12,970,447
The deposits and bills at 7 days' sight amounted together to .	£19,483,717

We know that, this is a state of things resulting from the rigid mechanism of the Issue Department, and though the convertibility of the note be not in question, still this is a very anomalous state of things, which retains in the Issue Department bullion to the amount of £12,226,895, and in the Banking Department coin to the amount only of £743,552, and a reserve of notes to the amount only of £6,067,030, to meet deposits and bills to the amount of £19,483,717.

The year 1864, was the longest continuous period of monetary disturbance in this country, short of an actual crisis, that has occurred within living memory.

With the exception of the few weeks in 1857, when the rate of discount rose to 10 per cent., money has been dear beyond precedent, the average rate of discount during the whole of the year, 1864, having exceeded 7 per cent.

Trade has been carried on under a continual pressure, with all the well-known symptoms of an approaching panic, and with all the dread of the consequences.

A vague impression of impending ruin to many pervaded the City of London, and the same feeling prevailed abroad.

Paris, Frankfort, and Amsterdam, trembled for themselves, but much more for London.

Credit was shaken, and industry was paralysed throughout this country, and expectation waited for another suspension of the Bank Act, or a general collapse of trade.

By slow degrees, and without any other interference than a rapid rise of the rate of discount to *nine per cent.*, the alarming symptoms subsided and the anticipated panic was averted, but not until many old and well-established houses had fallen.

The public mind is oppressed by the sense of this frequently occurring danger, and bewildered by the various and different causes to which it is attributed. Over-trading, over-speculating, and the export of gold, are familiar phrases with those who attribute the high rate of interest to one or all of these causes.

But, when these causes are separately examined, each will be found to be quite insufficient for any such general and extensive effect; and, when taken in the aggregate, will be found to be quite inconsistent with each other; the true answer being that, each or all of these assumed causes has little or no influence on the subject in question.

Whatever meaning may be attached to over-trading or over-speculating,—and what it does mean is by no means clear,—that can in no way affect the general rate of the interest of money, for neither the supply nor the demand for capital can be thereby perceptibly, if at all, diminished. All trading is more or less speculative, and over-trading or over-speculation will, certainly, correct itself.

Neither can the cause be reasonably attributed to foreign loans, foreign remittances, or the export of gold, for although these might in time operate to some extent to diminish the supply of capital in proportion to the demand for industrial purposes at home, yet this demand would itself provide the remedy, and reduce the extent and duration of the mischief, so as to render it impossible that such a cause could continue to produce the effects which have been witnessed through the long period of the past year.

Under our present system of credit, engagements in trade necessarily extend far into the future, and as immediate contraction is supposed to offer the only escape from a money-crisis, such a remedy cannot fail to produce great anxiety and also great embarrassments to those engaged in trade.

But if, instead of this remedy of sudden contraction of credit, by suddenly raising the rate of discount to 8, 9, or 10 per cent., the ordinary rate were gradually raised 1 or 2 per cent., until the equilibrium in the value of money between this country and foreign countries were restored, the disastrous consequences from these sudden and great variations might be avoided.

As before observed, the object to be aimed at is not to preserve a uniform rate of discount in this country, but to maintain a uniformity in the value of the British Currency with that of other countries.

It is not denied that, when the value of money is lower in this country than in other countries, the foreign demand will come into competition with the home demand, and that, the equilibrium being disturbed, one of the means for restoring it is, to raise the rate of discount. But the present question is, whether there be not other means, equally prompt, more effectual, and less injurious. Nothing so absurd is proposed as any interference with the free circulation of money, which must always be free in spite of all attempts to the contrary.

The object is to establish the Bank of England on such a principle as shall effectually prevent the disastrous consequences to this country from these great and sudden and continually recurring variations in the state of credit, resulting from the fluctuations in the value of money, or in the price of gold, which is the same thing.

Every country must be liable to these fluctuations, according to the variations in the supply and demand of the precious metals, and although these fluctuations can never be wholly prevented, yet they may be so far controlled and regulated as not to affect credit perceptibly in this country, instead of being aggravated, as they now are, by the constitution and practice of the Bank of England.

It is obvious that the transactions of general commerce cannot be suddenly curtailed without serious derangement of the labor market, and, as a necessary consequence, wide spread misery.

Of this the sudden interruption to our cotton trade is a striking example. But, notwithstanding this and the high rates of interest, with the constant apprehension of an impending crisis, although we have not escaped the serious consequences of the derangement of our labor market, yet, the general trade of this country has not only not diminished, but has actually increased, though the profits have greatly diminished.

How much greater might have been the increase, and how much lost capital might have been saved, if the Bank of England had been so constituted as to aid, instead of aggravate, the difficulties created by the high rate of discount, is a question which can never be answered; but, if the loss have been greater than the cost which might have prevented that loss, then the means of applying the less costly remedy becomes a question of the first importance.

It is true that, our recent financial difficulties and high rates of discount are attributable, to some extent, to the interruption of the cotton trade, and that Egypt, India, and other countries, in their endeavours to supply the demand for cotton, have taxed the paying powers of this country much more than America ever did in furnishing the supply. America, in the general course of trade, took payment not in bullion but in our manufactured goods. But Egypt and the other countries, well adapted by soil and climate to the growth of cotton, have had to make costly preparations for supplying this demand; and, with the price of cotton increased 150 per cent., those countries could well afford to borrow money at 10 or even 15 per cent., for the profit of such a market price.

The interruption of the cotton trade, therefore, far from contracting the liabilities of this country, as might naturally have been expected, has, on the contrary, actually increased them by the new forms of foreign commerce which have arisen out of this interruption. For, to this country all foreign countries come for money.

In this state of things, and during the continuance of this transition state, the normal rate of discount has necessarily changed, and has been no longer 3 or 4 per cent., but 7 or 8 per cent.

If this be a necessary consequence, as undoubtedly it is, any attempt at forcible prevention must be unphilosophical and in vain.

This is admitted in the fullest sense.

But, the Bank of England, by its defective constitution and injurious practice, has greatly aggravated this state of things to the loss and injury of the general trade of this country, by diminishing its productions, and pressing with ruinous severity on all trades and industry.

An increase in the Imports and Exports, though evidence of increase in the commerce, is no evidence of increase in the productions and general prosperity of the country.

If, in the year 1864, the productive powers of this country were curtailed, and the productions actually diminished, the passage of goods into and from this country is but a very imperfect criterion of prosperity.

The total value of Imports into this country in the year 1864, exceeded the total value in the year 1863, by nearly £2,000,000; but the total value of Exports from this country in the year, 1864, was less than the total value in the year 1863 by upwards of £2,000,000.

An enormous amount of capital has been transferred from this country into other countries on terms very profitable to the capitalists, but not yet productive of any sensible benefits to this country. In the mean time this great outflow of capital and the consequent rise in the rate of discount, from the increased demand with the diminished supply, has checked all our manufactures, throwing out of employ large multitudes of our working classes, and reducing the general rate of wages throughout the country.

This is one of the evils through which every country must pass when, like this country, it is mainly dependent on its trade and manufactures.

But this particular evil, arising out of the civil war in America, need not be aggravated by raising the price of money in this country, or making money scarce because cotton is scarce, or withdrawing bank-notes because gold is withdrawn.

Gold, like every other marketable commodity, must go to the best market, and every attempt to prevent the operation of this natural law must be in vain; but this is no reason for withdrawing bank-notes, which represent gold, if the Bank of England be able, as it easily might be, to compete with other countries in the open market for the purchase of gold. Neither is this any reason for making the Bank of England liable by law to sell £15,000,000 worth of gold, more than the Bank possesses, at the fixed price of £3. 17*s.* 10½*d.* per ounce. But for this most unscientific and impolitic interference of the legislature, the trade and wealth of this country would attract all the gold required by the country, under any circumstances, at a very trifling per centage beyond its ordinary market value. An attempt to maintain a fixed price for gold against the wants of other nations, must involve a loss, exceeding any possible advantage to be derived from such an attempt.

It may be, and often will be, that, in this competition losses will be incurred by the Bank of England, but that is a necessary and unavoidable incident to the economical use of paper for gold, and ought to be considered as part of the inevitable cost of this contrivance; and as it is one of the first duties of the State to supply money at all times equal to the requirements, the cost incurred in the performance of that duty ought to fall upon the Bank of England, under the terms of the agreement between the Bank and the State, but certainly not upon the community, by a scarcity of money and consequent rise in the rate of interest.

But in this country and in France this unavoidable evil, instead of being mitigated, is greatly aggravated by the peculiar constitutions of the Bank of England and the Bank of France, by making these institutions trading associations for their own profit, instead of National Banks for the steady and productive flow of money at all times equal to the requirements.

There is no reason why the steady flow of money should be interrupted in the country where the capital exists, whatever may be the fluctuations to which that capital is subject; and the requirements of money for the transfer of capital must always be in proportion to the capital to be employed.

When the gold is flowing out of this country at the rate of 10 or 15 per cent., it is idle to be thinking of employing it in this country at 4 per cent. But it is active mischief to allow the Bank of England to be trading with its credit, for the purpose of sharing in the profits of that gold trade, at the cost of the trade and industry of this country.

And that is just what the Bank of England is doing whenever the opportunity occurs.

This is an aggravation of the evil, for this is not only encouraging the outflow of gold, but it is at the same time shaking the very foundation of credit, by diminishing, in the same proportion with the gold, the bank-notes which represent the gold and constitute the money, with the distribution of which the Bank of England has been entrusted by the State for the benefit of the country.

But,—as Capitalists and Political Economists will say,—by so encouraging the outflow of gold the equilibrium of value will be the sooner restored.

This is true. But this will be at an incalculable sacrifice of property to the country, and to the great profit of the Bank of England. This is not consistent with the object of a National Bank.

If the security be safe, or be supposed to be so, all the unemployed capital will go where it can gather 10 or 15 per cent., and will not be stopped by the offer of 3 or 4 per cent. It will come back increased, or it will come back diminished; it will not come with a whoop or come with a call; it will come with a good will or not at all. But, any way, this is a speculative investment, and the return of the capital is, to some extent, uncertain.

If the object of the Bank of England be to assist the trade and industry of the country, it is clear that the resources of the Bank ought not to be liable to be drained away by foreign speculation for the benefit of the shareholders in the Bank, and to the loss and injury of the British community.

On no ground can the Government justify the appropriation of Fourteen Millions of the Public Debt for the benefit of the shareholders in the Bank of England.

If the Bank of England insist on its right to do what it likes with its own, then let the Government pay its debt to the Bank, and let it do what it likes with its own.

But, then, let the Government establish a National Bank on a broader and more independent basis, for the benefit of the country, and with no other object.

If the privilege of issuing notes of equal value with the coin of the realm be granted exclusively to the Bank of England, as it ought to be, that privilege is conferred for the benefit of the community, not of the Bank.

The Bank ought not to enjoy even the smallest portion of the profits of that issue.

The Bank ought to be beyond suspicion that it is influenced in the management of those issues by any expectation of profit therefrom.

The whole profit of those issues belongs of right to the People, being wholly derived from them.

The Bank has no more right to participate in the profit from the issue of notes, than it has from the issue of the coin of the realm.

The special and exclusive privilege to the Bank of England can be justified only on the ground that it is beneficial, and that the whole benefit is secured, to the People. It is not only of the loss of this profit that the People have a right to complain, but of the loss and injury which they sustain from the improper use made by the Bank of England of this exclusive privilege.

The distress caused by the high rate of discount is one thing, but the distress caused by a money-panic is another and different thing. The one arises from deficiency of capital; the other from deficiency of credit. These are totally distinct, and never occur at one and the same time; the last occurs very seldom.

No one doubts the convertibility of the note into gold on demand, and no one ever has doubted it, at least, for the last forty years and upwards.

The doubt is about getting the Bank-notes when they are wanted.

This difficulty most frequently arises from the small amount of credit capital at the disposal of the Bank in proportion to the want, and this is aggravated by the speculative jobbing of the Bank for high rates of discount.

It is this jobbing which weakens the power of the Bank for holding in check the rising rate of discount.

Instead of exercising any check on the rising tendency, the Bank of England is the first to raise the rate, and the last to lower it. Alarm follows.—Alarm for its insufficient reserve in the Banking Department, and for its stock of bullion in the Issue Department. The Bank of England is the first to create alarm throughout the country, and is powerless to relieve it.

The alarm for notes is not unfounded, the Bank having been, on several occasions, all but at a stop for want of notes.

But the alarm for gold has never been well founded, since the note has been convertible into gold on demand.

Nothing can be better calculated to create alarm in the Public mind than when the cry of alarm is raised by the Bank of England itself, by raising the bank-rate of discount.

Nor can anything be better calculated to create alarm in the Public mind than the actual position into which the Bank of England is so often brought, with its small reserve and no capital, and no means of getting notes out of the inflexible grasp of the Issue Department.

It cannot be denied that there is ground for alarm when the Bank of England shows, as it did show by its Weekly Account on the 7th of September, 1864, an issue of notes to the amount of £26,876,895, and Public and Private Deposits, with Bills at 7 days' sight, amounting altogether to £19,483,717, and a Banking reserve in notes and specie of only £6,810,582.

According to the understood rule of the Bank, this reserve, as before shown, was less than half the amount of Deposits and Bills at sight by £2,931,276, this being the sum wanting to place the Banking Department in what is considered to be a normal condition, and, consequently, the Banking Department was compelled to curtail discounts by raising the rate to 9 per cent. This becomes a necessary precaution of the Bank for its own sake, but at the expense of the community.

If the banking reserve had been nine millions, instead of six millions, the bank-rate of discount might have been at 3 per cent., instead of 9 per cent.

The additional issue of three millions of notes, therefore, would have saved the country the additional 6 per cent.

These deposits are a great power in the Bank of England, but, when used as part of the capital of the Bank, this is a dangerous power.

When the Banking Department discounts on the strength of these deposits, the effect is the same as if the Issue Department issued notes against these deposits, as regards the drain of gold from the Issue Department, where these notes may be exchanged for gold.

The Banking Department, therefore, raises the rate of discount for protecting the gold in the Issue Department, and at the same time encourages the drain of gold from the Issue Department by discounting on the strength of these deposits.

The reckless inconsistency of this proceeding seems to be accounted for only by the tempting profit to the Bank of 9 per cent.

This is, in effect, issuing notes, or putting them in circulation, against deposits, and the uncertain possession by the Bank of these deposits must be an uncertain foundation for the issue or circulation of notes, payable in gold on demand, and must make continual variations in the bank-rate of discount.

It is impossible to conceive an action of the Bank of England, as at present constituted, more dangerous than this to itself, as well as to the community; or anything more improper than this practice, the Bank of England being entrusted exclusively with the issue of the paper-money of the country for the benefit of the community, such paper-money being payable in gold on demand. But, with a sufficient real capital, the Bank might be safely left to deal in its discretion with this part of the question.

Only a few years ago, a large discount house in the City operated on the Bank-reserve to the extent of nearly £2,000,000, by suddenly withdrawing that amount deposited with the Bank and standing to the credit of that house. The consequence was an immediate advance of 1 per cent. in the rate of discount.

If other Banks and Financial Companies, having large deposits to their credit, had simultaneously taken the same course (as they clearly might have done), the Bank of England, under the Act, must have stopped payment.

No one would have any right to complain that Bankers and Merchants employed their money as they thought best for their own benefit, and there is no law to prevent any one from withdrawing his deposits from the Bank of England whenever he thinks fit to do so. Neither is there any law to prevent capitalists in this country contracting with foreign governments for the supply of any given amount of bullion. These operations are within the province of legitimate trade.

But the Public have a right to complain that the Bank of England, if entrusted with the special and exclusive privilege of issuing, and, in a great degree, regulating the money of the country for the benefit of the community, makes itself an instrument for playing into the hands of the great capitalists for further enriching them, to the incalculable loss and injury of all the rest of the community.

It is said that, the rate of discount only marks the price of money in the market, and that, the Bank of England can only follow, and cannot control.

But this, as already shown, is not true. There are times and occasions when the Bank of England can control by not following.

But the complaint is that, the Bank of England leads in the race and assists the great Capitalists in their run for gold, and thereby helps to make money scarce and dear throughout the country.

This is the complaint, and this is a well-grounded complaint.

It is trifling with this great and important subject to say that, the Bank of England has no influence over the rate of discount.

The contrary is true, and the People feel and know it to be true, but they have never known how to state their case.

The Bank Charter Act leaves them at the mercy of any capricious or concerted movement in finance on a large scale, and helpless against the combinations of capitalists in league with foreign governments or potentates who may find it worth their while to take advantage of our well-stocked money-market and defective legislation.

During the monetary crisis in 1857, the losses to the community by the failures in trade and depreciation in prices on stocks held were incalculable, when the fall, at the lowest estimate, on the various articles ranged from 30 to 60 per cent. and upwards, showing an actual loss of capital to the country of many millions, sterling.

The loss from the previous crisis in 1847, may be estimated in the same way and at much the same amount.

For these reasons it seems to follow, as a necessary consequence, that the Bank of England, as at present constituted, ought not to issue notes on the strength of its deposits.

The Bank of England, if it would maintain its independence, must give up using its deposits, if unable to act independently of them, for independence is essential for the security of a Bank of Issue.

The Public has a right to demand all the security that can be given, if the Bank of England is to be entrusted exclusively with the issue of the money of the country.

Imagination exhausts itself in seeking the causes of the frequent and alarming disturbances of the money-market.

The opinion, so generally expressed, that the cause is in the too great excitement given to labor and production, is an error which must be altogether rejected.

Labor may be badly done, and that is a cause of real loss, but there can never be too much labor when it is well done.

The most industrious people are always the richest. And, as to superabundance of production, let us ask with M. Jacques Lafitte :—

"Si quelque part on jette le blé dans les rivières, si on détruit et livre au vent les produits de nos manufactures ; si quelque part on foule aux pieds les ouvrages surabondants d'aucune espèce de travail?"

"Is there any part of the world where they throw corn into the rivers, where they deliver to the wind the produce of our manufactories; is there any part of the world where they tread under their feet the superabundant works of any species of labor?"

But let us descend from these heights and look simply at one of the most ordinary of the causes which come periodically to afflict our commerce. They flow, almost always, from the imperfect monopoly of the Bank of England in the issue of notes, and the uncertain manner in which their circulation is governed.

Thus, on the 7th September, 1864, the number of notes issued was £26,876,895, and the reserve of notes and coin was £6,810,582.

The Bank rate of discount was 9 per cent.

On the 28th December, 1864, the number of notes issued was £28,036,475, and the reserve of notes and coin was £9,377,989.

The Bank rate of discount was 6 per cent.

In the corresponding week in the year 1863, the amount of notes in circulation, including bank post bills, was £20,686,538, and the reserve of notes and coin was £8,886,575.

The Bank rate of discount was 7 per cent.

In the corresponding week in the year 1862, the amount of notes in circulation was £20,516,435, and the reserve of notes and coin was £9,735,171.

The Bank rate of discount was 3 per cent.

In the corresponding week in the year, 1861, the amount of notes in circulation was £20,818,190, and the reserve of notes and coin was £10,445,899.

The Bank rate of discount was 3 per cent.

In the corresponding week in the same years, the amount of coin and bullion in the Bank was as follows:—

1861 . . .	£15,961,439
1862 . . .	£14,956,421
1863 . . .	£14,362,605
1864 . . .	£14,100,974

Examples might be multiplied to any extent, but these are sufficient to show that, the amount of notes, and not the amount of bullion, raises or lowers the rate of discount.

In the last weekly return of the Bank for the years 1862, 1863, 1864, the amount of coin and bullion ranged, with but little difference, between 14 and 15 millions, and the Bank rates of discount at the corresponding periods in these years were 3, 7, and 6 per cent.; and in September 1865 9 per cent.

Instead of over-production being the cause of the average rate of discount at upwards of 7 per cent. for the year, 1864, the fact is that, there was a very considerable falling off in all our manufactures in that year; and, as before noticed, an increase in the amount of our exports and imports is no criterion whatever for determining the amount of our productions, the increase being not in our own but in foreign productions, of which we were merely the carriers.

As a sign of prosperity this is deceitful, the year, 1864, however prosperous to Bankers and Capitalists, being very much the reverse to the trade of this country, and the loss of capital being very much greater than the gain to the Bankers and Capitalists.

It were better for the country that the Bank of England shared in the general loss, than in the partial profit, for then the Bank would be more disposed to seek the means for preventing or reducing the loss. Unfortunately, the Bank of England finds too large a compensation in the high rate of interest to be induced to adopt any means either for preventing or reducing it.

It is impossible to suppose that this country should support such a diminution of the circulating medium without suffering very serious inconvenience and loss, and, unfortunately, these trials to credit always come suddenly, when the country is least prepared and least able to bear them. Not that the country is deficient, but that the Bank of England is unequal to the occasion; not that the credit of the country is shaken, but that confidence in the Bank of England is wanting. It is the helpless state of the Bank of England in the time of need that causes general distrust, and it is this distrust that causes the loss of credit and the *scarcity of money.* It is the want of confidence in the Bank of England that increases the demand for money at the very time when to meet this demand is most inconvenient to the Bank, and the demand continues to increase with the inability to meet it. In the fear of further difficulties, every one endeavours to secure for himself a larger reserve of money than his wants require.

Thus the evil is aggravated to an extent far exceeding a true proportion to the real cause of the evil, and sometimes to the extent of a money-panic. All this might be prevented if the Bank of England, in the first instance, could only make the supply of notes equal to the demand. With the return of confidence all the difficulties disappear, and credit is restored, thereby showing that it is not capital, but confidence, that is wanting. With confidence, the capital re-appears, the rate of interest falls, and the Government Funds rise.

Thus are born and thus die those monetary disturbances the origin of which is so mystified, though so easily accounted for in the defective organisation of credit.

With a Bank of England established on the broader basis of a larger credit capital and a large actual capital, and regulated on simple and intelligible principles, this state of things, so disastrous to the country, never could arise.

One of the grandest steps in progress that can be taken is, by simple and natural means to confine within moderate limits the rate of interest for the capital required for the trade and industry of a country.

This was the opinion of that great Statesman, Turgot, and here are his own words :—

"On peut regarder le taux de l'intérêt comme une espèce de niveau au-dessous duquel tout travail, toute culture, toute industrie, tout commerce cessent. C'est comme une mer répandue sur une vaste contrée ; les sommets des montagnes s'élèvent au-dessus des eaux et forment des îles fertiles et cultivées. Si cette mer vient à s'écouler, à mesure qu'elle descend, les terrains en pente, puis les plaines et les vallons, paraissent et se couvrent de productions de toute espèce; il suffit que l'eau monte ou s'abaisse d'un pied pour inonder ou pour rendre à la culture des plages immenses."

Many persons, who falsely attribute the rise and fall of interest to the abundance or scarcity of money, think the creation of a bank, issuing a great mass of notes, is of the same nature as the discovery of a mine of gold or silver. They think it is by this augmentation of fictitious money that the rate of interest is lowered. Their error is complete; they confound the sign with the thing itself. Augment the mass of representative values, by the aid of which the circulation is carried into effect, and you have not added the smallest particle to the riches of the country; you have only augmented the nominal price of the products, but the relative mass of the instruments of production remaining the same in the presence of the same wants, the rate of interest will not vary.

Industry, positively, has no want of money; it is the use, the disposability of the objects which it can procure for itself with this standard of all values that it stands in need of. The creation of effects doing, like bank notes, the office of money, acts upon interest, in this respect, that it permits the banks to utilise to their profit, and to that of their borrowers, a great part of the disposable capital of society. All the holders of these notes of circulation have exchanged a real value against these notes. The representation of the bank notes in circulation always exists or ought to exist in the coffers or bill-cases of the banks; it is there found in the form of ingots and money, or of promises of merchants and manufacturers, which promises are themselves the representation of the capitals which they possess and of which they have the disposal.

The capitals of the banks consist, then, of the funds of their customers, and especially of a portion more or less of capitals, which, at a given time, the owners cannot immediately employ. The banks possess themselves of these capitals gratuitously and lend them at interest. Those to whom the bank notes are remitted receive them as money, because they will be able to pass them in the same way. There is the phenomenon of circulation. It is thus that the banks appropriate to the wants of production the riches, which, without their concurrence, would be unproductive. It is, *therefore*, that the banks are able to grant favourable conditions to industry, all finding their own advantage.

It is industry which makes the credit of the banks in giving currency to their notes. The banks ought to pay for that service, and they do pay in reality, by making the producers participate in the benefit of the circulation. As long as the banks do not abuse their credit, we may imagine all the power of the instrument which they dispose of; we may easily imagine also that the concurrence which they introduce into the market of capital obliges all the capitalists in particular to lower their pretensions, and to reduce the rate of their discounts.

The fact of the influence of the banks in lowering the rate of interest being admitted, you can equally establish that the extension of this system of credit can in no manner change the equilibrium of values nor carry any disturbance into the economy of production.

Much error of reasoning arises from confounding bank paper with paper money.

Evidently, paper money having a forced circulation, having for object to relieve the wants of a nation,—most frequently immense wants,—and its issue having neither control nor limit, it cannot be assimilated to bank paper. Paper money devours social riches in proportion as its mass increases. It is thence easy to conceive that the value of the paper ought progressively to lower relatively to the price of all the products.

Bank notes, on the contrary, are only an advance made on the production; they represent the value which actually exists; they represent equally the labor which is being accomplished by disposable hands and which, without the concurrence of the banks, would remain idle in part or be much worse occupied.

And, moreover, the value of the bank note is always controlled by that of gold and silver. As long as it will exchange easily against the precious metals, as long as the products are able to be bought indiscriminately, whether with bank notes or with effective money, it is not possible to admit that the prices of all things should vary otherwise than by the general causes which act upon the values, causes independent of the action of the banks and which, introducing themselves simultaneously upon all points of the globe, by reason of the constant control of the general standard, gold and silver, cannot, in any manner, damage the equilibrium of the imports and exports.*

* See this part of the subject admirably treated, with reference to the Bank of France in a small pamphlet, "*Système Des Banques,*" by M. M. Pereire, published 1843, republished 1866.—Paris.

Now comes the question how to keep the right level or equilibrium,—how to construct the Bank of England so as to make it faithful to its mission for protecting the trade and industry of this country.

CHAPTER X.

THE BANK OF ENGLAND: AND THE ORGANISATION OF CREDIT.

Having considered the Bank of England as at present constituted for the disorganisation of credit, the more important question next comes to be considered,—how the Bank of England may be constituted for the organisation of credit.

It is said that, the rise in the price of loanable capital is due, in a great measure, to the growing availability and diffusion of English capital for foreign purposes, and that this growing availability and diffusion are, in their turn, the consequence of the new organisation provided by the comparatively sudden and vast expansion of the Joint-Stock system, and of the birth of so many financial companies capable of undertaking the largest operations.

It is also said that—'At first sight it may seem that, the searching competition of the new Companies, which sucks into the money-market and condenses into large and available streams countless rills of savings scattered up and down the country, which were not reached before, ought, by bringing more unemployed capital into the market, to lessen its value and lower the rate of interest.'

It is also said that, such would be the case, but that the distributive and diffusive power of the new companies is even greater than this attractive and condensive power. That the centripetal force by which our home capital is made to gravitate towards our home centre is vastly increased by the new organisation, and that this of itself tends to lower the rate of interest. But that the centrifugal force by which, under the new system, capital, once condensed, is scattered all over the world instead of being allowed to accumulate at home, is greater still, and thus the rate of interest, instead of being lowered is raised, and the rise in the rate is probably, therefore, not temporary, but permanent.*

If all this be true, though, as here stated, it is not, that would only go to prove that, the Bank of England, which was framed and constituted under another and different state of things, is ill adapted to the present state of things; and that the evils of its constitution, then less visible and less felt, were more bearable; now more visible and more felt, are less bearable.

* Edinburgh Review, January, 1865, No. 247, page 227.

As before shown, the rise in the rate of interest is but the sign of the evil. The evil is in the disturbance of the equilibrium in the value of money between foreign countries, and the rate of interest rises to restore the equilibrium.

This disturbance has always existed, more or less, though formerly less noticed, because less perceptible; but when extraordinary calls for capital began to be made for correcting this difference, then the consequent disturbance of the currency began to be felt in the rise of the rate of interest.

Any attempt to prevent those calls from being answered must be useless.

The trade in capital, or savings, must be as free as the trade in any other commodity; and freedom of trade assumes protection to traders against monopolies, as well as against restrictions and impositions.

Protection to Traders is quite a different thing from protection to Trade. Deprive the trader of the means of obtaining money necessary for carrying on his trade, and you are bringing down upon the country all the evils of *protection* in its worst form, for you are helping one class against another,—the large capitalist against the small capitalist. So, as you make it difficult to obtain money, as a means of carrying on trade, you are, in the same proportion, protecting one class of traders against another class, and their loss is the loss of the whole community.

Such is, in effect, the present working of the Bank of England. More or less it has always been so, but much more so since the passing of the Bank Act of 1844.

If it were admitted that, raising the rate of interest in the country where capital is abundant, is one of the means of equalizing the value of money between that country and other countries where capital is less abundant, yet that is not the best means, nor one of the means necessary or expedient for the Bank of England.

Entrusted by the country with a fictitious capital,—having no real existence,—and allowed the use of it free of cost,—for such is, in effect, the special and exclusive privilege to the Bank of England of the gratuitous issue of its notes to the amount of £15,000,000, there can be no good reason why the whole benefit of the credit so acquired should not be secured to the country.

In this arrangement, for the sole purpose of economising gold, it was no part of the original object or intention to bestow a benefit on the Bank of England. The sole object and intention was to save so much capital for the benefit of the country.

The profit of the Bank is another question, and is otherwise provided for.

It cannot be for the benefit of the country to allow the credit so acquired to be used by the Bank for its own profit.

This has nothing to do with the question,—whether or not it be necessary for the Bank of England to raise the rate of discount for its own protection. That is another question ; but, before that can be considered, it ought to be shown that the Bank of England, properly constituted, would stand in need of any such precautionary measure. If any state of circumstances can be shown, which would render protection needful, that will be evidence of defect in the constitution of the Bank. That the Bank of England is now exposed to many such circumstances has been already shown. But the Bank of England would be no longer exposed to any of these circumstances if established on the basis and conducted on the principles following :—

1. The repeal of the Bank Charter Act of 1844.

2. The Government Debt to the Bank of England to be paid.

3. The Credit Capital of the Bank of England to be raised to £40,000,000.

4. All notes of the Bank of England beyond the amount of £40,000,000 to be issued against

equal value in gold and silver coin and bullion, in any proportions, but all notes to be payable in gold only on demand.

5. All other Banks of Issue in England and Wales to be prohibited from issuing their own notes from and after the day of .

6. The distinction between the Issue Department and the Banking Department of the Bank of England to be abolished.

7. The Bank of England Note to be payable in gold coin of the realm on demand.

8. No Bank note to be issued under the value of £5.

9. The Bank of England not to be bound to give its notes in exchange for gold.

10. The Bank of England Note to be declared a legal tender throughout the United Kingdom for all sums of Five Pounds and upwards;—Except by the Bank of England, and its Branches.

11. Silver coin of the realm to be declared a legal tender under £5.

12. All gold and silver bullion, brought to the Royal Mint for that purpose, to be coined in the coin of the realm *free of charge.*

13. The Bank of England to be exempt from Stamp Duty or Composition on its notes.

14. The Bank of England not to discount at a higher rate than 4 per cent.

15. The Bank of England not to lend money to the Government, or to any person or persons; nor to make advances on ingots;—but to be at liberty to make advances on Government Stock, Exchequer Bills, and other Government Securities.

16. The Bank of England to account to the Government for all its banking profits on its Credit Capital.

17. Weekly Accounts of the Bank of England to be published in the *London Gazette*, in the form given.

18. The Bank of England not to allow interest on Deposits, Public or Private.

19. The Bank of England to be allowed by the Government £250,000 per annum, for loss of profits on discounts, and for management of the Public Debt, in addition to the other allowances.

20. The Governor, Deputy Governor, and Directors of the Bank of England, to receive, for their personal services, from the Government, the following yearly allowance:—

The Governor . . .	£2,000	per annum.
Deputy Governor . .	1,500	,,
Each other Director .	1,000	,,

21. These privileges to be continued to the Bank of England until twelve calendar months'

Form of Weekly Account.

BANK OF ENGLAND.

An Account of the Bank of England pursuant to the Act for the Week ending on the day of 1865.

	£.		£.
Notes in Circulation . .		Government Securities .	
Seven Day and other Bills		Notes in reserve . . .	
Proprietors' Capital . .		Gold and Silver Coin . .	
Rest		Bullion	
			£

Bank Rate of Discount per Cent.

(Signed) Wm. Miller, Chief Cashier.

notice in writing be given by the Government for rescinding or varying the terms on which these privileges are granted.

Similar privileges to be conferred on the Banks of Ireland and Scotland, with a proportionate Credit Issue to each: Or, if these Banks be merged in the Bank of England, (which might be better), then the Credit Issue of the Bank of England to be raised to £50,000,000.

When the Bank of England is established on this basis, and conducted on this principle, it will be time enough to consider any measure found necessary for its protection.

An examination of these terms may show that, they place the Bank of England beyond the reach of danger under all circumstances which can be properly taken into calculation, though the time may come, and probably will, when both the actual and the credit capitals will be required to be enlarged.

The principle, if true, will be applicable to all time.

The foregoing outline of the proposed new Bank Charter Act hardly requires further explanation, but each item of the terms will now be shortly reviewed, with a few comments, for the purpose of directing attention more particularly to the nature and effect of the proposed changes.

1. The repeal of the Bank Charter Act of 1844.

2. The Government Debt to the Bank of England to be paid.

This will be a payment or a transfer of £11,015,100, and if a payment will be so much in reduction of the National Debt.

If the possession of an actual and independent capital by the Bank of England be essential for effecting the proposed objects, it only remains to be shown that these objects would be for the benefit of the community.

The possession by the Bank of an independent capital of this considerable amount would be, on many occasions, more effectual than curtailing the notes for operating on the market of gold, to stop the drain of gold.

If the payment of £11,015,100 be too large a sum for the Government to meet without a loan, this could be effected simply by a transfer of Government Securities, and would be no addition to the National Debt.

But it would be a very expedient course, if the Government were to take up a further loan and lend it to the Bank at 3 per cent. to make up the real capital of the Bank of England £20,000,000, and the credit-capital £40,000,000.

3. The Credit-Capital of the Bank of England to be raised to £40,000,000.

From the imperfect information before the public, it is difficult to ascertain, precisely, the *maximum* and *minimum* amount of Bank-notes in circulation, in the United Kingdom.

But the following estimate may be sufficient for the present purpose.

The authorised Issues of Notes by Private and Joint-Stock Banks in England and Wales is . . .	£8,488,428
Irish Banks	6,354,494
Scotch Banks	3,087,209
Average Issue of the Bank of England	21,000,000
	£38,930,131

This may be sufficient to show that, the requirements of the Kingdom, for a Bank Note Circulation, are not less than £40,000,000. If so, there can be no more reason against the Bank of England issuing Forty Millions than Fifteen, Millions of Credit-notes, especially if all other Banks in England and Wales be prohibited from issuing notes; or for enlarging the amount to Fifty Millions, if the issue of Notes for the United Kingdom be confined to the Bank of England.

With a credit capital of £40,000,000 or £50,000,000, costing nothing, and an actual capital of £14,553,000 or £20,000,000, the Bank of England would be equal to all occasions for regulating the currency of the country.

4. Notes beyond the credit capital to be issued to any amount against equal value in gold and silver coin and bullion.

As the bank-notes cannot depreciate as long as the securities remain good, the restriction on the issues may be safely enlarged from time to time to meet the requirements, subject to this condition.

5. All other Banks of Issue in England and Wales to be prohibited from issuing their own notes from and after the day of .

For the reasons already given, there can be no injustice in putting a stop to this system, which never ought to have been permitted.

The notes of a private bank, not being legal tender, are of the nature of a spurious coinage, and are, practically, forced upon the ignorant and unwary, who have not always the option of refusal.

Any temporary credit resting on this insecure foundation must be subject to great variations, and to shocks which must disturb the monetary system of the country.

Experience has proved the truth of this theory. If bank-notes be permitted by the Government to pass current for equal value with coin of the realm, such equal value ought to be made secure on the responsibility of the Government.

In the year 1844, when the Bank Act passed, there were 208 private banks, and 72 joint-stock banks of issue, and the privilege of issuing notes was then permitted to those banks not only without any inquiry into their solvency, but also without requiring any security for the payment of those notes.

This was an inexcusable oversight on the part of the Government and the Legislature. The privilege to those banks, instead of being withdrawn, was continued, and, by limiting the amount of notes to be issued by each bank, was sanctioned.

The Act authorised country banks to commute their issues of notes, and to substitute notes of the Bank of England; but, the value of money being then 5 and 6 per cent., few banks availed themselves of this permission to surrender their valuable privilege for 3 per cent.

The principle on which this privilege was confirmed was unsound, and was clearly opposed to the principle of the Bank Act of 1844. It must, therefore, be assumed that reasons, known only to the Government, prevailed on that occasion against the judgment and intention of the Government, and against the true interests of the country.

But though the Act of 1844 so far confirmed the privilege of the issue of notes to those banks which then enjoyed it, yet the Act limited the exercise of that privilege, and in no way guaranteed it.

But a Bill, brought in by the then Chancellor of the Exchequer, Mr. Gladstone, proposed to grant a lease of the privilege to the banks then holding it, for the term of 15 years, ending 1st January, 1880, as a beneficial interest to those banks, against the interests of all the rest of the community.*

The same unknown reasons, which prevailed with the Government of 1844, may prevail with the Government of 1867; but, if this Bill paso into an Act, it will be another misfortune for the country.

Before the Banks of issue can establish their claim to compensation for the loss of their privilege of issue, they should show that, they have a vested interest in that privilege; and if the Government may terminate, as it may, by twelve months' notice, the privilege of the Bank of England as a bank of issue, there can be no hardship if the Government exercise the same power towards the other banks of issue.

* This Bill was withdrawn, and fortunately the avowed intention to introduce it in the first Session of the new Parliament was prevented.

This privilege ought to cease at the expiration of the twelve months' notice, as in the case of the Bank of England, and if no right of property can be established in the privilege, no ground for compensation can exist if the privilege be withdrawn.

It is not easy to see on what ground a claim for compensation can be supported, for the Act itself, section 25, provides, "that all the compositions payable to the several bankers, mentioned in the schedule hereunto, marked C, and such other bankers as shall agree with the said Governor and Company to discontinue the issue of their own bank-notes, as aforesaid, shall, if not previously determined by the act of such banker as hereinbefore provided, cease and determine on the 1st day of August, 1856, or on any earlier day on which Parliament may prohibit the issue of bank-notes."

Nor can the issuers of bank-notes complain of hardship if deprived of their privilege without compensation, for they have not been without warning that, this privilege would not be lasting. At present, the hardship is altogether on the public, who are forced to take these notes without any security for their payment.

6. The distinction between the Issue Department and the Banking Department of the Bank of England to be abolished.

The reasons for abandoning this distinction have been already given.

If the separation of the Issue Department from the Banking Department had not been proved to be injurious, that it has been proved to be unnecessary would be a sufficient reason for discontinuing this distinction, the sole and avowed object being to secure the convertibility of the note, which has never been and never need be in danger.

7. The Bank of England not to be bound to give its notes in exchange for gold.

Of all the anomalies of the present system, the provision of the Act of 1844, which compels the Bank of England to buy all the gold that is brought to it, whether it want it or not, is one of the most singular.

The Bank of England is the only bank in the world which is placed under this whimsical compulsion.

Bullion is not money, and will not pass anywhere as money. It is simply a commodity of acknowledged value, and may be coined into money, without charge, when taken to the Mint.

A consequence of the present arrangement is that, the Bank is sometimes overloaded with gold in the form of bullion, and does not know what to do with it. In that case the Bank ought to be free to reject it, but at liberty to purchase it. In most cases the Bank would purchase, but that ought to be discretionary, not compulsory.*

8. No bank-note to be issued under the value of £5.

This question also has been sufficiently considered and answered to render further remark unnecessary.

There are arguments for and against £1 notes, but there seems to be no sufficient reason for a change.

9. The Bank of England to pay its notes in the gold coin of the realm on demand.

This is the only safe foundation for any currency.*

10. The Bank of England note to be a legal tender throughout the United Kingdom for all sums of £5 and upwards; Except by the Bank of England, and its Branches.

Under the proposed arrangement, there seems to be no reason against making the Bank of England note a legal tender throughout the United Kingdom.

11. Silver coin of the realm to be a legal tender under £5.

* These articles 7 and 9 were not introduced into the 1st Edition, being considered unnecessary, if the existing Act be repealed. But, to prevent misunderstanding, that which was inferentially implied, is now expressly affirmed.

This is a change of considerable importance, and in accordance with the ancient constitution and usage in this country.

The reasons given for depriving the People of the full benefit of a Silver Coinage, as formerly enjoyed by them, are quite unintelligible.

Until the reign of Henry III., the Currency of the country was entirely silver. The first coin was the silver Penny, which contained the 240th part of a Pound of 12 oz., each ounce being 20 dwts.

Twelve of these Pennies were equal to one Shilling, and twenty Shillings to the Pound, sterling. The Shilling, however, was then only a money of account, and remained so until the reign of Henry VII., when he introduced the Sovereign, or Real, at 20*s*., and made the shilling an effective coin.

12. All gold and silver bullion brought to the Royal Mint for that purpose, to be coined in the coin of the realm *free of charge.*

This, as already shown, is an ancient constitutional right in the People, of which they have been most unconstitutionally deprived.

To restore this right is as much for the interest of the Government and the Bank of England as of the People.

The additional supply of silver, in unrestricted quantity, must strengthen the basis of gold for the security of the Note.

13. The Bank of England to be exempt from Stamp Duty on its Notes.

The Bank of England now pays £60,000 a year for this exemption.

14. The Bank of England not to discount at a higher rate than 4 per cent.

This does not propose to fix the rate of discount, but only to confine the rate of the Bank of England within fixed limits. The object is to diminish the oscillation, and to prevent the Bank of England, as long as it is in possession of a monopoly, from being tempted to abuse it. If a *maximum* have been judged necessary in the tariffs of the privileged enterprises of the railroads, why should not the same be necessary in the much more important tariff of the privileged Bank, which is the regulator of the interest of the country?

The Bank, with its special and exclusive privilege, not only imposes what charge it likes upon the whole country in the form of interest and discount, but also refuses to augment its capital and even to render disposable that which it possesses, however urgent the occasion. Not so with the railroads, otherwise they might refuse to augment their rolling stock, to increase the number of their locomotives carriages and waggons, however great the necessity, and they might thus profit by the insufficiency of their stock to levy contributions on passengers and products when these were presented in too great quantity for present convenience. It is precisely to prevent the railway Companies from abusing their privilege that, the obligation is imposed on them to satisfy, on prescribed conditions, all the wants of transport for the travellers and the merchandise.

The analogy is complete between these two privileges. It would not be more difficult for the Bank to satisfy the demands of discount than for the railroads to satisfy the demands of transport; it is only a question of capital, and capital would not be wanting, if it were wished for, to the Bank any more than it is to the railroads, but it would be more easily procured by the Bank than it is by the railroads, and on better terms, because the security of the Bank would be thought better than the security of the railroad. Now, why should the Bank not do in this respect that which competition would certainly do under a system of liberty?

If the commerce of the Bank were free, the capital would not be wanting to raise the resources of credit to the height of the wants. For this object the exclusive privilege was conferred on the Bank of England, and it fails in its mission when it fails to render to the country this just compensation.

If the industry of the Bank were free, it would develop itself in proportion to its affairs. But in that the Bank of England has completely failed, and it must for ever fail whilst bound by the restrictions under which it is placed; moreover, whilst in possession of the monopoly it must prevent other establishments from meeting the wants which are ever increasing with the progress of affairs.

It is the employment of credit capital which constitutes the principal profit of the commerce of discount; and it is because the supply of this capital to all the establishments outside the Bank is uncertain, that the situation of this commerce is very precarious and that the capital engaged in it is not obtained without difficulty, unless with the temptation of large interest imposed on the industry, which borrows and is made to discount its bills.

The Bank of England counts too exclusively upon the credit capital of which it has (or ought to have) the exclusive enjoyment, and not enough upon its own proper capital, upon that new capital which is wanted from time to time for keeping the Bank always on a level with the progress of affairs. The action of the Bank of England is at the present day paralysed by the want of a sufficient capital. The Bank finds itself continually under the necessity of raising its discount only because its reserve is relatively too weak, and it is so because it has not disposable capital wherewith to strengthen its reserve.

It is, then, only in consequence of the want of disposable capital that the Bank is obliged to raise the ratio of its discount, and when the Bank raises it, the rise is everywhere in like manner, to the great detriment of the whole community. This injury extends not only to the customers of the Bank, but also to all those who borrow, whether under the form of discount, or under that of mortgage, it reaches the whole community, for the rise of the rate of interest lowers in a corresponding manner the capital of all funded property, of all industrial enterprises, shares and bonds, as it reaches the Government funds, and it discourages the employment of industry in all its branches. The rise of the rate of interest is an incalculable injury to everybody and everything.

The only possible means for avoiding this rise is, to provide a reserve in the Bank of England at all times in a ratio with the wants, and that can be only by the realisation or augmentation of the capital of the Bank.

The new capital would be furnished by the capitalists seeking investment for their disposable funds, and this investment would be the more sought after, inasmuch as it would be more useful and more advantageous.

The result would be to bring about the general lowering of the hire of capital by means of the increase of the credit paper. The discounters outside the Bank would be no losers, for it is not only with their own capital that they work, but it is also and especially with that which they procure by rediscounting their bills at the Bank. The rate of these discounts would leave them the same profit, and this profit would be so much the greater as the affairs would have taken greater extension. The advantages to industry in all its branches would be very considerable, and especially in the cheapness which would result for all its products.

The lowering of the discount of the Bank would immediately produce a corresponding lowering in all the relations of lending and borrowing, though the interest would vary according to the risk.

The action of the Bank of England would be sensibly felt in all affairs throughout the kingdom, in temporary as in permanent investments, and other establishments would always be able to make the same profits, since these profits result only from the difference of interest:—the base only will be different, the level everywhere will be lowered.*

The necessity for the Bank of England *to protect its reserve*, is evidence complete that it has failed in its mission as a National Bank. These words express nothing else than the desire of the Bank to elude its engagements, to avoid paying its debts, when, like all other Banks it ought to be always ready to fulfil its obligations.

To have a reserve always equal to the wants, to be able always to meet those wants by discounting at a moderate rate, is one of its most important obligations, the essential obligation, and without which it is impossible to justify the monopoly which it enjoys. And this is nothing more than is expected and required from all bankers and merchants, to have a reserve and a capital proportioned to its affairs.

The Bank of England has absolutely nothing to fear for its metallic reserve for the raising of the discount with our neighbours, for the rate of interest is quite independent of the reserve of the banks as is also the rate of the exchange.

The independence confirms the principles here laid down, and shows how unfounded are the fears of those who persuade themselves, contrary

* See the evidence of M. Isaac Pereire on this part of the question in the Appendix.

to all the facts, that the arbitrary fixing of the interest or discount can have any action whatever on the metallic reserve.*

"The proper function of the Bank of France," said the first Napoleon, in 1810, is "to discount all commercial paper at 4 per cent.," and he threatened to deprive the Bank of its privileges if this end were not accomplished.

"This sentiment," says the writer of a leading article in the *Times*,†—"This sentiment on the duty of a banking corporation must seem to sound economists one of the crudest utterances possible; it could only come from a man whose recklessness and ignorance were alike superlative; yet M. Michel Chevalier has perceived in it the intuition of a genius which understood at a glance the nature of commerce."

Whatever may be thought of the first Napoleon as an economist, few who know M. Michel Chevalier will regard him as "a man whose recklessness and ignorance are alike superlative."

The same writer, as if to make the boldness of his *superlative* declaration the more remarkable, adds :—"A pamphlet recently published in

* See M. Isaac Pereire's treatise,—"Principes de la Constitution des Banques et de l'Organisation du Crédit,"—Chapter VI. translated in the Appendix.

† The *Times*, 10th December, 1864.

Paris, shows that M. Chevalier is not the only Frenchman who accepts the *dictum* of the first Emperor. M. Isaac Pereire, the colleague in other years of M. Chevalier, has through all the mutations of his subsequent career preserved enough of the old leaven of St. Simonianism to insist that it is the duty of the Bank of France to keep a flow of money available for every customer at a fixed rate of interest. Not all the experience of practical life, won as a railway manager or as the chief director of the Crédit Mobilier, has served to eradicate his early delusions. The universal Bank, giving universal credit, is still an object of desire, and M. Pereire betrays no suspicion that the result of its action would be universal insolvency. He is even eager that the experiment should be immediately tried."

This writer *betrays no suspicion* about his own knowledge, but this latter sentence betrays *superlative ignorance* of what he is writing about.

The *universal bank giving universal credit*, is not *still* and never was an *object of desire* either to M. Chevalier, or to M. Pereire, or to anybody else. But if M. Chevalier by incautious expressions have laid himself open to such remarks as these, he is not the exponent of the opinions of M. Pereire on this subject.

As to the rate of interest, that was fixed by law in this country for several centuries, and although the law was modified in successive reigns from the time of Henry the Eighth, it was totally repealed only in the present reign. To fix the *maximum* rate of interest for the loan of money was, no doubt, an absurdity, but that has nothing to do with fixing the *maximum* rate of discount by the Bank of England, or of France. When both sides are free to act, it is perfectly fair to leave parties to settle for themselves the price to be paid for the accommodation of a loan of money; and if 10 or 15 per cent. be received and paid, a part of that payment only is really for interest, the other being the premium or insurance on a risk mutually known and admitted. That is a question of credit.

But the writer in the *Times* does not seem to know that *discount* has nothing to do with *credit*, in the sense in which he uses credit.

Discounting a bill of exchange means simply buying the bill, and the only credit in the transaction is that the bill will be paid when due. As when a man buys a horse warranted sound, he buys it on the credit of the warranty. This writer seems to think it as absurd to fix the *maximum* rate per cent. for the purchase of a bill of exchange, as to fix the price for the purchase of a loaf of bread.

He says, in his next sentence :—"Why not extend the principle of fixed rates of payment to other commodities? We remember that our logical neighbours have not scrupled to do so, and that till lately the bakers of Paris could not sell their bread at a price exceeding a fixed number of centimes per kilogramme."

This makes clear the meaning of the writer, and, at the same time his utter ignorance of what he is writing about. He cannot distinguish between the price of money, and the price of commodities. He treats of money for the transfer of commodities, as he treats of the commodities so transferred, and he assumes both to be subject to the same law. He does not see that the money is merely an artificial medium, provided and regulated by the State for the convenience of the community; and he thinks that the State has no more right and no more power to fix the price of that convenience, which the State alone has provided, than to fix the price of commodities, with which the State has nothing to do, and over which the State has no control. He does not see that, when the power is all on one side, and advantage is taken of it to charge the premium of insurance where no risk is incurred, this is *usury* in its objectionable sense.

Until Consols are at 50, nothing but legislation on false principles can render it necessary for the Bank of England to tax the legitimate trade of this country with discount at the rate of 9 or 10 per cent.

He says:—"It is somewhat difficult to understand how a man of the practical experience of M. Isaac Pereire could hope to fix a *maximum* of the rate of interest." The writer in the *Times* seems to have forgotten that, such a *maximum* was first settled by law in England at 10 per cent., 37 Henry VIII., 1546; that this law was repealed by Edward VI., but restored by Elizabeth; that interest was reduced to 8 per cent., and the word *interest* was first used instead of *usury*, 21st James I., 1624; that it was reduced by the Rump-parliament to 6 per cent., and so confirmed at the Restoration; that it was reduced to 5 per cent., 13th Anne, 1714, at which rate it remained until modified in subsequent reigns; and that the rate of interest in Ireland was 6 per cent., regulated 14th George III., 1773. So completely was the *maximum* rate of interest fixed that, a higher rate than the legal standard was usury, and punishable as such, until all this absurdity was totally repealed by 17th and 18th Vict., cap. 90.

The Writer in the *Times* seems also to have forgotten, or not to have known that, formerly a *maximum* rate of discount was fixed by law for the Bank of France, and is still fixed by law at six per cent. for the Bank of Belgium. He seems to consider this an impracticable absurdity,—as an interference with the natural law which regulates supply and demand,—and he seems to have some confused notion that this is inconsistent with the principle of free trade. He does not distinguish between a fixed rate of interest for the loan of money, and a fixed rate of discount for the purchase of bills of exchange. He does not seem to see the difference between lending money and buying debts, nor to distinguish between debts so created, and debts created by the transfer of commodities, the former concerning the question of *credit* only, the latter of *market-price* only.

Here is no interference with market-price, or with supply and demand of commodities, but only with credit, for keeping prices steady to prevent interference with supply and demand. The *maximum* rate of discount is, therefore, the *minimum* rate or price of money, and, as legal tender money is a monopoly in the hands of the Government, there can be no market-price, though there may be various prices in the money-market.

It is, therefore, no wrong to any one, and no infringement of a natural law if the Government fix, fór the Bank of England, the *maximum* rate of discount, and the *minimum* rate or price of money, called the Bank rate, provided the *minimum* be fixed at the lowest rate which the welfare of the State permits.

In this way the Government holds the monopoly for the benefit of the country; without any interference with money-dealers, who are free to fix any price they please on their own money; but, at present, the Bank of England holds the monopoly for its own benefit, and to the loss and injury of the country, which is left at the mercy of the Bank, and other money-dealers.

This is very different from fixing the price of bread; but the tendency is to keep down the price of bread and all other commodities, and to raise the rate of wages by increasing the demand for labor in proportion with the increasing trade and industry of the country.

15. The Bank of England not to lend money to the Government, or to any person or persons; nor to make advances on ingots; but to be at liberty to make advances on Government Stock, Exchequer Bills and other Government Securities.

It is not consistent with the objects of the Bank of England, as a national bank, that any portion of its capital should be placed out of reach for an indefinite time.

Experience may have taught the Bank of England that this practice is inexpedient

The Bank of England has already experienced the inconvenience of being Mortgagees in possession of Blast Furnaces, Copper Smelting Works, Tin Plate Manufactories, and Collieries, and of accounting to the Court of Chancery for the due management of them.

Speculations of this kind, or of any other of a like kind, public or private, ought never again to be within the power of the Bank of England, as a National Bank for the distribution and regulation of the money of the country. But the advance of money by the Bank on the security of an equal amount in value of Government Stock, Exchequer Bills and other Government Securities, does not come within the scope of this objection, and may be, in many cases, a great accommodation to the trade and industry of the country; nor would there be any objection to the extension of this liberty to advances on Bank of England Stock, if the Bank were established on the principles here proposed. Lending on ingots is more prejudicial than useful, as employing capital which might be more advantageously employed for the Bank and for the Public.

16. The Bank of England to account to the Government for all banking profits on its credit capital.

This the Bank now does, or professes to do.

17. Weekly Accounts of the Bank of England to be published, &c.

This the Bank now does, but in a very confused manner.

In the proposed Form of the Weekly Account (see page 271) all the information, which concerns the Public, is there given simply and intelligibly. Under the new conditions, the Public will have no more concern with the ordinary banking transactions of the Bank of England than with those of any other Bank.

The Public will have nothing more to do with the Deposits, Public, or Private, in the Bank of England, than with the cash balances on the private accounts. These deposits, therefore, will have no place in the Weekly Account.

"Other Securities," representing the Private Deposits, and "Dead Weight Annuity," representing a private transaction of the Bank with the Government, and which will terminate in 1867, are, for the same reason, omitted in this Account.

The Bank of England will deal with its own psivate affairs as other Banks do, and there will be no longer any reason for making them public, when no longer mixed up with the public affairs.

It is not proposed to interfere in any manner with the Bank of England in the conduct of its private banking affairs, but only to prevent the Bank from mixing up its private affairs with the public affairs, the terms of their Charter being that, the whole of the £40,000,000 or £50,000,000 guaranteed by the Government, and the whole of the Capital of the Bank, be set apart exclusively for the public service, under the direction of the Bank of England.

If that had been the condition of the Bank of England last year (1864), the average rate of discount for the year might have been 3 per cent. instead of upwards of 7 per cent.

The following is the new Form of the Weekly Account, filled up with the figures in the Weekly Account of the 28th Dec., 1864, so far as those figures are applicable to the new Form. The quantity of bullion retained by the Bank is here given only by way of example, to be regulated by the ordinary demand.

The actual Account, as published by the Bank of England, for the Week, ending the 28th December, 1864, is also given for the benefit of the comparison.

THE WEEKLY ACCOUNT OF THE BANK OF ENGLAND, AS IT WOULD HAVE BEEN UNDER THE PROPOSED NEW SYSTEM, ON THE 28TH DECEMBER, 1864.

BANK OF ENGLAND.

On Account of the Bank of England pursuant to the Account for the Week ending on Wednesday the 28th day of December, 1864.

	£.		£.
Notes in Circulation	19,402,985	Government Securities	40,000,000
Seven Day and other Bills	437,450	Notes in Reserve	18,597,015
Proprietors' Capital	14,553,000	Gold and Silver Coin	714,499
Rest	26,918,079	Bullion	2,000,000
	£61,311,514		£61,311,514

Bank Rate of Discount 2 per Cent.

(Signed) WM. MILLER, Chief Cashier.

BANK OF ENGLAND.

An Account pursuant to the Act 7th & 8th Victoria, cap. 32, for the Week ending on Wednesday, the 28th day of December, 1864.

ISSUE DEPARTMENT.

Notes Issued	£28,036,475	Government Debt	£11,015,100
		Other Securities	3,634,900
		Gold Coin and Bullion	13,386,475
		Silver Bullion	
	£28,036,475		£28,036,475

BANKING DEPARTMENT.

Proprietors' Capital	£14,553,000	Government Securities (including Dead Weight Annuity)	£10,824,542
Rest	3,356,254	Other Securities	19,786,541
Public Deposits, including Exchequer, Savings Banks, Commissioners of National Debt and Dividend Accounts	8,601,125	Notes	8,633,490
Other Deposits	13,040,643	Gold and Silver Coin	714,499
Seven Day and other Bills	437,450		
	£39,989,062		£39,989,072

(Signed) WM. MILLER, Chief Cashier.

Dated 29th December, 1864.

Taking this Bank Account, stated on the 28th December, 1864, as regards the notes, it stands simply thus :—

Issue Department.

	£.	£.
Notes Issued		28,036,475
Gold Coin and Bullion . .	13,386,475	
Notes Issued on Credit . .	14,650,000	
		28,036,475

Banking Department.

Credit Notes in Circulation	14,650,000	
Bullion Notes in Circulation	4,752,985	
Notes in reserve	8,633,490	
		28,036,475
Notes Issued	28,036,475	
Notes in reserve	8,633,490	
Total Notes in Circulation . . .		£19,402,985

Here it will be clearly seen that, the Issue department and the Banking department are perfectly distinct, as they were intended to be, and that, the convertibility of the notes into gold is practically secured.

The notes are really issued when they are out of the Issue department, though not then necessarily in circulation, and it is quite immaterial to the Issue department what becomes of the notes when issued.

It will also be clearly seen that, the reserve of notes in the Banking department, which constitutes the only fund in the Bank of England applicable to discount, is quite insufficient, and that, if not more than sufficient in 1844, it must have been less than sufficient in 1864.

That it was insufficient in 1847 and in 1857 is proved by the suspension of the law on those two occasions, and that it was insufficient at all intervening times and is so at the present time (1867) is proved by the high rates of discount.

18. The Bank of England not to allow interest on Deposits, Public or Private.

The Bank of England does not now allow interest on Deposits, but does use these deposits in discounting, and the rate of discount must, therefore, fluctuate with the varying amount of these deposits.

This practice, quite proper in private and joint-stock banks, cannot be justified in the Bank of England, as at present constituted. The Bank of England ought to be at all times a national resource for the community, as free as possible from the control or influence of the large Capitalists.

It is impossible for the Bank of England, however constituted, to be entirely free from such influence. But the Bank of England may be so constituted as to be always able, either by open competition or by the drawing in or temporary suspension of its discount operations to counteract, in the end, any combination of capitals which can, practically, be brought to bear against it.

Under the present system, the Bank of England combines with the capitalists, and assists them in producing the very consequences, which it ought, as far as possible, to prevent.

Instead of this, the Bank of England is compelled, for its own preservation, to maintain the high rate of discount, as the only means for bringing back the gold, which the Bank itself has, by its operations, been assisting to send away.

Under the present system, when loans are contracted with foreign powers, the effect is thereby to tax the whole trade of the kingdom. However plentiful money or paper may be when the loan is contracted, as soon as the gold is wanted to pay the instalments up goes the value of money one or two per cent. This is so much abstracted from the profits of the trading community, who are thus made to contribute to the loan, whether they like it or not. The Bank of England, without capital, has no alternative but to raise the rate of discount. Accordingly, when gold is demanded for notes, the Bank of England, to save the gold, begins to curtail the issue of notes by raising the rate of discount, and, at the same time, curtails the trade of the country. The Bank, in effect, says to the country;—'If you will oblige us to pay our notes in gold, we will make you pay the difference between paper and gold, because we have lent all our capital to the Government, and we cannot stand this drain of our gold.'

The chief difference between the Bank of England, and the unfortunate British Bank is, that the British Bank lent all its capital to its own Directors, and the Bank of England lent all its capital to the Nation.

But, under the proposed system, these runs for gold will be extraordinary circumstances, of rare occurrence, and the Bank of England will have the power, if not to prevent them, at least to shorten their duration, and mitigate their effects. The Bank rate of discount can never exceed 4 per cent., and the average may be kept between 2 and 3 per cent.

19. The Bank of England to be allowed by the Government £250,000 per annum, for loss of profits on discounts, and for management of the Public Debt.

In addition to this allowance, the £60,000 a year now paid by the Bank to the Stamp Office for composition on the note-issues, and the £120,000 a year, which the Bank now pays to the Government for the Charter, to be discontinued.

The concessions would make the Government allowance to the Bank of England equal to £430,000 a year, and the net yearly profit about £230,000.

It is wrong in principle to put any charge for Stamp Duty on the State notes issued by the Bank,—for these notes, guaranteed by the State, and representing the coined money of the realm, are virtually issued by the State.

It would be equally wrong in principle to allow the Bank to hold the profit on these issues beyond the amount of the Capital of the Bank.

But, it is still more inconsistent with principle to make the Bank of England pay for its Charter, which is granted not for the benefit of the Bank but of the Nation.

Against these allowances would be the cost of the note-issues and of the Government Accounts.

But, the Bank would be in possession of its own Capital of £14,000,000, and the gold now unproductive in the Bank vaults would be turned to profitable account.

The profit and loss account of the Bank would be something like the following :—

		£.
Profit on 14 millions of Notes at $2\frac{1}{2}$ per cent.		350,000
Government Allowance		250,000
		600,000
Cost of Note Issues	220,000	
„ Management of Government Accounts . . .	150,000	
		370,000
Net yearly profit to the Bank of England		£230,000

On the note-issues, above £14,000,000, the Bank would have to account to the Government, and above £40,000,000 there would be no profit, because the Bank must hold gold to an equal amount; and as the *maximum* Bank rate of discount would be fixed at 4 per cent., the average rate would, probably, be about 3 per cent. The profit on the note-issues is, therefore, taken at $2\frac{1}{2}$ per cent., instead of 3 per cent. as estimated in 1844.

This is given rather as an outline of the estimate, than as a detailed estimate.

The profit and loss account of the Issue Department, as estimated by Sir Robert Peel in 1844, was as follows :—

		£.
Profit on 14 millions of notes at 3 per cent.		420,000
Cost of note-circulation	117,000	
Commission of 1 per cent. to other banks	24,000	
Composition with Stamp Office .	60,000	
Payment for Charter	120,000	
		321,000
Net profit to Bank in its note-issues . .		£99,000

If the calculation were made on the year 1864, instead of the year 1844, the gross profits on the note-issues, instead of 3 per cent. could not have been less than 8 per cent., and instead of £420,000, the figures would have been £1,112,000, from which deducting the costs as above, £321,000, the net profit of the Issue Department for the year would have been £791,000.

If the People of this country knew that they are paying at this rate to the Bank of England, and think that they are having '*value received,*' there is nothing more to be said about it. But, if they suppose that Sir Robert Peel foresaw or intended anything like this, they are mistaken. If he had foreseen the Bank's increased levy upon the country, eight times greater than his estimate, he would certainly have increased his levy in the same proportion on the Bank, in the shape of a payment for its privileges.

But, the whole system is wrong, being founded on the gross error that, issuing notes has some relation to banking; whereas, there is none whatever, the issue of notes, representing the coined money of the realm, being a Sovereign or State prerogative, to be exercised only for the benefit of the community.

The Bank of England now relies for its profits almost entirely on its note-issues. It very properly refuses to pay interest on any of its deposits; but it most improperly makes the community pay more than the double of what they ought to pay for the use of its notes, or than the State intended that they should pay. The State has vested in the Bank a virtual monopoly in the issue of notes, for the benefit of the community, but the Bank uses the monopoly for its own benefit, by plundering the community when they are weak, and plundering them most when they are reduced to the greatest extremity of weakness and cannot help themselves. The State has handed over the community to a set of money jobbers, the Bank Directors. They are "all honourable men," and personally quite disinterested, but they are pledged to job the best in their power for the interests of the Bank

Shareholders who elect them, and they are elected on the faith of that pledge. They are confined within certain limits by the terms of the Bank Charter, and they keep within the letter of the law; but they utterly disregard the principle, and are quite indifferent to the consequences, as regards the community.

The community complain of the monopoly, not seeing that the monopoly was intended for, and properly regulated would be for, their benefit. They are as helpless as they are ignorant, and their knowledge of their own helplessness produces a state of hopelessness, which has the appearance of indifference.

The State, almost as helpless, looks on with real indifference,—the stolid indifference of profound ignorance.

The community has too small a share in the representation in Parliament to be able to get a fair hearing of their just complaints against the wrongs, which they feel, but cannot with any clearness explain; and the Government, unsupported by intelligent popular representatives, are equally unable to control, if desirous of controlling, the wealthy capitalists who, with the Lawyers and Country Squires, (of all men in the country the most ignorant on this subject) compose the great majority in Parliament on the Bank Question.

Such is the subject,—such is the situation.

But, still, the People have the power in their own hands, and the Constitutional way to exercise it is, by themselves representing, in Petitions to Parliament, the wrongs under which they are so grievously suffering.

In the mean time, the Bank of England stands resolutely still, while all the rest of the world is moving on. Compared with other banks, the Bank of England stands stationary.

The loanable capital entrusted to the keeping of the Bank of England hardly exceeds in amount that which is held by the London and Westminster or the Union joint-stock bank; and of the deposits in the Bank of England nearly a third part consists of Government money, which the Bank of England receives through its State privileges, and for the possession of which the other banks cannot compete. If the Treasury balances were deducted, the Bank of England, judged by its deposits, would hold only a secondary position among the London Banks.

The effect of this stand-still policy is, to make the Bank of England rely for its gains almost exclusively on its note-issues, and to make the community pay for them.

Under the present system this is one of the inevitable consequences of the monopoly conferred on the Bank of England. As a Bank of Issue it can nullify every impost laid upon it by the State, by simply transferring the loss to the community. This is just what the Bank of England is doing. Every thousand pounds paid by the Bank to the State is repaid by the community to the Bank in higher rates of discount.

How much longer this state of things is to continue is for the commercial community to say;—in the mean time, it is a state of things ruinous to commerce and disgraceful to the Government.

It is quite proper that a liberal allowance should be made to the Bank of England for its services.

20. The Governor, Deputy Governor, and Directors of the Bank of England to receive for their personal services, from the Government, the following yearly allowances:

The Governor . . .	£2,000	per annum.
Deputy Governor . .	1,500	„
Each other Director .	1,000	„

It will also be quite proper that those who are entrusted with the important and responsible duty of conducting the affairs of the Bank of England should be remunerated for their services. It is an anomalous state of things that, their services are now gratuitous.

21. These privileges to be continued to the Bank of England until twelve calendar months' notice in writing be given by the Government for rescinding or varying them, or the terms on which they are granted.

On a subject of this vital importance to the country, the Government ought to be able to release itself from the whole or any part of its engagement with the Bank of England, by giving twelve months' notice of such intention.

Such is the short outline of the proposed Bank Charter Act for the Organisation of Credit in England.

The writer of the article entitled "Seven Per Cent.," in the Edinburgh Review for January, 1865, before referred to, has, evidently, some experience on the subject. Like a Capitalist and a Bank Director, he treats any suggestion for relieving or mitigating the existing evil as unnecessary, and even denies the existence of any evils.

But, probably, as is often the case, especially on subjects of this nature, there is some misunderstanding of meaning between the reader and the writer.

This anonymous writer seems to deny that there is any evil in the want of loanable capital, if that want have been caused by the drawing away of surplus capital to foreign countries, for the gain of higher interest than can be obtained in this country.

That this is the expressed meaning seems clear from the following sentence :—

"Notwithstanding the events of the past year and the *temporary* pressure which England has suffered under the new competition for loanable capital, we are disposed to believe that no country will in the end reap greater advantages from it than England herself, who, of all countries has the greatest capital at command."

Temporary pressure is an indefinite term, but this article commences by observing that,—"money has been dear beyond precedent throughout the year, 1864, and the average rate of the year exceeded *seven per cent.*"

This is *temporary*, and so it would be if it were ten years; but one year is a long time for so high a rate of interest in this country, where that is considered a good trade which brings a profit of 10 per cent.

But, if it be meant that, an average rate of interest at 7 per cent. is beneficial to the country, that is a new and interesting fact, and deserving of something more than the unsupported assertion of the writer, whoever he may be, and however eminent in the City of London or in the Cabinet Council.

But, by whomsoever this assertion is made, many will still continue to think that, an average rate of interest exceeding 7 per cent. on twelve months is a great evil, as being very injurious to the trade and industry of this country, however beneficial to the owners of loanable capital.

If the falling off in the productions of this country in the year 1864, be any measure of the country's loss, then that loss must have been much greater than any possible gains to the capitalists.

It is one thing to say that, there is no remedy for an evil, and another thing to say that, there is no evil to be remedied.

But there is no want of loanable capital. The real evil to be remedied is, the want of the medium for the transfer of capital.

The writer goes on to add :—" But assuming it to be a disadvantage, the question arises, is it one with which we ought to attempt to deal if we could, or could if we would? We are prepared to answer both questions in the negative."

This seems to be a form of expression adopted less for the sake of the meaning than of the antithesis.

It, surely, cannot be the meaning that, we ought not to deal with a *disadvantage,* if we can deal with it successfully!

It is clear that the writer could not deal with it successfully; but, if he could, why should he not?

However, he has not made the attempt, and he is unable to understand how the law which makes loanable capital travel from one country to another, "may be modified or neutralised."

It is not desired to modify or neutralise that law, but it is desired to prevent the Bank of England from co-operating with that natural law in a manner incompatible with the artificial system of the Bank of England, in regard to its issue of paper money to represent gold money.

It is not possible 'to modify or neutralise the law which makes loanable capital travel from one country to another,' and, if possible, it would not be desirable.

But it is not only possible, but quite easy and most desirable, to prevent that natural law from being used to drain away to other countries the money required to be held in the Bank of England for the convenience of the trade and industry of this country.

The Bank of England ought not to be looked to as the source of loanable capital, but the Bank of England ought to be the never-failing source of money for the transfer of loanable capital.

To provide loanable capital is the province of other banks, and with them, for this purpose, the Bank of England, as the Bank of Issue, never can and never ought to compete.

The Joint-Stock Banks must always possess greater facilities for providing loanable capital for enterprise and industry than the Bank of England, as the Bank of Issue.

To make great dividends for the shareholders is the object of the Joint-Stock Banks.

That is *their* mission.

They have, therefore, very properly sent their capitals where they would bring back the largest returns.

They have sent their capitals to Egypt, and Turkey, and India, preferring the 15, or 18, or 20 per cent., there, to the 3, 4, or 5 per cent. in London.

The Bank of England has been used in like manner, for the like purpose, and could not help being so used. But that is not *its* mission.

The mission of the Bank of England is not to afford facilities to enterprise and industry, by providing loanable capital; but to afford facilities to enterprise and industry by providing the circulating medium at all times equal to the requirements.

The Bank of England, therefore, ought not to be conducted on the same principles as private and joint-stock banks, their objects being quite different.

The laws of trade, which properly regulate the latter, have no application whatever to the former, and it is a total misapplication to apply the same reasoning to both.

The reasoning, which may be quite correct when applied to the one, is quite wrong when applied to the other.

If so, it follows that, the Bank of England must be taken out of the course of the natural law, which serves a general purpose, and made subject to an artificial law to serve a special purpose.

The private and joint-stock banks were established for the general purpose of trade profit, and need only to follow the natural course of trade. There is nothing artificial about these banks. The whole system is open, plain, and straightforward, consistent with the natural course of trade. The object is to bring together loanable capital, and to deal with it in the manner most profitable to the owners.

This is a perfectly legitimate object, but such is not, or ought not to be, the object of the Bank of England.

The Bank of England is, or ought to be, established for the one object only of serving the interests of the country, by affording all possible facilities to its trade and industry.

Everything about the Bank of England is artificial. Even its capital is artificial. Its constitution is artificial. Its system is artificial. Its very material is artificial.

The non-natural and the natural are in a constant state of antagonism.

The private and joint-stock banks are constantly working in combination against the Bank of England, and this combination is powerful enough to weaken the Bank of England and to render it powerless for its most important duties.

This combination, at its pleasure, drains the Issue Department of the Bank of England of its reserve of gold, and the Banking Department of its reserve of notes ; and the Issue Department costs the country, as already shown, in direct loss, by locking up capital, upwards of a million and a half, sterling, a year, which is a sheer loss, without the smallest benefit.

The Bank of England is, therefore, made to co-operate with the capitalists, against the trade and industry of the country, not only by making the Bank helpless at the times when help is most in need, but by making it, as far as it can be made, active in aggravating and prolonging those times of distress at home.

If the Bank of England cannot be made to help the distress at those times, it can, at least, be made to prevent itself from being used so as to aggravate the distress.

There never was a money-panic which did not originate in fear for the want of the bank-notes, and when that fear was removed the panic always ceased.

And what was the cause of that fear, but the drain of notes for hoarding, or for getting at the gold?

If the supply of Bank of England Notes had been ample, there would have been no fear on that ground, and no hoarding.

If the Bank of England, with an ample and independent capital of its own, had come into competition with the capitalists in the general market for gold, by selling 2 or 3 millions of Government Stock, and investing the produce in gold, at the same time discounting freely at 4 per cent., there never would have been a money-panic. Or, if the occasion had required repetitions of that operation, the drain of gold must have ceased under such repeated operations, as no longer profitable to the exporters. Or, if stronger measures were required, the Bank of England might have sold Government Stock, cancelled the notes, and refused to discount.

If the Bank be desirous of reducing its note circulation, that can be effected in two ways;—either by selling part of its Government Stock, and cancelling the notes received in payment; or by diminishing its discounts. The first would occasion a loss to the Bank; the second would impose a greater loss upon Trade.

But here would be no danger, nor even the apprehension of danger, to the Bank of England; and the Bank could always exercise its own discretion as to discounting within and up to the *maximum* of 4 per cent.

And why should not the Bank of England, to this extent, be entrusted with the discretionary powers of other Banks, under the discretion of honourable, experienced, and impartial men of business, whose duty would be so clear and simple that, ordinary intelligence would suffice for its due performance?

This is a question not to be answered by sneering sarcasms and well-turned sentences on general principles, which have no application to the special circumstances of the case.

Here is nothing advanced inconsistent with general principles, and the conclusion arrived at is confirmed by all that is known from experience.

Cheap loans are not dependent on the rate of interest, but on the supply of loanable capital and the demand for it, and these govern the rate of interest.

Cheap loans, therefore, are dependent on the productive powers of the country, and it should be the first duty of every country to encourage those productive powers by meeting the requirements for the trade and industry of the country.

This is only to be done by giving perfect freedom to labour, and every possible facility for its free exercise, by relieving it from every kind of imposition, direct and indirect, by not taxing its produce until the profits have been realised, and by providing, at all times, easy means for the employment and remuneration of labor.

It is manifest that, all deductions from the wages of labor, by taxes or otherwise, are infringements upon the freedom of labor, impeding its productive power, and thereby imposing a loss on the whole community.

It is, therefore, the first duty of the Government to give perfect freedom to labor, by relieving the laborers from all taxes, direct or indirect, on their own labor, and to afford every possible facility for the employment and remuneration of the laborers.

A small rateable house-tax and a proportionate tax on lodgers would be a sufficient return for the protection to the person afforded by the State, and this would be in the nature of an equal personal tax on the whole people.

In this view of the question, no words can be necessary to impress the importance of having a National Bank, established and conducted on such principles as will, at all times and on all occasions, support the credit of the country, by giving all possible facilities to the employment of capital, for the benefit of trade and industry, by keeping down the rate of interest and discount at the lowest possible level.

This object has been seen from the earliest times, though clouded by ignorance and bigotry in the dark ages of monkish superstition. So early as the year 1342, King Edward the Third caused a statute to be passed, "prohibiting usury or interest for money, as being the bane of commerce;" and in all subsequent reigns the legal rate of interest has been continually lowered and a *maximum* fixed, until it was abolished in the present reign.

Sir Josiah Child, in his "Discourse on Trade," remarks that, "the lowering of interest enables merchants to increase foreign trade, whereby home manufacturers and artificers will be increased, as also our stock of other useful people, and the poor will be employed."

This is true, but in the same 'Discourse' are opinions, in these days, quite inexplicable, and though curious, as showing the sentiments of one of the earliest public writers on the subject of the circulation of capital through the medium of Banks, yet show how little the true object of banking was at that time understood, even by the most eminent authority of the day.

Sir Josiah Child, in various parts of his book, inveighs against what he calls the "innovated practice of bankering, which obstructs circulation, advances usury, and renders it so easy that, most men, as they can make a sum of fifty or one hundred pounds, send it to the goldsmiths, which, while it lasts, doth and will occasion that fatal pressing necessity for money so visible throughout the whole kingdom, both to prince and people."

But, this reasoning of Sir Josiah Child, though now quite out of date, may have been the main ground of the eminent success of his younger brother, Francis Child,* the founder of the great

* "Francis Child, who was the junior of Sir Josiah Child by twelve years, was apprenticed to William Wheeler, a thriving goldsmith next door to Temple Bar. Seeing the worth of the young man, Wheeler married him to his only daughter, and, on his death in 1663, left him heir to his business. Francis Child carried on the goldsmith's business for a time, and followed the fashion of others of his craft in also acting as a sort of banker. Therein he prospered so well that before long he abandoned the goldsmith's work and established himself as a banker alone, being the first Englishman who made of this a

Banking House of Child & Co., which, through all the mutations of its long and eventful time, remains, at the present day, unchanged in its practice of cautious security, the oldest, the firmest, and the greatest private Banking House in the world. The "lowering of interest" is a great truth, and must be so for all time, especially for this country, as expressed by Nathan Meyer Rothschild when he said :—"Cheap money and Free Trade only are wanted to make England the centre for the trade of the world."

This is the great result to be expected from the Bank of England, established on the basis and conducted on the principles here proposed, for the ORGANISATION OF CREDIT IN EGLAND.

The same principle, if applicable to England, should be equally applicable to Ireland.

But, as regards Scotland, the case may be, in some respects, different. The experience of more than a century and a half has prejudiced the People of Scotland in favor of their own system of banking, and the success of that system, through

separate profession. In 1691, when in his fiftieth year, he was chosen Alderman of Farringdon Without. He was Lord Mayor of London in 1699; and in 1702, the year of Queen Anne's accession, he was knighted and sent to Parliament as Member for the City of London. He died in 1713, leaving a thriving business, to be carried on by his successors, the present House of Child & Co."—Herbert, *Great City Companies*, vol. ii. p. 203.

so long a period of trial, may be urged as a strong argument against a change.

But the proposed change in the constitution of the Bank of England, so far as making its notes a legal tender in Scotland, would afford great additional strength to all the Scotch Banks.

The Scotch Banks issue their own notes, of the value of £1 and upwards, and the currency of Scotland consists almost entirely of paper-money, gold being regarded there as inconvenient and expensive, and Scotch-notes, though not a legal tender, are as readily received in Scotland as Bank of England notes are in England.

The paper-money issued by the Scotch Banks amounts to rather more than four millions, sterling, against which they hold rather more than half that amount in specie.

In no case have the Scotch Banks, properly so called, failed to discharge their liabilities.*

According to a Parliamentary Return, made up to the 1st of June, 1864, there were then in England and Wales,—besides the Bank of England with its 11 branches,—140 Private Banks of Issue with 208 branches; 61 Joint-Stock Banks of Issue with 441 branches; 138 Private Banks, not of Issue, with 64 branches; and

* The Western Bank of Scotland was not conducted on the principles of Scotch banking. But that bank, though it failed totally, ultimately discharged its liabilities in full.

56 Joint-Stock Banks, not of Issue, with 303 branches, besides four branches in Scotland, a branch in Ireland, and 14 branches abroad.

For Ireland the Return gives 6 Joint-Stock Banks of Issue with 191 branches; 4 Joint-Stock Banks, not of Issue, with 6 branches, and 4 Private Banks, not of Issue.

For Scotland 13 Joint-Stock Banks, all of Issue, and having 594 branches.

In England and Wales the amount of notes isued lately averaged about	£28,000,000
In Ireland, upwards of	6,000,000
In Scotland, upwards of	4,000,000
Total	£38,000,000

Thus, the average issue of Notes in Great Britain was upwards of £32,000,000, and the total average issue of the United Kingdom was upwards of £38,000,000, and is now about £40,000,000; the gold and silver money in circulation and kept in reserve by the banks being about three times that amount, or £120,000,000.*

The total amount of specie held by the Banks of the United Kingdom, in ordinary times, is about £20,000,000; of which amount the Bank of England holds, on the average, $14\frac{1}{2}$ millions; the Irish Banks rather more than $2\frac{1}{2}$ millions; the Scotch Banks rather less than $2\frac{1}{2}$ millions.

* This is an uncertain estimate.

The deposits in the Banks of the United Kingdom are estimated to amount, on the average, to about £400,000,000; but this appears to be a high estimate.

Any further interference with the system of Banking in Scotland, which has so long and well fulfilled its object, seems to be uncalled for. This system, which has more recently been carried out with such extraordinary success by the Joint-Stock Banks, must become more prevalent, because it is formed to consult the convenience and welfare of the community, and there is no doubt that, this system will be more closely followed than it now is by all the Joint-Stock Banks.

The practice of collecting together the unemployed savings of the country, by allowing interest on the sums brought into a current account, thereby making, out of that which was lying idle and unprofitable, active capital for the profitable employment of industry, is a scheme so simple and so manifestly for the benefit of the contributors and the community as to be worthy of all encouragement.

The Scotch system most effectually encourages this practice by collecting small as well as large sums, and allowing a larger share of the profits to the contributors.

The Joint-Stock Companies adopt this system for the purpose of collection, and then divide the whole of the profits among the shareholders.

Other Banking Companies will arise for dividing the whole of the profits among the contributors, when it is more generally known that, out of their capital these Companies are dividing upwards of 20 per cent. per annum, in addition to the profits on their own subscribed capital.

It will be one of the many astonishments which we have prepared for posterity, that our Legisture, by fanciful and absurd laws, has been for so many years throwing every possible impediment in the way of these Associations, formed for the good of the community, and that, after our long experience, the Legislature is still clinging to some remnants of the old absurdities.

The savings of a nation form the only portion of its capital properly available for the resources of a State. The annual savings of the United Kingdom are estimated at 130 millions sterling. The millions of money shut up in strong boxes and hid in holes and corners by small farmers, traders, and humble artisans, is so much money lost to the trade and industry of the country.

Some notion may be formed of what these small sweepings in the mass would amount to, from the spare money of the humble classes now deposited in the Savings-banks, though this is but a poor contrivance at the best, and only a little better than none at all.

In January, 1865, these small sweepings amounted to £43,615,000.

The Government plays with this money, and the Public pays for the losing game. The Government has no good right to do so. All these Government contrivances for dealing with the savings of the People, under the pretence of helping them, are mean and shifty; and if only justice were done to the People, they would do much better for themselves than any Government can do for them. All that they require is,—a voice in the representation, and to be let alone to manage their own affairs. They would not then be taxed in their own labor, because then all taxes would be *direct*. It is impossible to suppose that they would submit to the iujustice of *indirect* taxation on any of the necessaries or conveniences of civilized life if they could choose their own representatives; or to suppose that they will get rid of that injustice until they do choose their own representatives.

It is not now considered safe to trust the unrepresented working-classes with that liberty of choice, and it never will be considered safe, as long as so to exercise it is considered wrong. But, however that may be, it would be wise in the meantime to govern the country as it must and would be governed if that liberty of choice now existed, and all the people were well educated and intelligent.

Adam Smith, whom the experience of a century has proved to be a safe authority on other questions, has said on this question:—"The property which every man has in his own labor, as it is the original foundation of all other property, so it is the most sacred and inviolable. The patrimony of a poor man lies in the strength and dexterity of his hands, and to hinder him from employing this strength and dexterity in what manner he thinks proper, without injury to his neighbor, is a plain violation of the most sacred property. As it hinders one from working at what he thinks proper, so it hinders the others from employing whom they may think proper."

But Mr. John Stuart Mill, in his Letter to the Electors of Westminster,* says:—"I prefer a mixed system of direct and indirect taxation to either alone. If the attempt were made to raise, exclusively by direct taxation, so large a revenue as ours would still be, after all due retrenchment, I do not know of any taxes, in themselves just, which, under a strong pecuniary temptation, would not be successfully evaded. The evasions of the income-tax are already a disgrace to the national morality. I would in no case tax any of the necessaries of life, but if even a working man

* 'The Times,' 21st April, 1865.

expends in luxuries for himself—and especially stimulants—what is required by the necessities of his family, I think it perfectly just that he should be taxed on such expenditure."

If these words should be seen in the light of a few years hence, many may then think of them as some do now. Many may then see, as some do now, that a *direct* tax on the yearly value of lands, tenements and hereditaments, money in the Funds, and other *realised* property, is more just, less expensive to collect, and less liable to be evaded than any *indirect* tax.

There is no disgrace in evading the Income Tax. Everybody who can evade it does, and there are very few who cannot. There is no disgrace in evading any tax. Abstaining from any taxed article is evading the tax, and smuggling is only another way of evading. Smuggling is evasion by breach of the law, but the breach of an injurious law is not necessarily disgraceful and may be meritorious. To evasions of the law we owe our present improved system of laws regulating the disposal of land, and to evasions of the law we shall be indebted for an improved system of taxation, as well as for many other improvements. The disgrace is in the manner of the evasion, not in the fact of the evasion. There is great disgrace in evading a tax by false statements, but quite as much disgrace to the Government in imposing a tax liable to be so evaded. This applies with peculiar force to the Income Tax, which is well calculated to undermine the national morality, and is the more intolerable and the less excusable, being wholly unnecessary, a tax on the annual value of *realised* property, which is open to valuation, not being subject to that objection. So of the Probate and Legacy duties. There was nothing disgraceful in Mr. Richard Leyland, the wealthy merchant of Liverpool, who, on the day before his death, in 1844, handed to his brother Charles, a cheque for £1,000,000. But Probate and Legacy duties to a very large amount were thereby evaded. There are, perhaps, no duties so extensively evaded as these, and, certainly, there are none more obnoxious than these. In all these cases evasion is meritorious, and, although we may not openly justify smuggling, yet it cannot be denied that, we are chiefly indebted to the smuggler for the repeal of those most obnoxious and unjust laws. If it were not unlawful, an Association for the Encouragement of Smuggling would be the most patriotic institution which could be established in this country. Running the blockade may be hazardous, but it has never been held to be immoral, and running tubs will never be considered so, by universal assent, if the revenue only suffer.

With regard to the tax on luxuries, many may then ask, as some do now, what is the rule by which to distinguish the necessaries from the luxuries for taxation; why "luxuries" should be taxed,—"especially stimulants,"—and who is to determine what is required by the *necessities* of the working-man's family? Or, what are *necessaries*, and what are *luxuries?* Sir Charles Trevelyan says,—Salt is a *luxury!* Some years hence many, for curiosity, may wish to know how Mr. Mill, himself, would have answered these questions. He has not said why he thinks it perfectly just that the working-man, or any man, should be taxed on such expenditure. But that is a tax on his own labour, and there Adam is directly against John.

But, as that universal Public Preceptor in Philosophy, Politics, and Polite Literature, 'The Saturday,' has profoundly remarked, "The truth of a true doctrine is shown by experience to be its most effective sanction, and the interest which people have in believing what is true will be found to form the best security for their believing it—a security far better in every way than the establishment of any organisation whatever."*

But, how to overcome the little difficulty of obtaining by experience "the truth of a true doctrine," without trying it, or without "the establishment of any organisation whatever," still remains to be shown.

* 'The Saturday Review,' April 15, 1865.

If the large sum of money now collected together by the savings of the working-classes, and taken under the protection of paternal Government at a loss, which the People pay, might be more usefully and with equal safety applied for the benefit of all parties, when lent out in the form of discounts and other commercial advances for giving additional employment to the working-classes, additional wealth to the trading community, and additional resources to the State, it seems desirable that we should have the benefit of experience, by the experiment of an *organised establishment* for the purpose.

What length of experience is required to make the truth of a true doctrine its most effective sanction?

If twenty years be the required length of experience, then, indeed, is the truth of a true doctrine most effectively sanctioned in the Bank Charter Act of 1844, and the interest which Bank Directors, Bank Stock Proprietors, and large Capitalists have in believing that doctrine to be true, forms the best security for their believing it.

For a great many more than twenty years, experience of the truth of a true doctrine was most effectively sanctioned in the Corn Laws, and the interest which Landlords and Farmers had in believing that doctrine to be true, formed the best security for their believing it.

And so, for a still greater number of years, before the year 1832,—experience of the truth of a true doctrine was most effectively sanctioned in the laws regulating the Elective Franchise in this country, and the interest which the Lords and Squires in the Counties and the Borough-mongers in the Boroughs had in believing that doctrine to be true, formed the best security for their believing it.

The truth of a true doctrine is shown by experience to be its most effective sanction, but the interest which people have in believing what is true is not "found to form the best security for their believing it;" for Landlords and Farmers, Lords, Squires, and Borough-mongers, have found that, what they once believed to be *true* doctrine, was *false* doctrine.

They were a long time in making that discovery, but they found it out at last, and Bank Directors and Capitalists will make the same sort of discovery about the true principle of Banking and Currency, though they may be a long time about it.

In the mean time, this specimen of the *pretentious* sort of reasoning, in which '*The Saturday*' so frequently indulges, may have a useful effect in guarding its readers from being led away by nonsense, disguised to look like sense.

Banking, conducted by large and powerful associations of capitalists, great and small, is the agency through which the distribution of capital is effected; and this is just the agency which the Legislature has so long prevented from coming into action, and now only partially permits.

Perfect freedom of legitimate action must soon prevail, and then Joint Stock Banking Companies and other Financial Associations will be largely extended, and conducted on a broader and more liberal principle than at present.

It is also equally clear that most of the existing private Banks will merge into these larger Banking Associations. The old and well established Private Banking Houses in the Metropolis, Child & Co., Coutts & Co., Drummond & Co., Hoare & Co., Herries & Co., and a few others, will still maintain their high and honorable position, as Establishments which, for their peculiar usefulness, no Joint-Stock Banking Companies can replace.

The Banking House of Child & Co. is, moreover, distinguished by a rule as old as its foundation, a rule not generally known, but which has done much to preserve the pre-eminent position of this House in the long list of the private banking establishments of the Metropolis.

The Clerks in the House of Child & Co. are young men selected from the families of the old and respectable Landed Gentry of England.

They enter young, and on entrance take the lowest place, rising by priority from the Clerk to the Partner, the same rule being strictly preserved for the rise of the Partners as of the Clerks.

Thus, the youth, on his entrance, knows that, on himself, if his life be spared, depends his attainment to the high and honorable position of partner, even of the senior acting partner, with all the experience of the many years of probation through the various gradations, from the junior to the senior Clerk, and from the junior Partner to the senior Acting Partner.

Thus, not only are the Clerks initiated into the minutest details of the system of banking, but they themselves form a very essential part of that system, and to them, Temple Bar, or, as it is called, for shortness, "*the Bar*," is the world for all their hopes of honor and emolument, with no view or wish beyond.

They, of course, become familiar with the face and character of every Customer, and the Customers, as time goes on, removing some and advancing others, look with more than common interest on the familiar faces at "*the Bar*" in their slow but certain progress upwards to the Partner's seat, seldom attained till past the middle age of life, when long years of experience have brought *the Banker* to his prime.

Such is the old and unique rule of the House of Child & Co., and this rule is inestimable, for it makes a foundation which no time can change, and no change can affect.

To the class of depositors which chiefly maintain these large private Banking Establishments, the temptation of interest on their deposits will never be so strong for withdrawing their accounts, as will be the accommodation of temporary advance, for continuing to keep them where they are. Private Banks will be more ready than Joint-Stock Banks to make advances to their customers; and their customers, chiefly land-owners and professional men, will find it suit them better to make their applications for such accommodations before the few familiar faces in the Bank Parlour, than before the Board of Directors in the Board Room.

The few old established Banking Houses in the Metropolis have nothing to fear from the leviathans, but, with such exceptions as these in the metropolis, all the Private Provincial Banks in Town and Country will assuredly be swallowed up.

This must have been seen by Adam Smith, who remarks in his "Wealth of Nations," that, "though the principles of the banking trade may appear somewhat abstruse, the practice is capable of being reduced to strict rules. To depart upon any occasion from these rules, in consequence of some flattering speculation of extraordinary gain, is almost always extremely dangerous, and frequently fatal to the banking company which attempts it. But the constitution of joint-stock companies renders them in general more tenacious of established rules than any private copartnery. Such companies, therefore, seem extremely well fitted for this trade. The principal banking companies in Europe, accordingly, are joint-stock companies, many of which manage their trade very successfully without any exclusive privilege. The Bank of England has no other exclusive privilege, except that no other banking company in England shall consist of more than six persons. The two banks of Edinburgh are joint-stock Companies without any exclusive privilege."*

It is a very remarkable fact, and very discreditable to the intelligence of this country that, with such an authority, since confirmed by so many eminent authorities, in favour of a principle so clearly and generally recognised, it should have taken above a century to establish joint-stock banking in England.

But this remarkable fact is explained by a clause which the proprietors of Bank Stock got inserted into a Statute of 6th Anne, which enacted, "that during the continuance of the

* "Wealth of Nations," vol. 3. page 146. 9th Edition.

Governor and Company of the Bank of England, it shall not be lawful for any body politic or corporate, united or to be united, other than the Governor and Company of the Bank of England, or for other persons whatsoever, united or to be united, in covenants or partnerships, exceeding the number of six persons, in this part of Great Britain, called England, to borrow, owe, or take up, any sum or sums of money in their bills or notes payable on demand, or at any less time than six months from the borrowing thereof."

This clause was intended to be, and, for more than a century, has been, a bar to joint-stock banking in England, for the sole purpose of preserving the exclusive monopoly of the Bank of England.

In the year, 1826, an Act of Parliament passed, permitting Copartnerships, for banking purposes, throughout England, "except in London and within a distance of sixty-five miles thereof." But this did not remove the bar to joint-stock banks in London, or within sixty-five miles thereof, and the bar might have been still standing, but for the common sense of Mr. James William Gilbart, then, or lately, a Clerk in a London Banking-house, who discovered that, this clause in the Statute of Anne, only interdicted the establishment of joint-stock banks of issue, and did not apply to banks of deposit.

The fact that this discovery should have remained undiscovered for more than a century is hardly less surprising than that such a clause should have passed in an Act of Parliament, and is another instance of short-sighted ignorance very discreditable to the intelligence of this country.*

Mr. Gilbart's construction of the clause in the Act of Anne being found to be incontrovertible, the Act, 3 & 4 William IV. cap. 98, was passed, and declared as follows:—

"And whereas doubts have arisen as to the construction of the said Acts, (the Company's Charter Act and the Act of Anne) and as to the extent of such exclusive privilege, and it is expedient that all such doubts should be removed: be it therefore declared and enacted, That any body, politic or corporate, or society, or company or partnership, although consisting of more than six persons, may carry on the trade or business of banking in London, or within sixty-five miles thereof, provided that such body, politic or corporate, or society, or company, or partnership, do not borrow, owe, or take up in England any sum or sums of money on their bills or notes

* A more full account of the rise and progress of the London and Westminster Bank, and of Joint-Stock Banks generally, will be found in a chapter entitled, "The London and Westminster Bank," in a very interesting and clever little volume, well deserving the attention of all who take any interest in these subjects, called "Stories of Banks and Bankers," by Mr. Frederick Martin; published by Macmillan & Co., 1865.

payable on demand, or at any less time than six months from the borrowing thereof, during the continuance of the privileges granted to the said Governor and Company of the Bank of England."

Immediately after the passing of this Act, in May, 1833, a prospectus was issued for the formation of the London and Westminster Bank; and, after much secret and open opposition on the part of the Bank of England and private bankers, this joint-stock Bank commenced business in Throgmorton Street, on the 10th of March, 1834.

But the victory was not yet complete. The Directors of the London and Westminster applied to the Committee of private Bankers for admission to the Clearing House. This was refused. The Directors also applied for permission to have a drawing Account at the Bank of England. This was refused. Every opposition which ingenuity could discover was directed by the Bank of England and the private Bankers against the London and Westminster Bank. But its march of prosperity was not to be stopped, and in the year 1854, after twenty years of progressive advance in the yearly dividends, and an extra *bonus* of £80,000 to the fortunate share-holders of the London and Westminster, all opposition was broken down and the victory of freedom over monopoly in banking was complete.

In the mean time many other joint-stock banks had sprung up, and their career of unclouded prosperity is the best proof of the soundness of the principle.

On the 1st of January, 1864, the nine greatest joint-stock banks of the Metropolis showed in the aggregate.

"Paid up Capital, £4,615,695;"

"Reserve Fund, £1,049,982;"

"Deposits, £67,377,556."

Since that time, some millions of deposits have been added to the London and Westminster by amalgamation with the House of Jones Loyd & Co., the largest private banking-house in the City of London, and the most inveterate of all the enemies of the joint-stock banking principle.

In 1840, Mr. Samuel Jones Loyd, in his evidence before the Parliamentary Committee on the Bank Charter Act, condemned the joint-stock system as quite inapplicable to banking. He said, on that occasion:—"I think, joint-stock banks are deficient in everything requisite for the conduct of banking business, except extended responsibility."

This opinion is quoted with approbation by Mr. McCulloch, in his *Commercial Dictionary*, so late as 1859. And yet, in the year, 1865, the great private banking firm, of which Mr. Samuel Jones Loyd, (Lord Overstone), was for so many years the head, merged into the London and Westminster *Joint-Stock* Bank!

So much for high authorities, and to show how little these are worth when opposed to that great principle of freedom of human action, which all human beings claim within certain limits, although in defining those limits there is no agreement.

But, this instance of failure in foresight, in the case of a man so eminently successful in his worldly career as Lord Overstone, naturally leads to the remark that, being proved to have been so short-sighted, in a question on which he was supposed to have possessed opportunities more than most men for a long and clear sight, his weight, as an authority in favour of the existing Bank Charter Act, is much shaken. But, after all the experience of the longest sighted man, we find that, Public Opinion, sooner or later, comes nearest to the truth; and when Public Opinion is expressed, the repeal of the Bank Charter Act of 1844 will be another step gained in the cause of freedom.

In the case of the joint-stock banks, the want of foresight in those who opposed them, (assuming their opposition to be honest, which is assuming a great deal,) is the more remarkable, the advantages being so simply manifest. Take, for example, the case of the London & Westminster joint-stock bank. Here is a paid up capital of £1,000,000, with 1,730 shareholders. All these share-holders are its customers. They have not only subscribed the capital for carrying on the business, but they have intrusted all their money to its keeping, and from it they get all their loans and discounts.

Thus they help to make the business, and they share in the profit of that business. They not only get from it the usual interest on their deposits,—and those deposits, as already shown, amounted to £15,630,000, on the 1st January, 1864, and are now much more,—but they get the usual advantages of credit accommodation, and they share in the profits of this greatly extended form of business.

The liability of each shareholder is limited to the amount of his subscribed capital, but the Public have the security of 1,730 shareholders to the amount of their subscribed capital, in addition to the assets of the bank. Surely, this is better security to the Public, than a private bank of five or six partners, without any evidence that they possess amongst them £100 of their own capital.

On what gound Lord Overstone gave his opinion that, "joint-stock banks are deficient in everything requisite for the conduct of banking business, except extended responsibility," does not appear. But, whatever may be the experience of Lord Overstone, as a banker, such an opinion as this from him in the year 1840, deprives him of all claim to be regarded as a valuable authority on this subject in the year 1867 ; and the reputed *wisdom* of Parliament, at least on this question, must be regarded as an unmeaning fiction.

The nine principal joint-stock banking companies in London, with a paid up capital of £4,615,695, on the 1st of January, 1864, represented a body of shareholders in number amounting to 8,087. These establishments are every year extending and enlarging, and the superior advantages of their principle over that of private banks, both for the individuals concerned therein and for the public, are now so manifest, that private banks, with a few exceptions in the metropolis, must soon cease to exist in this kingdom.

But, we have yet seen only the beginning of the change which is coming. The depositors in the Bank of England will not much longer be content to receive no interest on their deposits; neither will the depositors in the joint-stock banks of deposit and discount be much longer content to receive only the usual interest on their deposits. They will require to share as well in the profits which their deposits produce. Banks on this principle will be established, with paid up capitals to an amount much larger than has ever yet been seen, and thus the 30 per cent. profits of the most successful of the existing joint-stock banks will be brought down. Nor will the immense success of some of the great modern firms of bill-brokers fail to bring up rivals. Messrs.

Overend Gurney & Co., with their joint-stock bank of discount, and their £5,000,000 of capital, Messrs. Sanderson & Co., Messrs. Alexander & Co., and some others, may find themselves forestalled in their expected deposits.

The days are fast passing away when the surplus cash of the London and Country Bankers will find its way into the hands of Messrs. Overend Gurney & Co., Messrs. Sanderson & Co., Messrs. Alexander & Co., and other craftsmen of their class, or even into the Bank of England.

Mr. Gilbart, in his "Logic of Banking," gives the names of three Bill-broking firms in London, in the year 1856, viz. Messrs. Overend Gurney & Co., Messrs. Alexander & Co., Messrs. Sanderson & Co., as then holding deposits to the amount of £15,500,000, sterling.

When it is considered that these three firms had been established only about twenty-five years, and were all founded by men in the social position of clerks in banking-houses, these figures are very suggestive. The National Discount Company and the London Discount Company, subsequently started, seem to have acted upon that suggestion.

But, the time is near, when the capitalists, great and small, will be their own bankers, so far as sharing in the profits, which their capitals produce. Nothing but short-sightedness prevents this now, and everything is tending to clear the vision of those who have any capital to spare. Banks will soon arise on this principle, but on a scale of which we have yet had no experience, and these will be found to be the most profitable and the safest Savings Banks for the working classes, as well as for the Public in general.

Every man and woman in the kingdom who can save £50 will be a banker, and will share in the profits of the Bank. But well established bankers have nothing to fear. The profits of banking and discounting with other people's money will only be more equally and more fairly divided than it has been, and much spare money, now lying idle, will be brought into active employment, for the creation of new capital.

Before many more years are past, we shall see this principle carried out on a scale of which we have yet had no experience, and, instead of being confined to one nation, with a capital of a few millions, it will be extended to all the nations of Europe, for collecting and utilizing in one Establishment, or "BANK OF EUROPE," all the savings or floating and unemployed capital of all the nations of Europe and dividing the profits from a capital of a few hundred millions among the contributors, thus equalizing the exchanges and uniting all Europe by one common bond of in-

* For the outline of a scheme for a Joint-Stock Bank on this principle, see Appendix, page 947.

terest,—a bond which monarchs will in vain attempt to sever, and then wars will cease, and Customs Tariffs will be abolished, and Excise duties will no longer be endured.

But the present time is the right time for our Government to look to the Bank of England, and for the Bank of England to look to itself. The commercial community of this country will not be content much longer with the present state of things which made the *minimum* Bank rate of discount for the year, 1864, average upwards of *seven per cent.*, and for several months of the year, 1866, *ten per cent.* and upwards.

Without meaning anything disrespectful to persons, it is difficult to believe that, those bankers and bill-brokers who, in their evidence before the Parliamentary Committee on Joint-Stock Banks, in 1836, expressed themselves so strongly against the principle of joint-stock association, were not influenced by a nervous anxiety about their own personal interests in that question.

It was the declared opinion of the great bill-broker, Mr. Samuel Gurney, of the firm of Overend Gurney & Co., on that occasion, that "*the peculiar distinction*" of joint-stock banks consisted in their being "*neither legitimate nor respectable,*" and that the system was "*dangerous and requiring regulation.*" And when the Chairman, the Chancellor of the Exchequer, asked Mr. Gurney ;—" Do you conceive it would be an improvement or a disadvantage to the present system, if joint-stock banks were permitted to be established with a limited liability ?" Mr. Gurney answered ;—" *I think it would be a very serious addition to the evils of the case.*" But, notwithstanding that opinion the firm of Overend Gurney & Co. has merged into a Joint-Stock Discount Company.

It is a notable fact that, no banker or bill-broker of any eminence was then to be found to say a word in favour of the principle of joint-stock association, and very few of their class were then to be found favorable to *limited liability.*

If, therefore, the present Question with the Bank of England is to be determined by the Directors of the Bank of England, assisted by the Bankers and Bill-brokers, the chance of a successful issue to the present appeal, it must be admitted, is very small indeed. But still there remains the hope, from experience in the past, that, in the end, the true principle, in all these affairs, will prevail.

According to the Parliamentary Return No. 452, moved for by Mr. Finlay, which has been lately issued in the form of a Blue Book of upwards of 260 pages, it appears that, the total number of Companies registered since the passing of the Limited Liability Act of 1855, down to the 31st of May, 1864, is as follows :—

	Limited.	Unlimited.	Total.
England	3763 . .	509 . .	4272
Ireland	177 . .	1 . .	178
Scotland	142 . .	24 . .	166
Total Companies .	4082 . .	534 . .	4616

By the same Return it appears that, the total amount of nominal capital registered since 1855, down to the 31st May, 1864, is as follows :—

NOMINAL CAPITAL.

	Limited.	Unlimited.	Total.
	£	£	£
England .	490,637,256 .	51,366,218 .	542,003,474
Ireland . .	2,916,437 .	3,000 .	2,919,437
Scotland .	2,904,935 .	8,080,400 .	10,985,335
Total . .	£496,458,628 .	59,449,618 .	555,908,246

These figures furnish the strongest comments on the folly of the Legislature, which, through so many generations, has forbidden freedom to British Capital and enterprise.

The Joint-Stock Banks, notwithstanding the many instances of mismanagement, are popular, and they deserve their popularity. Their principle is good, though their system may be improved; but neither principle nor system can be bad when attended with such success.

But this reasoning does not apply to the Bank of England, the purposes and objects of which should be totally different from those of private and joint-stock banks.

It is no part of the proper object of the Bank of England to collect deposits for distribution, and it is a fatal error in the Bank of England, as at present constituted, to use them.

The proper object of the Bank of England is the distribution of its own Notes, according to the wants of the community; not for the benefit of the Bank, but of the community.

The legitimate object of other banks is their own profit; but its own profit is not the legitimate object of the Bank of England.

The duty of the Bank of England is to issue Notes, equal at all times to the demand, and payable in gold on demand. The sole object and advantage of the notes is to economise the gold.

There is no difficulty in securing the convertibility of the Note, as long as the means are possessed of obtaining an amount of gold equal to the amount of notes issued over and above the amount of notes in constant circulation.

But when, in addition to this, the Bank of

England issues notes against money deposited, and liable to be withdrawn at any moment, and when these deposits amount, as they often do, to twenty millions, sterling, it is manifest that, the chief concern of the Bank of England, as at present constituted, must be its own preservation. In time of need, when these deposits are being largely withdrawn, the Bank of England must be not only unable to afford help, but must itself stand in need of help.

The rule of the Bank of England is, or used to be, that one-third of specie was amply sufficient to secure both notes and deposit, and so it would be in ordinary times. But when those deposits are used to withdraw notes or gold,—and these are virtually the same,—then, though the gold may be safe, the notes may be wanting, and without the means of obtaining them, for the Bank may be without a sovereign or a note, and without the means of obtaining either. In that condition, the Bank of England has totally failed, as a resource for the trade and industry of the country in the time of need.

To allow deposits to be used, as part of its capital, by the Bank of England, as at present constituted, is a radical defect, productive of serious evils, by paralysing the power of the Bank when its help is most wanted, and producing continual fluctuations in the Bank-rate of discount?

Why are twenty millions of money deposited in the Bank of England without interest, when, with equal security, these deposits might be placed in Joint-Stock Banks at interest?

For such an apparent sacrifice there must be some compensation, and that can only be in expected favors, by preference in claims for discounts or advances. It would be better for the interests of trade if such ground of preference were cut away, as it would be if the *maximum* Bank-rate of discount were restricted to 4 per cent.

Deposits would still be brought into active use for the benefit of the trade and industry of the country, but would not be used to keep up a false appearance for deceitful purposes.

The danger of allowing notes to be issued against deposits has been fully experienced and set forth in the history of the rise and fall of the Country Banks, when the Issues were unrestricted, and in that history it has been clearly shown that, deposits form no safe foundation for the issue of notes on Credit. This conclusion might have been arrived at with equal confidence without experience, when it is seen that these deposits, in the aggregate, come up to half the amount of the National Debt.

In principle, there is no difference between an issue of Notes on the credit of deposits, and on the credit of the National Debt; and though this may be done with perfect safety to a certain comparatively small amount, yet, when there is no restriction to the amount and the safe limit is passed, ruin is the certain consequence, as was proved by John Law, when he attempted to make the amount of loanable money equal to the same amount of debt.

Absurd as was that error, the same is still continued by the Bank of England, with its present inadequate capital, in using its Debts, in the form of Deposits, for the issue of Notes, payable in gold on demand.

But the use made of deposits by the Scotch Banks, and the Joint-Stock and Country Banks, for discounting Bills at short dates, and for temporary advances, is quite different, in effect, from the use made by the Bank of England, though for similar purposes.

Deposits in the Bank of England are all liable to be paid in Notes, convertible into gold on demand, and as all the available gold in the Kingdom would not suffice to pay 5 per cent. of the amount of all the deposits in all the Banks, it is obvious that this must be a very uncertain foundation for the issue of notes. It is equally obvious that, the use of these deposits by other Banks is no sanction for the use of them by the Bank of England, though for similar purposes, and that the Bank of England, as at present constituted, ought to be restricted from making use of them for any purposes.

The theoretical truth, that the Bank of England is bound to supply gold for every Bank of England Note issued, involves the practical liability to supply gold also for every country bank note and for every deposit in every country bank in the kingdom.

This is a practical fact, for, as every one knows, in a run on a country bank, the local notes are met by the legal tender of Bank of England Notes; and deposits in country banks,—chiefly held for employment by their Agents in London, —are, for the most part, included in the unemployed capital in the Bank of England under the well-known entry of "Other Deposits." The run upon the country bank is, therefore, practically a double drain on the reserve of the Banking Department of the Bank of England, to redeem the local notes, and to restore the country deposits.

In the same way, an export of gold is a drain of notes from the Banking Department, as well as of gold from the Issue Department.

Now, as the *deposits* in the Bank of England are generally more than sufficient in amount to absorb the whole of the gold coin and bullion in the Bank of England, and as the Banking Department is never equal to all its liabilities for notes, it is obvious that, to increase these liabilities by issuing notes against *deposits*, must be contrary to the principle of the Bank Act, and also contrary to the principle of safety and sound policy; and that, under such circumstances, the Bank of England must often be compelled to advance the rate of discount for its own protection, against the possible disastrous consequences to itself, through the large amount of private deposits, which may at any time be withdrawn in gold.

It is also obvious that, every such advance in the rate of discount is, in effect, a reduction in the value of all property, whether land, Government funds, stocks, shares, shipping, or other goods, and even labor, and is, consequently, a manifest injury to the country.

But the Act, in its operation, works a dobule injury to the Public, and this double injury, being incidental to the Act, and, therefore, unavoidable, is very greatly aggravated by the practice of the Bank with regard to the deposits.

The first operation of a drain of gold is always on the Banking Department, by diminishing its reserve of Notes, drawn out to be exchanged for gold in the Issue Department.

The second operation is on the Issue eparDt-ment, by reducing the issue of notes in propor-tion to the amount of gold withdrawn.

Thus, if £2,000,000 in notes be drawn out of the Banking Department, and the notes be ex-changed for gold in the Issue Department, these notes are cancelled, and the power of issuing notes is diminished in the same amount, thereby redu-cing the amount of notes £4,000,000. It is no answer to say that this is an improbable event, for it has happened. That it may happen, is suf-ficient to show a serious defect in the system.

It is, therefore, obvious that, a combined ope-ration by the depositors for withdrawing to the amount of only £10,000,000, or half the ordi-nary deposits, must stop the Bank.

Here the Banking Department has lost £10,000,000 of its deposits, and the Issue De-partment has lost an equal amount of notes.

But the Bank of England has lost, virtually, £20,000,000, actually, all its gold, and nearly all its notes,—and has no means of getting any more of either.

This could never have happened under the old system, and is, therefore, to be attributed wholly to the Bank Act of 1844. A drain of gold now necessarily deranges the trade and industry of the country, and when the amount of notes in circulation is inadequate to meet the requirements, the mischief is aggravated by the rise in the Bank-rate of discount to 8 or 10 per cent., and further aggravated by a proportionate depression of Government Securities, whilst the prices of all colonial produce fall in far greater proportion. Thus, the commercial classes suffer in a two-fold manner from a high rate of discount. They pay double the ordinary price for discounting their bills, and they lose 20 or 25 per cent. on the sale of their goods. In the height of the money-panic of 1857, as before shown, the depreciation of goods, especially colonial produce, was estimated at from 30 to 60 per cent. and upwards.

It is evident that the trade and industry of the country must be very seriously affected by such changes as these, when it is considered that, all the trade of the country is carried on by means of bills, the holders of which get them discounted in the ordinary course of business. Every commercial enterprise and every industrial contract is liable to be affected by the Bank-rate of discount. All expected profits are varied, and, in many cases, not only profits are taken away, but manufacturers, merchants, Traders, and Contractors, are made bankrupts by an unexpected rise in the Bank-rate of discount.

Such is the effect of the Bank Act, which, practically, prevents what it was intended to provide.

It was clearly the intention of the Act to provide for increased issues of notes by hastening the return of gold, and thereby to prevent the fluctuations in the Bank-rate of discount. The Bank does hasten the return of the gold by curtailing the issue of Notes as the gold departs, but the very means taken to effect that object raises the rate of discount and produces the panic. The gold does return, but not until the worst of the crisis is past, and the commercial losses and failures are completed.

The relief comes too late, and the remedy which the Act prescribes becomes the real evil.

Faith in the notes is not shaken; but the notes cannot be obtained.

The drain upon the Bank is not caused by demands for gold in payment of the notes, as mere change.

Not the note-holders, but the depositors, cause the drain of gold.

Not the Public, but the customers of the Bank diminish its stock of bullion, and not as money, but as merchandise.

This is clearly a banking difficulty, occasioned by the separation of the Banking Department from the Issue Department and by the want of real Capital. But for this separation and this want, this difficulty would not arise. The deposits and the gold might both be withdrawn, and the note circulation might still remain the same. The gold must come back, and, if needful, the Bank might, by many means, hasten the return, without curtailing the note-circulation, to the loss and injury of the whole community.

If this be purely a banking difficulty, as it obviously is, it ought to be simply a banking question, and the community ought to be no more called upon to provide means for carrying on the business of the Bank of England, than of any other Bank.

Formerly, Bankers were Goldsmiths, or dealers in gold, as merchants.

The Company of the Bank of England are now Bankers and Goldsmiths, or dealers in gold, as merchants. They are compelled by law to provide gold when demanded in exchange for their notes. Therefore, to be Bankers, they are obliged to be dealers in gold, or gold merchants. But this is not so with other Bankers. They are not obliged to give gold in exchange for notes, and when they want gold, for the convenience of change, they go to the Bank of England for it. Therefore, if the Bank of England have not sufficient capital for carrying on its business, that is a fundamental defect in its constitution, but no reason for repairing the defect at the cost of the community. To meet the requirements of depositors by payments in gold is the ordinary condition upon which the banking business of the Bank of England is carried on, and the liability of the Bank of England to the demand of gold for its notes is a necessary incident to the banking contrivance for making paper pass for the value of the gold represented. There is no hardship in making the Bank give gold in exchange for its own paper, for on that condition alone is the paper accepted as gold; but there is very great hardship to the community when they are made to pay £1,100 for £1,000 in bank-notes, because the Bank of England happens to be short of gold.

Money being required for carrying on trade, bankers, as money-dealers, may be said to furnish the material, and though a high rate of discount be profitable to the bankers, as bill-brokers or money-dealers, yet it is very much otherwise to the commercial community, being, in fact, a transfer of a portion of the profits, in proportion to the rate of discount, from the hand of the trader into the pocket of the banker or money-dealer.

To the bankers, as money-dealers, these are legitimate profits; but such profits are not consistent with the mission and object of the Bank of England, as a national Bank, for the service of the trade and industry of the Nation. But why should the prosperity of the trade and industry of the nation be made dependent on the quantity of gold in the Bank of England, if the means of obtaining any required quantity be always at hand?

Sovereigns and Notes being legal money, and notes being equal to gold, gold will always be obtainable with notes. It, therefore, seems to follow, as a necessary consequence, that no more gold need be kept in the Bank of England than may be required for the *ordinary* demand and purpose of change; and that, with an ample reserve of notes, the gold can always be obtained.

The *ordinary* demand for gold must by this time be as well known at the Bank of England as the *ordinary* demand for notes, and the ordinary demand for both will be better known when notes cannot be demanded for gold. There can be no reason for making it compulsory on the Bank of England to purchase gold when it is not wanted, and it may most safely be left to the discretion of the Bank Directors when to purchase gold or silver or any other commodity of which they stand in need. It is enough if they comply with the single condition on which their notes are issued,—that of redeeming them in gold on demand. To calculate the amount of gold required for that purpose will be their duty, and that calculation will be much more easy when confined to this one condition.

Extraordinary calls for gold are almost always to send abroad in payment for corn or cotton, tea or silk, or for loans to foreign Governments. To a comparatively small extent, foreign countries draw upon our stock of gold, but never to an extent to cause any real embarrassment to the Bank of England. This object is easily accomplished by the Bank of France, or some other great foreign Bank, buying up Bills of Exchange upon London, and sending them to London to be cashed, so keeping up its supply of gold by drawing on the stock in hand at the Bank of England.

To counteract this proceeding, by rendering it profitless, the practice of the Bank of England is to raise the rate of discount, thereby inflicting a heavy loss on the whole of our trading community, and out of their loss making a great profit.

If the Bank of England met every such operation on a large scale, by a similar operation on the foreign Banks, or by purchasing gold in the open market in the ordinary way, with real capital, that would be quite as effectual for stopping the foreign drain of gold, as raising thə rate of discount against the trade and interest of the country; and if the Bank of England were a loser by this operation, instead of being a gainer by the other, what is that to the country? and what would be the amount of gain to the Bank in the one case, in comparison with the amount of loss to the country in the other? or, what would be the amount of loss to the Bank in the one case, in comparison with the amount of gain to the country in the other?

But it is by no means clear that there would be any loss to the Bank in the end, though it is quite clear that a very great loss would be saved to the country, if, instead of raising the rate of discount, the loss in gold were instantly supplied by an increased issue of notes, through a low rate of discount.

Can anything be more absurd and inconsistent with our artificial system of money, than to reduce the amount of our money of notes in proportion to every diminution in the amount of our money of gold; so that, when all our gold is withdrawn, all our notes must be withdrawn, and the country must be left without sufficient legal tender for the ordinary transactions of trade, or even for the ordinary purposes of a civilized state of society, and nothing left but to revert to the barbarous oɔɟo nditioarbn ter by exchange?

It is not necessary to show that this state of things is likely to happen.

It is sufficient to show that the principle involves this absurdity, than which nothing can be conceived more absurd. Nor is it an answer to say that, the system of cheques and bills would supply the place of money sufficiently to prevent the stoppage of trade.

That might be so, but it requires no argument to show the necessity for money as a means of transfer in ordinary transactions; or the absurdity of the doctrine,—no gold, no money,—when paper-notes are the legal currency of the country as well as gold, and gold in any required quantity is at all times to be purchased in the open market with these paper-notes, which are held to be of equal value with the gold thereby represented.

In this point of view is exposed the extreme absurdity of the system, which withdraws the notes as the gold is withdrawn, instead of multiplying the notes as the gold is withdrawn, and bringing back the gold to support the credit of the country, on the faith of which the notes are issued, and issued only for the purpose of economising the gold, for the benefit of the country, not for destroying credit, and bringing ruin with distrust.

If any conceivable case could be put in which the notes could not be exchanged for gold, within the limit assumed, then there might be some pretence for the present practice; but, as long as the question is confined within the safe limit,—and that is, as long as the notes issued do not exceed in amount the universally acknowledged credit of the country to redeem them in gold,—there cannot be a shadow of ground for the pretence on which the present practice is founded; and if there were any ground, that would be a conclusive objection to any issue of credit notes, and would be, in effect, to maintain only a metallic currency.

The present practice, therefore, of contracting the issue of notes as the gold is withdrawn, is directly at variance with the principle on which the notes are issued, as also with the object for which they are issued; and keeping a large reserve of gold shut up in the vaults of the Bank is as much at variance with principle as with common sense; for credit, instead of being supported, is weakened by the means used for its support, and high rates of discount, with frequently recurring money-panics, shake credit to its foundation, inflicting on the community losses far exceeding all the savings effected by the substitution of paper for gold.

This is not a question of the supply of capital, but of the supply of that medium called *money*, for the transfer and employment of capital. It is quite true that, it is not the purpose of the Bank of England to provide the country with loanable capital; but it is no less true that, one of the most important purposes, and the first duty of the Bank of England is, to provide the country with *cheap* money for the convenient and profitable transfer and distribution of the loanable capital of the country.

This is the great duty which the Bank of England so imperfectly performs. How imperfectly, is the question which the Public in general, from their very confused and imperfect knowledge of the working of the Act of 1844, are unable to estimate. But Mr. Thomas Tooke, probably, had an insight into the effects of this Act, when he described it as one of '*the most wanton, ill-advised, pedantic, rash pieces of legislation*' which he had ever known, and that, in its consequences, it had proved a most lamentable failure. Nor did he stand alone in his opinion among the eminent authorities in the country on this subject.

There can be no reason why banking should be an exception to the principle of free-trade, or why there should not be perfect freedom of trade in banking. But banking is one thing, and the issue of bank-notes is another thing.

If bank-notes be made by law equal to the current coin of the realm, the issue of which coin is a Royal or State prerogative, there must be all the same reasons against the issue of notes by private banks, as against the issue of coin of the realm by private banks. It is simply confusion of mind which leads so many persons to suppose that, the issue of promissory notes is essentially and properly part of the business of a banker.

The business of banking is to collect the unemployed and idle capital, and so to distribute it among the industrious workers as to make it productive of new capital, not to provide the capital.

It is no part of the business or duty of the Bank of England to find capital or to distribute it, but to provide means for its convenient transfer; and, in this sense, the money used for such purpose is so much taken out of the capital of the country, as the mere instrument or medium for making the remainder more available for useful purposes; precisely in the same way as the land taken for the purpose of making roads and railways is so much taken out of the food-producing soil, for the more convenient transfer of natural productions and other commodities.

The capital of the Bank of England may,

therefore, be compared to the land taken for roads and railways, or to the gold and silver and copper taken for the coinage, being so much capital taken out of the common stock, as a medium or means of transfer and employment for the active capital of the country.

The purpose of the capital of the Bank of England is, therefore, essentially different from that of other Banks, their province being to collect the unemployed capital, and to distribute it, as loanable capital, into the infinite variety of channels where it is wanted for profitable employment.

In this way loanable capital, and capital employed as currency, or the medium of transfer, though identically the same, are distinct in their functions and operations.

The province of the Banks is to collect, to distribute, and to find employment for, the unemployed capital.

The province of the Bank of England is to provide ample means at all times for the transfer of that capital from hand to hand, for the employment of that capital, and for payment of the wages of labor. The Bank of England does this by purchasing debts, created on the credit of capital, and paying the purchase money in Bank of England Notes, that is, discounting bills.

This is found to be the most convenient way of transferring capital from hand to hand, for facilitating the infinite operations of trade and commerce.

Now, it is manifestly of the greatest importance for the success of these operations that, the rate of discount, or the price for the purchase of bills of exchange, should be so regulated as to take only the smallest possible portion of the profits of the trader, otherwise small facility is afforded to trade; and also that the price should be subject to the fewest and slightest possible variations, that the trader may be able to calculate his profits with tolerable accuracy.

And so with Railways. If the rates of charge for thecarriage of goods were so high as to take away the trader's profit, no facility would be afforded, and the land taken for the railways would be the loss of so much productive soil to the country.

As regards discounting by the Bank of England, the rate of discount should never be regulated by the credit of the bill discounted, for if the credit do not justify the low rate, neither can it justify the high rate. That which may be a fair speculation for a private bank, may be a most improper one for the Bank of England; the purpose and object of the private Bank being profit, and of the Bank of England facility to trade operations.

It is, therefore, of the utmost importance that those who are engaged in trade should be able to calculate on having their bills discounted at the Bank of England on such terms as will leave them a fair profit for their capital and industry.

It is said that, the Bank of England does not regulate the rate of discount. This is only partially true, for the Bank of England exercises a great influence over the rate of discount, especially in raising it. But the Bank of England ought to regulate the rate of discount, and if the Bank of England and the Bank of France were able to co-operate, they would together regulate the discount throughout Europe.

The Bank of England, with its large credit capital, must always exercise great influence over the rate of discount, and generally does keep the rate higher in this country than it is kept in France, although the amount of bullion in the Bank of France is, comparatively to the issue of notes, generally lower than in the Bank of England.

The complaint is that, the Bank of England exercises or is forced to exercise its influence to raise, instead of being enabled to exercise its influence to lower, the rate of discount; and that the restrictions of the Act alone prevent the Bank from keeping the ordinary rate of interest between 2 and 3 per cent.

That, the market-price for money, like every other market-price, must depend on supply and demand, is quite true. But that supposes an open and free market. The market for legal tender-money is the Bank of England, and that is not an open or free market, but a monopoly, as it ought to be; but for the benefit of the community, not of the Bank.

It is not true that, the public controls the Issues, for, as already shown, the Bank of England rarely issues notes to the amount which, even under its present restrictions, it might issue them. But the objection is that, these restrictions prevent the issues to an amount sufficient to meet the requirements. All that is said about "*over-issues*" is sheer nonsense, for there never has been and never can be an over-issue as long as the notes are payable in gold on demand; for then, what is called, "*over-issue,*" must always very soon correct itself. Equally absurd is all that is said about "*over-trading,*" which, if it mean anything, can only mean *unsuccessful* trading, and that must very soon correct itself; for, however injurious to the country, from the loss of capital, that would in no way affect the Bank of England, if properly constituted. The truth is that, the terms, "over-issues" and "over-trading," with an appearance of meaning, have really no meaning at all; or, at least, throw no light upon the subject; and this is merely a roundabout way of concealing profound ignorance.

The folly of all such reasoning is in applying general principles to a special case, under special and artificial circumstances, at variance with general principles.

If it be expedient that there should be a monopoly,—and under a Government there are many special cases in which it is not only expedient but absolutely essential,—it is only trifling to apply to those special cases the reasoning from general principles.

The Bank of England is established for carrying out an artificial system for the convenience of the community.

It is, very properly, not a State establishment, but an establishment employed by the State to carry out a particular design for a special object, of the greatest importance to the State and to the community.

All Statesmen and Political Economists are agreed that, the State should have nothing to do with banking. No Government should undertake what can be as well accomplished by private agency; but least of all should Government interfere with what concerns the commerce of the country. This was the opinion of Adam Smith, and all experience proves that, Government is a bad substitute for a commercial body acting upon sound principles in commercial affairs.

Anything more unfortunate for this country can hardly be imagined, than that the railways of the kingdom should be under the management and control of the Government. Such a false step would be nothing short of a public calamity.

The object of the Bank of England, as a National Bank, is to provide a currency of equal value with gold, by means of paper, thereby saving so much gold taken from the capital of the country, and therefore likened to roads and railways made in the air, to the saving of so much land for growing corn, etc.

For that object the power of issuing paper-notes, as legal tender, to represent gold, is confined to the Bank of England.

In the case of the coin of the realm, the monopoly is vested in the Sovereign or representative of the State, as a Royal or State prerogative.

But the current coin of the realm belongs to the community, and not to the Sovereign or head of the State, and, therefore, it ought to be minted and coined at the public charge, but so that the cost be extremely small, lest it be prejudicial to the community at large.

The incident of the Tribute-money related in the New Testament, and the divine admonition, 'Render to Cæsar that which is Cæsar's,' has been used for centuries by the Church to perplex men's minds with a false conception of the relation of money to the Sovereign. The image and superscription were supposed to mark the coin as something belonging to the king. The piece of silver bearing Cæsar's head did in some measure appertain to Cæsar; and Cæsar was very apt to exercise rights of property over it. Nicole Oresme, born in the early part of the fourteenth century, was, perhaps, the first churchman who ever exposed so convenient a fallacy. 'It is not,' said he, 'the coin which is Cæsar's, but the tribute represented by the coin.' The tribute is his, and we are bound to pay it; but the coin is ours, and the image and superscription are not to be regarded as marks of property in it, but they are a stamp imposed by the Crown to attest the value of the article; and the honour of the Crown as well as the order of public dealings require that this stamp should be a mark of inviolable good faith and honesty. The right of affixing this stamp to the coin appertains to the Sovereign, and it is a capital offence for any other man to coin money in the realm or to circulate counterfeit pieces; indeed, adds Oresme, the privilege is such that it cannot and ought not to be conceded to any vassal, and would be a good cause of war against such as may usurp it.*

The same volume contains a treatise entitled, 'Monetæ cudendæ ratio,' by Copernicus, who was born in 1470. He advocates the suppression of those numerous local mints which had powerfully contributed to confuse and perplex the monetary systems of Europe in the Middle Ages; and he recommends the limitation of the right of striking money to one establishment under the control of the royal authority. This is a true principle, and of a practical character remarkable for those early times.

The paper notes, being legal tender and representing the gold coin of the realm, are the current money of the country; but, being of no intrinsic value, and the value depending wholly on credit, are not necessarily current in any other country, though, in fact, they are to a great extent current in most other countries, and even at a premium in some, because believed to be convertible into gold, on demand. If Bank of England notes were held in the same credit in

* See Edinburgh Review No. 251, January, 1866. Treatise by Nicole Oresme—'De Origine et Jure necnon et de Mutationibus Monetarum.' Texte Latin et traduction Française. Publiés et annotés par M. L. Wolowski, Membre de l'Institut. Paris. 1864.

all other countries as in this country, no gold would be required in this country for money, and gold would be only an article of commerce, like any other commodity.

In this simple view of the case, the absurdity of all that is said about "over-issues" and "over-trading" must be manifest, for, assuming paper-notes and sovereigns to be the same, as virtually they are, it must be a matter of the utmost indifference to the Bank of England what becomes of the notes when they are taken out of the Bank. If converted into Sovereigns, these will return to the Bank in the same form; if in the form of notes, these will be cancelled. All that the Bank has to look to is that, the notes are convertible into sovereigns, and that notes and gold are ready when wanted. In this way, the monopoly will be held by the Bank of England for the benefit of the country, instead of being held, as it now is, for the benefit of the Proprietors of Bank Stock, at a cost to the country very far exceeding the 12 per cent. dividend now divided among the shareholders.

But it is by no means clear that, the proprietors of Bank Stock are gainers by the high rate of discount, and there is good reason to believe that a more uniform rate, within the *maximum* of 4 per cent. would make a better dividend.

In this view it may be clearly seen that, much of the reasoning from general principles can have no application to the facts of this case, and that the system of the Bank of England, being entirely artificial, its affairs must be conducted on principles consistent therewith; not that this artificial system is inconsistent with general principles, but that general principles are not applicable to the special circumstances of this anomalous case.

Experience has shown that, when gold becomes scarce, the public rush to the Bank of England for Notes, not to convert them into sovereigns, but to hold the notes, knowing that, as the gold diminishes, the notes will diminish in the same proportion, and that, the rate of discount will be raised.

Experience, therefore, confirms the conclusion that, there would be no rush to the Bank of England for notes when the gold diminishes, if notes were not diminished in the same proportion, and if the rate of discount remained steady; for it is not that the notes are really wanted, but it is the fear that, when they are wanted they cannot be obtained, or can be obtained only at an extravagant price. That fear, as experience has shown, is well founded, and prudence dictates the precaution; but if the fear had never existed, the occasion for the precaution would never have arisen, and the notes would have remained in the Bank until really wanted.

Nor would the question of convertibility have arisen, if it had been known that the Bank of England possessed the means of meeting all demands for gold. If the Public were assured of that fact, this question would be one with which the Public could have no concern, and one which could in no manner affect public credit.

But now, under the existing system, the contraction of the notes as the gold diminishes must, as a necessary consequence, disturb public credit, and actually create the very danger to be guarded against. The danger itself is merely imaginary, but the fear creates the real danger, and the danger is greatly aggravated by the very means taken to avert it.

Such is the working of the Bank Charter Act of 1844.

In 1826, when there was hardly a sovereign in the Bank of England, and when a bundle of old £1 notes was discovered, these were readily accepted, although they had been withdrawn from circulation, and had not been a legal tender for four years before. The Public were as well satisfied with these notes as if they had been sovereigns.

It is a fact universally admitted that, for internal circulation, as a means of settling accounts among ourselves, Bank of England Notes are accepted everywhere and always in preference to sovereigns, as being equally safe and more convenient; and, showing the influence of credit in this country, a cheque, if on a good and well-known Bank, though not a legal tender, is generally preferred to either.

In fact, the British Public, for their own internal monetary transactions, neither require nor desire sovereigns, and all they require is, to know that they can have sovereigns when they want them, in exchange for notes.

It is a fundamental error, out of which many errors have arisen, that the export of gold coin is a loss of so much capital to the country. It might be said with as much truth that, the export of our iron or cotton goods is a loss of so much capital to the country.

It is not a loss of capital that is occasioned by the export of gold coin, but it is a loss of currency, by the consequent loss of bank-notes for our internal transactions, and a diminished supply of gold coin for our foreign payments.

In this way the machinery of the Issue Department inevitably works. Hence a drain of gold is followed by a high rate of discount, not from the loss of capital, nor from the loss of gold, but from the loss of notes.

A foreign drain of gold is not necessarily attended with national loss, nor is it expressive of national indebtedness. Under our present system, this is the frequent cause of great commercial disasters; but this is a consequence attributable entirely to our defective system. The same disastrous consequences may follow an internal drain of gold or notes, or from any cause, which produces a temporary increase of the monetary requirements of the community, and a temporary diminution of the usual accommodation to trade.

Gold is never sent out of the country, but for the benefit of the country, except when sent to support foreign war, or to make improvident loans, or other unsuccessful investments abroad. Most frequently the gold is sent to get the raw materials for the employment of our working people, or cheap food for all classes of our people. Experience has so clearly established these to be facts that, it is wonderful they should be now in question.

Within the last five years, about 145 millions, sterling, of the precious metals have been imported into this country, and about 143 millions have been exported, leaving only about 3 millions remaining in this country. With these 143 millions sent away, or the chief part, we have purchased materials for our industry, and the goods manufactured from those materials, or the chief part, we have sold to other countries; thus making a profit on the goods which the gold purchased. We might have kept the gold; but then we should have had no employment for our industry, and we should have made no profit. But to go back no further than the year 1862, the experience of that year alone ought to be conclusive on this question.

In that year the demands upon our capital, partly from a bad harvest, and partly from the cotton-dearth, were greater than had been known in any year within living memory. And yet, in that year the Bank-rate of discount stood at the lowest point which has ever been known within living memory, namely, 2 per cent., and the highest rate in that year was 3 per cent.

Or, again, to show that high rates and low prices are not dependent on the export of the precious metals, take the recent case of the monetary crisis in India, at the latter end of the year 1863, when prices there were reduced 27 per cent., and the imports of the precious metals into India in 1862–63, were £20,523,459. It is well known that the wealth of India is rapidly increasing, and that it was no *loss of capital* which occasioned that extraordinary fall of prices; still less a loss of capital caused by export of the precious metals, which, in fact, were then, and had been for many years before pouring into India in prodigious quantities, the total amount imported in the seven previous years being £96,192,078.

These examples will be sufficient to show that, the theory must be wrong, which attributes the charge for money on loan to the amount of capital in the country; for, if that were so, the Bank-rate in England, the wealthiest and most commercial country in the world, should be lower than in any other country in the world. And if the import and accumulation of the precious metals were a test of national gains, then India should be making greater gains every year than England and all the nations of Europe put together.

Neither are our high rates of discount attributable, as so often alleged, to a diminution of the *loanable* capital of the country.

Loanable capital, in the sense here used, means the spare or unemployed capital of the country.

If the rate of discount be regulated by the amount of loanable capital only, the rate ought to vary inversely with the amount.

But it is quite otherwise. The rate and the amount both increase together. This may be easily seen by taking the sum total of the deposits in the Bank of England and in the Joint-Stock Banks in each year of the last few years, and comparing these accounts with the Bank-rate of discount in the same years.

The returns of the Bank of England and of the London Joint-Stock Banks may be taken as a fair indication of the general increase or decrease of banking-deposits throughout the country.

Thus in June, 1856, the deposits in the Bank of England amounted to £15,514,000, and in the London Joint-Stock Banks to £34,491,000, making the total £50,005,000. The Bank-rate of discount in the same month was 4½ per cent.

In June, 1864, the deposits in the Bank of England were £23,013,000, and in the London Joint-Stock Banks, £74,833,000, making the total £97,846,000. The Bank-rate of discount in the same month was, 6 per cent.

The total amount of deposits in each intervening year is on the ascending scale, from 50 millions and upwards, to 60 millions and upwards, 70 millions and upwards, 80 millions and upwards, and in December, 1863, 87 millions and upwards.

In the same years the Bank-rate of discount is also on the ascending scale, with continual variations, but rising from 4 to 5, 6, 7, 8, 9, and 10 per cent., and between the 8th October, and 9th November, 1857, rising from 6 to 7, 8, 9, and 10 per cent., and the average of the whole of the year 1864, exceeding 7 per cent.

These facts are sufficient to show that the Bank-rate of discount is not regulated by the amount of the loanable capital, these deposits, large as is the total amount, forming but a small portion of the loanable capital of the country, which is differently estimated, but said to be not less than 400 millions. But, whatever may be the actual amount, it is clear that, between the years 1855 and 1865, the amount of loanable capital has doubled, and that the rate of discount, instead of falling, has risen. The only year in which there was a decrease in the amount of deposits was in 1858, and throughout that year the Bank-rate of discount, instead of rising, was falling, the diminution in deposits being upwards of 5 millions, and the rate of discount, in January, being 6 per cent., and in December $2\frac{1}{2}$ per cent.

Thus, it will be seen, the variations of the Bank-rate of discount do not correspond in any way with the variations in the amount of loanable capital. In the great monetary crisis of 1857, the loanable capital in the possession of the Banks was 20 per cent. larger than in the previous year; and $3\frac{1}{2}$ per cent. larger than in the year following, when the rate of discount was lowered to 3 and $2\frac{1}{2}$ per cent. ;—and in the year, 1864, when the rate of discount was 7, 8, and 9 per cent., the amount of loanable capital was 25 per cent. larger than in 1862, when the rate of discount was only $2\frac{1}{2}$ and 2 per cent.* The theory of "loss of capital," therefore, is contradicted at all points by experience and facts, and it is clear that there must be some other reason than this for the high rates of discount imposed by the Bank of England when gold is being exported. The real explanation of these high rates is, not that there is less capital, but that there is less means of transferring it; that money is diminished, in proportion to the increased want, not capital; and the real fact is that, this is the effect of the Bank Act, which reduces the amount of Bank of England notes in circulation, when the Bank's stock of gold is reduced.

It is quite true, as the advocates of the Act of 1844 say, that there was not any want of money during the crisis of 1847. It is perfectly true that, there was plenty of money in the country, but it is not true that there was plenty in circulation. A great part was in the coffers of the bankers and the money-lenders,—held by the former to secure their credit as bankers, and by

* "Economy of Capital," page 227.

the latter to gather a rich harvest, which they succeeded in gathering, by exacting almost any premium they chose to ask for their accommodation loans to save the necessitous merchant from bankruptcy. The same may be said of the crisis of 1857, and 1866.

Now, though the Bank of England cannot supply capital, yet it can and ought to supply money; and, as already shown, the money-panics are caused simply by the want of money, and not of capital; money being the medium by which capital is transferred, and one of the forms in which credit is given. Therefore, it must follow from the provisions of the Bank Act that, whenever a drain of gold occurs, a scarcity of money is a necessary consequence. To restrain the efflux of gold, and to encourage its influx, is the object of the Bank, and to accomplish this the Bank raises its rate of discount. By raising its rate, the Bank seeks to destroy the advantage in sending specie abroad, by making this mode of payment less profitable than exporting other merchandise. Thus, the raising of the Bank rate tends to restrain the efflux of gold abroad, and at the same time tends to encourage the influx of gold, by depressing the home market and causing a fall of prices. It acts upon our produce-markets, upon our English shares and stocks of all kinds, and by so doing induces foreign capitalists to make purchases of our temporarily depreciated goods. This is a heavy price to pay for an influx of gold for replenishing the Bank vaults;—enriching the Bank and sweeping away the legitimate profits of industry.

The control held by the Bank of England over the issue of notes, as already shown, must always secure to the Bank of England a commanding power over the rate of discount, if not always sufficient, at least generally sufficient, to keep it from exceeding 4 per cent, and to prevent the present grotesque gyrations between 2 and 10 per cent., this being absolutely a national calamity, and, as it might be properly called, an Act of Parliament panic.

When the Bank of England raises the rate of discount to 8 per cent., the markets fall and the serious losses begin.

With 9 per cent. the losses become heavy; distrust spreads rapidly, and failures and suspensions multiply.

At 10 per cent. comes the panic and the crash, and another turn of the screw by the Bank to 11 per cent., endangers the foundation of the strongest houses in the City of London, and spreads universal dismay at home and abroad.

This is a power which the Bank of England ought not to exercise, though it ought to be strong enough to prevent the exercise of any such power. That nothing is more easy than to invest the Bank of England with the controlling power, within moderate and wholesome limits, has been already shown. All this may be accomplished by the most simple means, consistently with perfect freedom of trade and the known rules of Political Economy. But, for this purpose, the Bank of England must cease to be a Joint-Stock Bank of discount for profit, and must be an establishment for State purposes, though in no way under the control or direction of the State, but a National Bank for the benefit of the nation at large.

In this respect, the practice of the Bank of France is much more commendable than that of the Bank of England.

The Bank of France when pressed by a drain of its gold, does not seek to check the drain so much by raising its rate of discount, as by other means, quite as efficient for obtaining gold as those adopted by the Bank of England, but much less severe upon the trade and industry of the country. The difference between the two methods is, that the Bank of France obtains the gold by buying bills on London, Vienna, and Hamburg, etc., and getting them discounted there at high rates and paid in gold, the Bank of France thereby bearing the loss instead of throwing it on the community; whilst the Bank of England enriches itself by the high rates of discount, and throws the loss on the trade and industry of the country. The Bank of England makes a profit out of the distress. The Bank of France incurs a loss to relieve the distress. In both cases, under wiser management, the loss might generally be spared, and always greatly reduced. But the practice of the Bank of France is the most wise and just of the two; the doctrine being, that it is a first duty to provide gold or notes to meet the requirements of the country; a doctrine which the Bank of England repudiates, or, at least, does not act upon, for it adopts no other means of obtaining gold than by deterring applicants from coming for notes, because these may be exchanged for gold. Such is the mean and shifty contrivance instigated by the Bank Charter Act, to the disgrace of the Legislature and the manifest injury of the country.

The average stock of bullion held by the Bank of England is about £15,000,000, and for upwards of twenty years previously to 1844, the average was £8,000,000, or little more than one half, and yet there was never any difficulty about gold.

The Bank of France, with a note-circulation of

£31,000,000, or one-half greater than the average note-circulation of the Bank of England, sometimes finds its stock of bullion reduced to $6\frac{1}{2}$ millions, with its rate of discount 7 per cent., and without a panic or crisis of any kind.*

In this state of affairs with the Bank of England, the Bank rate of discount would be, at the least, 20 per cent., or, more probably, the Bank would stop payment, and, between these two evils, the last would be the least.

Many occasions of monetary pressure which would hardly have been felt as embarrassments under the Act of 1819, have been attended with panic and overwhelming disasters under the Act of 1844. Nor could it have been otherwise, since the Act required that the Bank of England should hold an amount of gold corresponding with every note issued beyond the fixed sum of £14,000,000.†

Now, as the ordinary amount of notes in circulation is £21,000,000, there must be, at the least, £6,000,000 of gold in the Issue Department to allow those £21,000,000 of notes to be in circulation; and then the Bank has not the power to issue another note or to draw out a single sovereign. And, taking into account the

* "Economy of Capital," page 252. Note.

† Now £15,000,000.

requirements of the Branch Banks and other matters, this sum may be stated in round numbers at £7,000,000.*

In this condition, as Bills which have been discounted fall due, the Bank may discount others to a like amount, but not beyond, and this is the utmost that the Bank can do; but, in that case, if a depositor came to the Bank for even a £5-note, he could not get it, for the Issue Department, with the £7,000,000 of bullion, is shut up, and the Bank has no legal power to issue even a single note. The issue of a single additional note or sovereign under these circumstances involves the loss of the Bank Charter.

Such a dilemma, it is obvious, must be wholly artificial, whilst £7,000,000 of bullion remain unused in the Bank of England, and as this state of affairs must curtail, if not stop, discounts by the other Banks and discount houses, the difficulties so created must be greatly aggravated by withholding help at the time when it is most wanted.

The objection is not to shutting up £7,000,000 of bullion in the Bank vault, as some political writers seem to think,† but to such an unprofitable appropriation of so much capital. If the

* "Economy of Capital," p. 254.

† "Westminster Review," April, 1865, p. 585.

credit of the Bank note were so low as to stand in need of this additional security, a more profitable appropriation than this cannot be imagined. But if, instead of adding to, it diminish, the security, then it is impossible to imagine a more unprofitable appropriation of £7,000,000 of capital, than shutting it up in the Bank vault.

The writer in the Westminster Review, in his observations on Mr. Patterson's book on "The Economy of Capital," says:—"To declaim against the hardship that, when the Bank has issued 21 millions, it has in its vaults nearly seven millions of gold, which it cannot use, is about as wise as to regret that you cannot both eat your cake and have it."

This homely illustration altogether fails, for in this case the cake is not eaten, but locked up.

Many think it is a hardship that so rich a cake should be locked up and nobody be the better for it. The writer in the Westminster Review thinks it better that it should be locked up, but he has given no reason for that opinion, and that seems to be the question.

To keep a good and wholesome cake locked up when you are starving, seems to some an absurd conclusion; but that is the conclusion to which the principle of the Bank Act inevitably leads, and from that conclusion the Bank of

England has been twice saved only by the suspension of the Act.

The first of those occasions was on the 23rd October, 1847, when the bullion in the Bank of England was £8,313,000, and the Bank rate of discount 8 per cent.

The second of those occasions was on the 11th November, 1857, when the bullion in the Bank of England was £7,170,000, and the Bank rate of discount was 10 per cent.

On those two occasions the Bank of England was saved from stopping payment only by the Government taking upon itself the responsibility of suspending the operation of the Bank Act, and the chance of getting an Act of Indemnity.

The three great occasions previously to 1844, were on the 31st December, 1825, when the bullion in the Bank of England was £1,261,000, and the Bank rate of discount was 5 per cent.; the 7th February, 1837, when the bullion was £3,831,000, and the rate of discount was 5 per cent.; and the 3rd September 1839, when the bullion was £2,406,000, and the rate of discount was 6 per cent.

On these three occasions of panic, distress, and ruin, the Bank of England, sorely pressed, in imminent peril, unaided, but unshackled, struggled through the difficulties. It was unable to avert the storm, but was able to ride through it. With real capital the storm on all those occasions would have been easily averted. But, still, the contrast is greatly in favor of the Act of 1819, with all its defects, and against the Act of 1844, with all its pedantic absurdities, in addition to all its imbecile deficiencies.

The stock of bullion and specie kept by the Bank of England under the Act of 1819, on the average did not exceed £8,000,000, but the convertibility of its notes, though unrestricted in the issues, was never questioned. The unrestricted issues saved the Bank, though the want of real capital left the Bank unequal to the occasion on these emergencies. But the Bank of England was then on a firmer foundation, and, as the facts prove, better able than it has ever been since to help the trade and industry of the country. The average rate of discount was then lower and more steady than it has been since, and the monetary crises were then less frequent and less disastrous than they have been since; but the want of real capital left the Bank exposed to the operations in gold, and these sometimes threatened, or were supposed to threaten, though it was never brought into question, the convertibility of the Bank-note, thus creating distrust, which struck at the foundation of credit.

But £7,000,000 more in gold were at the command of the Bank under the Act of 1819, than under the Act of 1844, and though gold was hoarded more than notes previously to 1844, yet, subsequently, notes have been hoarded more than gold, thereby proving that, of the two evils, the last is the worst; for the want of notes is an actual and indispensable want; whereas, of gold, it is sufficient if it be known that the means be possessed of obtaining it when wanted.

Thus, it is evident, that the want of Bank-notes and the nullification of £7,000,000 in gold have been the sole causes of those monetary convulsions, which have so frequently disturbed the trade operations in this country, and until these causes be removed it is impossible that the country can escape from a periodical recurrence of such disasters.

Nor are these periodical convulsions the only consequences, for one of the permanent effects of the present system is to enhance the rate of discount, or the value of loanable money, throughout the country.

This must be an inevitable and permanent effect of the nullification of £7,000,000 of bullion in the Bank, for when the actual amount of bullion in the Bank is £14,000,000, the Bank can operate only on £7,000,000, or one half, the other half being as much nullified as if non-existent.

If the same system were carried out in other parts of our domestic policy, the monstrous absurdity would be more apparent; but this complex and crooked contrivance of the bankers and capitalists, confined to the currency of the country, is very imperfectly understood.

The subject is in its nature somewhat intricate, and but a very small proportion of the Public has the time and energy for the study of the question necessary for a clear understanding of it. If the Public did understand this question they would see that, as a currency system, it is not only erroneous, but that it is a grievous wrong inflicted on the whole community, inflicted by an Act of Parliament, framed by one of the greatest capitalists in the country,—then at the head of one of the greatest of the private banking houses in the City of London,—justly looked up to as one of the most experienced and influential of his class, and carrying with him nearly the whole of that large and necessarily most influential class on such a subject, and carrying with him also the head of the Government of that day, who, in almost every great measure of State policy in his long political career, himself admitted that he had proceeded in error, who in every great measure of State policy was rarely in the right until he admitted himself to be in the wrong, who, through the greatest part of his long political career was the fiercest opponent of Free Trade, and who, just at the close of his career, when he abandoned his principles and party of Protectionists and publicly in his place in Parliament declared himself the advocate of Free Trade,—yet, at that very time, set up "Protection" in its worst form, in the Bank Charter Act of 1844. With the zeal of a convert and the blindness of a pervert he rushed out of one error and plunged into another and a worse; the very fame of his conversion added to his power as a Protectionist; he did not know what he was doing, and, probably, those who led him knew no more, but least of all did the Public know that he was rivetting the chain of "Protection" upon the trade of this country, when he succeeded in passing his celebrated Bank Charter Act of 1844, which has done more mischief to the trade and industry of this country than any single Act of Parliament that was ever passed, by virtually declaring that the country, when it does not want paper-money, shall have a great supply of it; and that the country, when it does require paper-money, shall have none of it; that the country, when it has enough of specie, shall double the currency by an equal amount of notes ; and that when there is no specie, there shall be no notes.

Such is the monstrous and grotesque theory which regulates the currency of this great and enlightened country !

It is difficult to estimate very accurately the total amount of the currency of the United Kingdom. But it will be sufficiently near to reckon the gold and silver coinage at 120 millions, and the Bank notes at 40 millions, making the total currency 160 millions.* In addition to this is the uncoined bullion kept in the vaults of the Bank of England, seldom less than 10 millions.

Of this 160 millions of currency, about 120 millions is in constant use in carrying on the ordinary operations of daily life, in transactions between tradesmen and their customers, in the purchase of the necessaries and luxuries of life, and in the payment of the wages of labor. Being thus constantly employed and passing from hand to hand, it is not available for other purposes. It is only that portion of our currency which is deposited at the banks that is available for the discount operations by which trade is carried on.

What that portion really is can never be ascertained, but it is manifest that it cannot exceed

* See page 325.

40 millions, and that after the usual provisions have been made for the requirements of the depositors, it can hardly be so much as 30 millions.

It is this portion of our currency alone which is available to meet the requirements of trade, subject to all the variations to which these are liable from the continual fluctuations in the amount of the monetary supply and the infinite number of other causes.

Now, it must be obvious to all who are acquainted with trade in this country, that 30 millions is a very inadequate sum for meeting all these requirements, liable to be affected by so many disturbing causes, and that it is impossible, with such means, to prevent those disturbances, and to keep discounts steady at low rates. But when the fund applicable, and solely applicable, for this purpose is reduced 4 or 5 millions, by curtailing the issue of notes, it will be seen that the pressure upon trade must be very great and unavoidable, and that the consequence of high discounts and falling prices must be ruinous to those whose capital does not enable them to stand against such losses. If the four or five millions were deducted from the hundred and sixty millions, the effect of one thirty-second of the whole would be small, but when it comes to one-sixth of the whole the effect is a convulsion.

Thus, the occasional variations in the rate of discount, though quite insignificant compared with the amount of currency, yet, compared with the amount of loanable money, are absolutely ruinous; for an alteration of 5 per cent. in the quantity of the currency, alters the value of the loanable capital to five or six times that extent. When by diminished issues, or increased requirements, the loanable money is reduced four or five millions below the ordinary amount, the value of money is raised 20 to 25 per cent.; although the currency itself be reduced only a thirtieth or fortieth part, or not at all.

If variations so small in the quantity of loanable money produce changes so enormous in prices, it is obvious that, if the Bank of England possessed the power of increasing the issue of notes on credit to the amount of £10,000,000, in addition to its own independent capital of £14,553,000, this would be a power ample for keeping the ordinary rate of discount between 2 and 3 per cent., and the *maximum* at 4 per cent.; or for bringing down to these rates the higher rates of other Banks, under extraordinary circumstances. With such a preponderating power in the Bank of England, supposing it to be the only Bank of Issue, it is not easy to imagine the extraordinary circumstances which could long maintain a higher rate than the ordinary Bank of England rate of discount; for, the greater facility thus afforded by the Bank of England for the transfer of capital by increasing the issue of notes, and the greater control over the market of gold for counteracting its export, would, under ordinary circumstances, effectually prevent those sudden changes which defeat all calculations and destroy credit.

When the diminution by only the thirtieth part of the ordinary amount of our currency produces such serious derangements of our monetary system, and such extensive commercial embarrassments, it is a reasonable conclusion that, all these consequences might be prevented by keeping the supply of currency at all times equal to the demand, or, increasing the issue of notes, and, if necessary, keeping them in circulation by checking the efflux of gold.

With a power over the issues of notes, and over the market of gold, the Bank of England would be able to prevent those derangements, which cause such general distrust and loss of credit; or, if, on extraordinary occasions, the power were insufficient to prevent temporary derangements, those occasions would be rare; and as the operations of the Bank of England would quickly restore the equilibrium of value between this country and foreign countries, public confidence would remain unshaken and would prevent that general distrust and loss of credit which produces panic.

Experience has proved that, the cause of panic is simply in the fact that, from one cause or another, the currency has become reduced to an amount insufficient for the requirements of the community, and that as soon as the amount has been made sufficient for the requirements, the crisis is at an end.

The question, then, is simply this ; whether the amount of currency shall be increased to meet the requirements ; or, whether the requirements shall be reduced to meet the amount of currency.

Under the present system, the requirements are brought down to the currency, instead of the currency being brought up to the requirements ; the one case being attended with increase of profits to trade and of Capital to the country,—and the other with ruinous losses to trade, and, consequently, diminished capital.

It is the iron-bound rigidity of the Bank Act, and the want of elasticity in our currency system which is the great evil. It is this which prevents our currency from accommodating itself to those occasional fluctuations in the demand, which must be ever liable to occur, and which it is impossible wholly to prevent.

Nor is this evil confined to such occasional fluctuations. With an increase of trade and population, such as has occurred in this country within the last twenty years, it is manifestly impossible that the same amount of Bank-notes which answered the requirements in 1844, should be sufficient for the demands in 1865. If in 1844 £21,000,000 of Bank-notes were sufficient to keep the ordinary rate of discount between 3 and 4 per cent., and if in 1865 the requirements demand £25,000,000 of Bank-notes, it is evident that 10 and 12 per cent. would become the ordinary rate of discount, with variations between 15 and 20 per cent. in times of pressure.

That would still be held to be, as it is now, only a question of supply and demand, and that question would be answered as it is now. But those Political Economists who would so answer, do not distinguish between a natural and artificial law. The natural law cannot be controlled, but the artificial can be.

The Bank-note, being entirely an artificial contrivance to save gold, must be regulated by an artificial law, but this artificial law should be so framed as to work in as strict conformity as possible with the natural law of supply and demand. No philosophy, no science, and but very little common sense is required to show the necessity for this. And yet this modicum of common sense is wanting for the regulation of our artificial currency system !

Philosophy and science are brought forward in support of a natural law which is undisputed, and this is applied to our currency system which is wholly artificial, and not regulated in conformity with the natural law, but in conformity with an arbitrary rule, which is directly opposed to the natural law.

Thus, by artificial contrivance, money is made out of paper, and the paper is made equal to gold in this country, but cannot be made equal to gold out of this country.

If the paper were equal to gold in every country, then the paper would be subject to the same natural law as the gold, but being current only in the country where it is issued, paper-money is of no value for foreign commerce without the gold; therefore the natural law of supply and demand is as applicable to the paper as to the gold, which is represented by the paper.

But the artificial law acts inversely to the natural law, for, as the gold diminishes in quantity, the paper which represents the gold diminishes in like proportion, and, therefore, the natural law of supply and demand is reversed, the supply continually diminishing as the demand increases, and as the paper is supplied by credit, and the gold by loanable capital, which is independent of credit, to make the supply of paper-money dependent on loanable capital, is not only to restrict the credit of the country to that amount, but also to subject such restricted credit to all the variations in quantity and value of the loanable capital, instead of extending credit on the broader basis of the whole capital of the country.

By this radical defect in our system, the issue of our bank-notes is regulated not by the natural law of supply and demand, but by the artificial law of credit; that credit resting on the comparatively narrow basis of loanable capital, and, therefore, liable to be affected by all its variations, instead of resting on the broad basis of the whole capital of the country, by which the bank-notes are, in fact, guaranteed.

The effect of this system, irreconcilable with any recognized principle, is to withdraw the paper, representing the gold, as the gold itself is withdrawn, thereby withholding the paper at the very time when it is most wanted, and shaking, to the very foundation, the credit on which the whole system of paper-issues rests, and thereby making such issues a delusion and a snare to all those who have recognized and relied on these as equal to gold. This is, in its effects, worse than if the paper were issued as notes not convertible into gold. Times and circumstances might again arrive when that promise could not be performed, but still confidence in the paper as the representative of gold, and credit, might remain unshaken in this country, and the consequences of that state of things would be trifling in comparison with the disastrous consequences when credit is destroyed, and neither paper nor gold can be obtained. This is no speculative opinion, but experience from facts.

A famine, a long protracted war, or the foreign exchanges for any lengthened time against us, would prove the inefficiency and insecurity of our monetary system under the Act of 1844.

The outflow of gold, which occasionally takes place in this country, as in other countries, is and must be unavoidable; but, in this country, it is only temporary. The gold returns of necessity in the ordinary course of trade.

The gold, as it does not leave this country through any depreciation of the currency, will come back without any artificial measures taken to enhance the value of money.

A metallic currency is continually and unavoidably contracting and expanding.

To neutralise these effects, the object should be to combine with a metallic currency another kind of money which can be made to expand and contract in inverse order. The principle of the compensation-balance is as indispensable in the measure of value as in other measures. In this way the measure of value can be maintained, and the money-contracts and pecuniary engagements of a country can be kept unaltered.

Bank notes are the means by which this may be effected. Combined with metallic money, Bank-notes are like the steel curve in the compensation balance, which keeps the measure unchanging. We cannot stop metallic contraction and expansion, but we can modify and neutralise both.*

But, under our present system, the transient outflow of gold, instead of being neutralised by Bank-notes, is so treated as to produce a serious derangement of our measure of value. The Bank-notes are used to aggravate into a serious evil the beneficent working of a natural and self-regulating law, and thus to defeat the sole object for which a standard measure is instituted.

* Economy of Capital, p. 287.

The indispensable requisite of a standard measure is that, it shall be at all times free from variation. We make our standard-yard of the substance least liable to contract and expand in length, and so we try to perfect all our standard-measures, neutralizing by combinations the natural law, and so, by artificial means obtaining, as nearly as possible, a standard of unvarying measure,—for all but the measure of value,—of all measures the most important to the whole community.

This all important measure of value we leave to expand and contract so as to baffle all calculation,—varying sometimes to a third or a fourth—to the extent of 20, 25, and even 30 per cent. This is as if the yard measure, by contraction and expansion of the material of which it is made, were sometimes three feet in length, and sometimes four.

The value of money, like that of all commodities which money buys, depends upon the amount of the supply, and the extent of the demand. If the amount of money in a country be below the requirements of the community, the value of the money will be raised, and prices will be lowered. The same quantity of land, houses, goods, or labour, will no longer sell for the same amount of money, as when the amount of money in the country was equal to the requirements. The trading and working classes (constituting the greatest part of the community) whose wealth is in goods and labour, will suffer serious loss: while the small class (comparatively a very small part of the whole population) whose wealth is in money, will reap immense gains. Every such change in the value of the currency sweeps away the profits of the trading and industrial classes, to fall into the pockets of the capitalists and money-dealers.

The losses inflicted upon the employers throw out of employment the working-classes, and the injury to Trade is the loss to the country. In the aggregate, this loss is incalculably great.*

It is not generally known how small a variation in the amount of the currency is sufficient to produce or to prevent the change in our measure of value.

The total amount of gold and silver and paper money, variously estimated, may be taken, as already shown (pp. 325 & 399) at about a hundred and sixty millions; but the variations which occasion our monetary calamities seldom exceed five millions.

This will appear extraordinary, but less so when it is known that, from this total amount

* Economy of Capital, p. 289.

of currency, about a hundred and twenty millions are supposed to be taken out for constant use in the retail operations of daily life, leaving only about forty millions in the banks to meet the ordinary requirements of the depositors, and that the surplus, after meeting these demands, is the only available fund for the discount operations, by which the trade of this country is carried on. The amount of that surplus and available fund cannot be precisely estimated, but, as already shown, (page 399) it must be a continually varying amount, and can hardly exceed, even if it reach to, thirty millions.

To withdraw five millions from a currency of a hundred and sixty millions is not a very serious deduction, but, taken out of thirty millions is one-sixth, and that is a very alarming diminution of the fund applicable to trade requirements, but still more alarming when the surplus, after providing for these requirements, is the only available fund for all the discount operations by which the trade of the greatest commercial country in the world is carried on.

This estimate is exclusive of the uncoined bullion,—which may be taken, on the average, at ten millions,—kept in the vaults of the Bank of England.

Thus, the occasional variations, though small in comparison with the amount of the currency, are, under our monetary system, sufficient to vitiate our measure of value, and to inflict great wrongs in incalculable losses upon the whole community. Instead of preventing or neutralizing the effects of these variations, we greatly aggravate them. A diminution of 5 per cent. in the quantity of the currency is in effect to increase its value to five or six times that extent; and when, by a diminution of the supply, or a temporary increase in the requirements of trade, the loanable portion of the currency is reduced four or five millions below the ordinary amount, the value of money is raised 20 or 25 per cent., although the currency itself be reduced only a twentieth or twenty-fifth part, or, may be, not reduced at all.*

If such small variations in quantity produce such great changes in value, it is easy to see how these variations may be prevented or neutralised.

Experience has demonstrated that, the cause of all our money panics is, the simple fact of the currency being, at those times, insufficient in amount for the requirements of the community, and that, when that cause ceases, the panic ceases. In every crisis, when the Bank of Eng-

* 'Economy of Capital,' p. 291.

land has reversed its policy of contracting its discounts and circulation, and, as the Governor of the Bank in 1826 said, "made common cause with the country," the difficulty has come to an end. It was the notes of the Bank that were wanted, and as soon as these were supplied the crisis ceased. There was no doubt about convertibility, and no want of gold; on the contrary the issue of notes actually stops the internal drain of gold.*

The conclusion from this is as obvious as the effect is certain, that if the Bank of England had been provided with notes equal to the requirements, the difficulty would not have arisen, and no losses would have been sustained.

No depreciation of the notes can arise from such a procedure, for the notes will not go out unless there be a demand for them, and the extra demand must always maintain the value of the extra issue. When the temporary demand ceases, the notes will return to the Bank in the ordinary course of business.

The extra issue only preserves the measure of value unchanged. It simply prevents prices from being lowered from the want of the means of transfer, and thereby maintains the standard of value. Nor does this impose any hardship on

* 'Economy of Capital,' p. 294.

the Bank of England, for such an extension of discounts is so much additional profit to the Bank. In this way the requirements of the community may be fully met, without any enhancement of the value of money.

It is not surprising that the Bank Directors are unanimously in favor of the present Bank Act. It would be surprising if it were otherwise. Whatever measures they take, they appeal to the Act in justification, and it is impossible to deny their appeal. They keep within the letter of the Act, and that shields them from responsibility. Whether they raise the rate of discount or lower it; whether they expand the currency or contract it; whether they refuse to discount cotton bills or Exchequer bills; or, whether they decline to make advances upon personal assets and securities; "the Act" is their answer to all criticisms and complaints, whether the provisions of the Act have anything or nothing to do with the policy which they adopt. The Act makes no regulation as to the rate of discount, though it enjoins a contraction of the currency, and that they do not enforce; on the contrary, they expand the currency when they are enjoined to contract it, and this affords them a plausible pretence for doubling the rate which they charge for money. The Act enables them to charge 8 per cent. where formerly they charged 4 per cent. They pretend to justify this extortion by referring to the Act, which requires them to keep so large a stock of gold on hand. They feel the weakness of their position, and answer all complaints by an appeal to the Bank Act. And so most evil doings are excused or extenuated by the law of necessity or necessity of the law. But the fact that the Bank Directors are unanimous in favor of the Act is a very doubtful argument in favour of that measure. No sensible person thought of leaving the Corn-laws to be decided by the farmers, nor the Navigation-laws to be judged by the ship-owners, nor the silk-duties by the silk-weavers. But they were quite as competent to determine those questions as the Bank Directors are to determine the Bank Question. The Act is a convenient screen, which shields them from responsibility, and, at the same time, is a great source of gain to the Bank of England and to all banks. Human motives are not always discernible, but self-interest unconsciously gives a bias to the judgment, and is fertile in suggesting arguments in its own favor. Bank Directors may believe that the losses which they impose on the commercial classes by high rates are necessary for avoiding worse evils. So reasoned the farmers on the corn-law; but not so the community at large. Farmers thought,—the corn-law ensured the growth of more wheat in this country than there would otherwise be; Bank Directors think,—the Act keeps more gold in the Bank than there would otherwise be. The mistake is the same with both; but the mistake of the farmers has been discovered and amended; the mistake of the Bank Directors still remains to be discovered and amended, and that is the greatest mistake of the two, for if the Corn-law had not been abolished, and if an additional quantity of wheat had been grown in this country, the whole would have come into the market for the benefit of the community; whereas the extra stock of gold shut up in the Bank vaults, under the Act of 1844, never can come into the market for the benefit of the community or of anybody, until the Act be suspended or repealed.

But, under the Act, a drain of notes is as fatal to the Bank as a drain of gold; for, as the issue of notes is limited by the amount of gold in the Bank's possession, the effect is the same whether the demand be for notes or gold. The diminution of the reserve of notes corresponds with the demand for notes, and the demand for gold cancels notes to an equal amount. The more the Bank raises its rate to check the demand for notes, the greater is the commercial difficulty, the greater the distrust, and the greater the drain of the reserve of notes. And the same of the gold, for the supply of the banks to meet the panic. In this way, an external drain inevitably brings an internal drain, and in the crisis of 1857, the amount of gold withdrawn from the Bank of England to meet the internal drain was twice as large as the amount which, during the same time, was sent abroad; while the reserve of notes was in like manner reduced by the effect produced by the Bank's operations on the country.*

But, to make the system complete, the power of controlling the issues should be vested in the Bank of England, by confining the issue of notes to that one Bank.

There is no competition in the issue of the coined-money, and there should be none in the issue of notes, which are made equal to the coined-money, on the condition of being convertible into gold coin on demand.

To compare freedom as applied to the coinage, with freedom as applied to the trade of a country, is to compare two things wholly dissimilar. There is no single property or circumstance to connect or assimilate them. The freedom, which is an essential principle of trade, is the very reverse when applied to furnishing the artificial medium,

* 'Economy of Capital,' p. 139.

called money, as a means of carrying on trade. It is confounding freedom with licence, involving confusion, to allow the free issue of money, which is only an artificial contrivance in substitution for barter or exchange. The free issue of money always has been and always must be fatal to the freedom of trade. It is the old error of John Law over again, and was fully exemplified in the *Assignats* of revolutionary France. It has since been further exemplified in democratic America, and the absurdity is now being shown in a modified form in the present National Currency Law of the United States, as will be more particularly pointed out in these pages, when dealing with this specimen of American popular but unscientific legislation.

The monopoly proposed to be vested in the Bank of England is for the express purpose of securing to the Trader the legitimate means for carrying on his trade; not for conferring benefits on the Bank, but for transferring, by means of the Bank, all the benefits to the community at large; precisely as the sovereign power, limited and guarded, is vested in one person, for the benefit of all persons subject thereto. The sovereign power over the money of the country would then be in the Bank of England, as the sovereign power is now in the Queen of England; but, virtually, the power would be in the People; and there is as little reason for complaining of the monopoly in the one case as in the other. There would be no more competition in the one case than there is in the other; but individual freedom, so far as it is consistent with the public good, would be preserved.

It would then not be so easy as it is now for the great capitalists to make capital out of the ruin of the small capitalists; nor would it be any longer for the interest of the Bank of England to help to bring about that state of things which so often brings to ruin Traders both great and small. The power would be nominally in the Bank of England, but virtually in the whole People of the kingdom. Freedom of trade would be so far secured that, Traders would be free to carry on their trade, so far as it depended on their own legitimate means, and that is what they are now not free to do.

The monopoly of the Bank of England in the issue of notes is as necessary for that unity of action, which is essential for preserving the constant and regular movements of the compensation-balance required for correcting the occasional and temporary differences between money of paper and money of gold, as the monopoly of power in the Sovereign or Head of the State is necessary for that unity of action, which is essential for preserving the constant and regular movements of the compensation-balance required in the government of a State.

The cry for free trade in money, so often heard, is unintelligible and serves only to show how little free trade is understood.

Free trade is simply freedom of contract, and since the abolition of the Usury Laws and the passing of the Limited Liability Acts, free trade in money has been complete.

The real and only difficulty is, the want of money equal to the requirements of commerce.

This is a difficulty arising purely out of an artificial and defective arrangement, consequent on the change from the primitive and natural course of barter by exchange. If the means by which the exchange is effected be wanting, it follows that the interchange of goods is impeded. To avoid this impediment the practice is introduced of giving a premium to the possessor of money,—(the common measure of value),—for its temporary use, as the only means for carrying out the ordinary transactions of commerce. The premium so paid by the trader to the capitalist, for the temporary advance of his money, is so much deducted from the profit of the trader for the benefit of the capitalist.

It is, therefore, manifest that, the premium so paid is, to that extent, an impediment to production, and if that deduction from the profit of the trader be so great as to leave him but an insufficient return for his capital and labor expended, it is an injury not only to the trader, but also to the whole community, by enhancing the price of the products and discouraging commercial enterprise.

In many cases, where the capital has been already expended, the high rate of discount absolutely annihilates all profit.

Thus, it may be seen that, the cry, so often heard, of free trade in money, is without any meaning, there being no want of freedom, but only a want of money on reasonable terms to meet the requirements of commerce.

The only possible way of meeting that want, under the existing system of a monopoly of credit money in the National Bank, is to fix the *maximum* rate of discount for that Bank, and to provide it with the means equal to the occasion. This applies as well to the Bank of France as to the Bank of England, and to all other National Banks under like circumstances. As long as that monopoly exists it will be indispensable to impose *on those Establishments a maximum* rate of interest. At present those Banks are exempted from all restriction with regard to the rate of interest, and the privilege of credit issues (in the case of the Bank of France unlimited), which those Banks enjoy, instead of being a monopoly for the benefit of the country, is converted into a monopoly for the benefit of the Banks to the injury of the country. It is this injury, so severely felt, that occasions the cry for free trade in money, but this arises from an imperfect understanding of the subject. It is not that money is not free, but that it cannot be got at when it is wanted, without paying for it an inordinate and ruinous price, high in proportion to the necessity, and, therefore, on extreme occasions, practically unattainable.

The cry ought to be against this monopoly without the restrictive limit to the rate of discount, for without this restriction the privilege of credit issues is a most unjust monopoly, being a benefit conferred on the Bank at the cost of the whole community; but to abolish that privilege, as a monopoly, would be almost as injurious, being, in effect, the abolition of bank notes.

If that monopoly did not exist, money, like all matters of trade, might be left to its natural course, because liberty would then correct itself by competition, the best remedy for all defects of natural growth. But that state of things supposes the absence of all artificial contrivances for economising the precious metals, a state of things to which no civilized country will ever return.

It, therefore, only remains to make the monopoly serviceable to the object for which it was created, and that is, to the benefit of the country, instead of being, as it now is, an unjust monopoly to the benefit of the Bank and the great injury of the country.

The monopoly of the Bank of England enables the Bank by its action to regulate the value of the currency, and the rise and fall of prices. All the other Banks are unequal to compete with the Bank of England in the exercise of this power.

This monopoly should be made still more complete in the Bank of England, but the whole benefit should be secured to the community.

If the privilege of issues be vested exclusively, as it ought to be, in the Bank of England, that ought to be on the principle of making the issues at all times equal to the requirements, without regard to any other consideration, and at a rate of discount not exceeding 4 per cent. The issue of notes by the Bank of England ought to be regulated on no other principle than making the supply equal, at all times and under all circumstances, to the demand, at 4 per cent. as the *maximum* rate of interest.

If it be necessary for the Bank of England to check the demand for the purpose of stopping the export of gold, the Bank must effect that object by its own capital, and at its own cost; not by its credit capital, at the cost of the credit of the country.

This is a clear and distinct principle, and on this principle only can the monopoly of paper issues in the Bank of England be justified.

So regulated, the monopoly in the Bank of England would be attended with incalculable services to the trade and industry of the country, and with perfect safety to the Bank.

The average rate of discount would then be between 2 and 3 per cent., and the rate would seldom reach 4 per cent. If it ever exceeded 4 per cent., that could be only under extraordinary circumstances and rare occasions, and the counteracting operations of the Bank of England must soon restore the ordinary rate.

The issue of notes being then entirely under the control of the Bank of England, and these notes being the currency with which the other banks and discount-houses carry on their business, they must be so far dependent on the Bank of England as to follow in its course.

The chief, if not the only reason to be assigned by the Bank of England for contracting the issue of notes is, to restrict the export of gold, although that has long ceased to be interfered with by law, as an antiquated and admitted absurdity. Gold is exported only when it is more profitable to export gold than other goods. Therefore, to prevent the export of gold is to prevent profitable trading, and is directly at variance wfih freedom of trade. And yet, on this antiquated error of interfering to prevent the export of gold the Bank of England is still acting.

It seems that, for some time past, the Bank of England has treated the importers of cotton as enemies; for, in the *Bankers' Magazine*, of February, 1863, is the following notice:—"In November last, the Bank of England refused discounts to purchasers of cotton, not because their Bills were doubtful, but because of the dread of a drain of gold."

If such were the act and motive of the Bank of England, that was a check on the import of cotton, to prevent the revival of our cotton trade, and the employment of our labouring population, to save, at the most, a trifling loss to the Bank of England, or, more probably, no loss at all, unless the loss of a gain.

To invest the Bank of England with this monopoly of power over the currency of the country, and to allow the Bank to exercise such power for its own benefit, to the injury of the trade and industry of the country, is as inconsistent with "*free*" trade, as with common justice, and common sense.

Thus, while recent legislation has been striking off the fetters which our ancestors, in their ignorance, had fastened upon Trade, the Bank Act of 1844 has imposed new fetters on the means of carrying on trade, and in such a way as in a great measure to counteract the benefits of freedom and the liberty of expansion.

To this fatal legislation is to be attributed all the subsequent disasters to our country from our defective Monetary System, and the amount of loss inflicted upon the country by the Bank Charter Act of 1844, is so great, and through channels so numerous, as to be utterly beyond all calculation.

It has been said, by a writer on this question entitled to the most respectful attention,* that the practical effect of the Act of 1844, upon the circulation of the country and the bullion, is very clearly elucidated in the following replies of Mr. Weguelin (then Governor of the Bank of England), to questions put to him, as a witness, by Mr. Gladstone, in the Select Committee of the House of Commons on the Bank Question, in 1857.

* "The Currency Question, and the Bank Charter Committees of 1857 and 1858, Reviewed by an M.P.," page 35.

(300.) "With all the fears of the public when a drain has existed, you consider that the anxiety and true prudence of the Bank is now, and has been, for a considerable time past, directed, not to the provision of bullion as a security for the convertibility of the notes, but to the provision of cash in gold and notes together, in order to maintain your banking reserve?"

—"The banking reserve consists of the notes not employed in active circulation, as the active circulation is issued partly upon securities, that is, to the extent of £14,475,000, and the rest upon bullion; the banking reserve is, in point of fact, a reserve of bullion, thus nothing affects the banking reserve but a demand for bullion, either for the internal wants of the country, or for the purposes of export. The rule, therefore, which the Bank has followed in managing its banking affairs is to observe the banking reserve as affected by a demand for bullion."

(301.) "But when you have had any occasion to desire an increase in the stock of bullion, am I to understand that that has not been because more bullion was wanted to secure the convertibility of the Note, but because more bullion was the basis of a larger issue of notes, and an increased issue of notes was desirable with reference to the state of your reserve?"

—"That is so."

(302.) "Having in view the answers you gave with respect to the state of your banking reserve as the great object of care and attention under the present law, do you think that the provisions of the present law are the best that could be adopted, in order to enable you to maintain the reserve in a satisfactory state?"

—"I think that the provisions of the present law, as to issue, little affect the state of our banking reserve, the provisions being that, there shall be only a fixed amount issued upon securities. The fluctuations of the bullion, which is the index measure of the fluctuations of the wants of the commerce of the country, must be the measure of the fluctuations of the reserve; and that must be the case, I think, under any system of law with regard to the circulation you may enact."

(303.) "Do not the provisions of the law with respect to issue act powerfully upon your measures with regard to the maintenance of your reserve? And is not your position as to the maintenance of your reserve somewhat different now from what it was before the Act of 1844?"

—"Before the Act of 1844, it was not necessary to keep a reserve, other than the bullion which was in your coffers,—that was your reserve. When you were called upon for any sudden demand you issued Notes, and, of course, that varied the proportion of your bullion to your notes."

(304.) "Therefore, your position has been materially changed by the Act of 1844, with respect to your power over your own reserve at any given moment?"

—"Yes, with reference to our power over the bullion — not over the reserve, but over the bullion."

The fluctuations of the bullion must be the measure of the fluctuations of the reserve, but the bullion cannot be the index measure of the fluctuations of the wants of the commerce of the country, when the bullion is sent out of the country not as money, but as a commodity, or merchandise. Therefore, this part of the answer is without any meaning. But that the bullion must vary as the reserve, and that the Bank Directors cannot increase or diminish the reserve without a corresponding augmentation or diminution of bullion is true. This is the effect of the Act of 1844, and is *theoretically* its great merit but *practically* its great error; for this assumes that, the unrepresented note circulation is fixed at the highest amount at which it can be safely fixed; and that it is possible to fix that amount;— two important points, which are denied. If the foregoing assumption were true, then the Act of 1844 would be perfect both in theory and in practice; but, in practice, both of these assumed points have been proved to be untrue. It has been proved by experience that, the unrepresented note circulation is not fixed at the highest amount at which it can be safely fixed, and that the amount at which it can be safely fixed can be determined only by experience; also that, the safe limit can be determined only by discretion, guided by experience, according to the ever varying circumstances, subject to regulation and extension from time to time; and that, in the meantime, the *maximum*, or extreme limit, can alone be safely fixed, beyond which even the discretion of Bank Directors is not to be trusted.

At present the principle of the Act and the practice under the Act are at variance. The principle of the Act is that, every holder of a Bank of England Note shall receive in exchange for it, on demand, 5 sovereigns. But the Act authorises the issues of Bank of England Notes to the amount of £14,000,000, and makes no provision for their payment in gold. The provision for the payment in gold is made only for the notes issued in excess of that amount. It is assumed and safely assumed, that none of the £14,000,000 of Notes, unrepresented by gold, will ever be returned to the Bank to be exchanged for gold, and, therefore, that it is unnecessary to provide gold for their payment. Therefore, if notes to the amount of £21,000,000 be issued, it is assumed that £7,000,000 of bullion in the Bank will be a sufficient provision.

There is no fallacy in this reasoning. But the only gain to the country from this mixed currency of paper and specie is in the saving of the interest on £14,000,000 of specie. This is a gain easily calculated. But what is the gain of the further issue of £7,000,000 of notes, if the same amount of gold be always kept shut up in the Bank? It is obvious that there can be no gain if the £7,000,000 of gold remain always in the Bank. It is said that, the value consists in the fact that the gold is there. But this is merely a fanciful idea; for, if it be always there, that is the best evidence that it has not been wanted; and, if it had been wanted, it would have been taken away, and would be no longer there. But, if it have been taken away, the same number of notes will also have been taken away, and, if twice 7 be equal to 14, the currency medium, or legal tender money of the country, will have been diminished £14,000,000, the whole amount of the unrepresented note circulation directly authorised by the Act.

Now, if the whole of the £7,000,000 of gold be taken out of the Bank in exchange for notes and sent abroad, there can be no gain in that to the Bank or the country. The same, of course, applies to part as to the whole.

But when the gold is sent abroad and notes to the same amount are cancelled, what is to become of those traders who have imported largely and have not sufficient time for realising their produce to enable them to meet their bills?

To the traders in this predicament,—and most traders are sometimes in this predicament,—ruinous loss, if not absolute ruin, is the inevitable consequence.

But suppose only a million or two of gold gone, the Bank, to stop the remainder from going, must raise the discount to such a rate as will take away all profit from the export of gold. This is, in effect, lowering the price of bills, or enhancing the value of the bank notes, to meet the enhanced value of gold. The exchange of the bank notes for gold is stopped, for that time, by taking away the profit on such exchange; but this gives the profit on the enhanced value of the bank notes to the Bank, and takes away from the traders the profits on their imports, besides restricting them in their future trade transactions, however profitable those might have been to themselves and the country.

This is the meaning of the correction of an adverse exchange, and these are the desperate means prescribed by the Bank Act—cutting off to cure.

Now, it is quite manifest that, here is no gain to the country, but, on the contrary, a great loss in the unsuccessful transactions of the traders, and in restricting their future operations in trade, if not absolutely annihilating them by bankruptcy. These losses, it is easy to see, may be so multiplied, in the ramification of consequences, as to be incalculable.

The profit of the Bank from these disasters, if any in the end, which is doubtful, can be only for the benefit of the owners of Bank Stock, but the loss of 10 or 12 per cent. falling on the whole trade of this great commercial country is beyond calculation, involving the ruin of many, and most injuriously affecting the whole community dependent on trade and industry.

If it be said ;—'such would be the effect with a currency wholly metallic,'—that is not true.

The issue of £14,000,000 of notes unrepresented by gold, has saved that amount of gold, and has enabled the Bank of England to retain the £7,000,000 with the profit on the gold saved ; but when the market price of gold rises, the Bank can no longer retain this £7,000,000, without

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enhancing the value of the bank notes, at a cost to the community much greater in amount than any profit to the Bank or the country on the gold saved. This supposed profit is, simply, the delusion of the Bank Act, for the actual loss very far exceeds any profit, and, clearly, it would be much better for the country to have no bank notes, than to have them at such a cost. If this be the risk and loss on the issue of £7,000,000 of notes against the like amount of bullion in the Bank, how must the risk and loss be multiplied when the £19,000,000, or £20,000,000 of deposits in the Banking Department are brought into operation against the gold in the Issue Department by the same process of exchange of notes for gold? The trick of the £14,000,000 of notes slipped in on credit, liable, but not likely, to be redeemed in gold, passes unperceived in the case of only £7,000,000 of notes issued against the like amount of gold deposited in the Bank; but when an additional issue of notes is made on the faith of these deposits, which may be at any moment withdrawn, and these notes are exchanged for gold, then the original and harmless trick, and the vicious deception founded thereon, are very plainly seen, and the delusion is very forcibly exposed in universal panic and almost universal bankruptcy.

Where is the profit to the country on the original saving *then?*

Certainly not in the community, and certainly not in the Bank. But if it were in the Bank, what compensation is that to the country?

Who can calculate the losses, and who can guard against them?

Who can foresee all the evil consequences of this complicated state of things, or trace the evil through all its intricate courses with a view to precautionary measures against it?

That is impossible.

To find a remedy is also impossible, because the principle and the practice can never be made to agree. It is as impossible as to bring all nations to agree to one measure of quantity, or to one denomination of money, or to one language. All these attempts are impossible, and, therefore, all are equally absurd; a conclusion which might safely be assumed from the innumerable attempts and failures.

On this Bank Question, how few, among all the most experienced and able men in the country, are agreed on any one point! If they agree in anything, it is in not making any change, for fear of making matters worse. They all, or almost all, agree that there is something wrong, but on the question,—how to mend it,—there is no agreement. They do not see their way, and, wisely, they do nothing, for, in the dark, it is sometimes the wisest way to stand still.

Here is an M.P., one of the present members for Westmeath, a gentleman well known and highly esteemed by all who know him,—distinguished as a Scholar and as a Political Economist, and who is known to have devoted much attention to this Bank Question in particular. He has written a pamphlet in favor of the existing Bank Act, and he entitles his last chapter,—

"REMEDIES SUGGESTED."

But his remedies are no remedies at all, because he maintains the principle of the Act, which cannot be carried out in practice, without involving the country in ruinous consequences. This discovery the Bank Directors have long ago made, and, therefore, they do not carry out the principle of the Act, though they obey it to the letter. They enlarge the issues of notes when, according to the principle of the Act, they ought to restrict them. Thus they temporise with the evil, but they never get over it, and it often gets over them. They see the evil, but they have no power to escape from it. The Bank is never in danger, and they know that. They know that the danger and the loss are chiefly to the trading community and the working classes,—who, in fact, are literally plundered without their knowing it,—but the great capitalists know it, and they share the plunder with the Bank. But then,—to mitigate these hard words,—they do not know how to help it, and our friend, of 'Westmeath,' almost admits this in his *final suggestions*.

Such is the mystery of the Bank Act of 1844, nor will the mystery ever be cleared up, until the false principle on which the Act proceeds be abandoned.

The foundation is a fiction, and the whole structure is a baseless fabric. It is a fabric of paper and gold resting on a mere paper foundation. To make it stand, the fabric must be of paper only, resting on a gold foundation. There must be much more paper, and much less gold; and the gold must not rest upon the paper, but the paper on the gold. There must be plenty of paper for all requirements, and something over to spare for special purposes, on extraordinary occasions. The gold must be quite apart, and be provided, as required, from the open market. There must be gold for change, and the means for purchasing gold at all times, and to any required amount.

By such means alone can these objects be secured. With plenty of paper, and the means of obtaining plenty of gold, the foundation and the fabric will be secure.

If plenty of paper send away the gold, purchases in the open market will always bring it back again, and these operations repeated will make it unprofitable to send it away. In the competition for gold, this country must always prevail over other countries, as long as it maintains its present pre-eminence in trade. Plenty of notes at all times, with the means of obtaining plenty of gold when required, is the surest way of maintaining that pre-eminence.

The market of gold thus controlled, would make England the best market for gold in Europe:—it is that now, but then the trade in gold would be profitable to England, instead of being, as it is now, a very losing trade.

But, with this command over the market, why should the Bank of England keep in hand a larger stock of gold than sufficient to meet the ordinary requirements for change, and for foreign payments?

If wanted for export, as merchandise, why should not the Bank Directors buy the gold which is their merchandise, like other merchants who buy their merchandise, when wanted?

When the price was raised by such a purchaser in the market as the Bank of England would then be, foreign countries would find it less profitable than they do now to come into competition with the Bank of England in the open market for gold.

But, if they do come into competition, why should they not, if they pay the market price?

And, why should not the Bank of England be free to buy and sell gold, as merchandise without being compelled to increase or reduce the issue of notes?

And why should the Bank of England be compelled to exchange its notes for gold?

Dealing in gold, as merchandise, is a trade quite separate and distinct from banking, and the one need not in any way interfere with the other, for that must be a very defective system of banking which is subject to such interference.

This is just the interference to which the Bank of England is subject, and which operates with such fatal severity against the trade and industry of this country.

But for the bad precedent of such a departure from a now universally acknowledged principle, it would be better for the country to revert to the old absurdity of a duty on the export of gold. Such an export duty might easily be so arranged, on a scale varying with the amount of specie in the Bank of England, as to "correct the exchanges" quite as effectually as by varying the rate of discount under the present system, and without imposing on the exporters any payments beyond their present payments, but to the saving of the community from the money-panics and convulsions to which they are now exposed by the rise in the rate of discount to stop the export of gold. This would be a disgraceful departure from principle, and a lamentable retrogression for the Nation; but still, *per se*, this would be the saving of a great loss to the Nation, for, now, when a large export of gold takes place, the Bank raises its rate of discount, and thereby makes the merchants, who want gold for foreign payments, pay an extra price for it. This is as much an impost on the export of gold as was the direct export duty formerly levied by the Government, the only difference being that, the profits, which formerly went to the Government, now go to the Bank. But the export duty affected only the few individual exporters, and now the whole community is taxed alike, whenever a considerable export of gold takes place; for, the high Bank-rate, which is charged for the purpose of checking the export of gold, is levied not only on the exporters but on the whole community.

But the Bank of England has also another object, besides checking the export of gold, and that is to attract gold from other countries. In this object, however, the Bank is less successful, for most other countries adopt the same means about the same time, and so the inducement to export or import specie on these occasions generally remains much the same as before. But if the result of this process be that, no one country gains specie at the expense of its neighbor, still, commerce is checked everywhere, and in this country, at least, the Bank of England is the only gainer.

One of the common fallacies of the advocates of the Bank Ast is, to treat gold and notes as one and the same thing. Into this fallacy the writer of the leading article in the *Times* is continually falling. In the *Times* of 12th December, 1866, he writes as follows:—"The Act no more limits the currency than it limits the quantity of tea or sugar in the kingdom. Gold and silver are freely imported according to our need, and pass into circulation directly, or indirectly in the form of the notes which are received against them when deposited in the Bank cellars. The currency is thus increased or diminished according to a natural law, and the stock of coin and bullion in the Issue Department, apparently lying dormant, but really circulating in the form of the notes issued against it, is a measure of the extent of the currency at any time. If an increased trade had made it necessary to have a larger amount in circulation, that stock would have shown a corresponding increase."

The writer has assumed that, because you can always exchange the gold for the note or the note for the gold, the gold and the note are, in effect, one and the same thing, and so they would be, if you could always get the gold or the note.

But what and if you can get neither? Or, can get neither without a ruinous sacrifice of property?

That is the case in the time of panic, and that is the question, which the writer in the *Times* overlooks, or does not answer.

It is not capital which fails, but the power of converting capital invested in any kind of property into gold coin or notes, that is, into money or currency.

The holder hoards his notes to buy 25 per cent. below the value.

Gold rises in proportion.

Consols will not sell, for no one will buy.

The borrowers' acceptance becomes due. He cannot pay it, and he cannot renew it. There is no want of capital, but there is want of currency. He has plenty of property to be realised, but there is no ready money or currency wherewith to realise. If he realise, he makes himself insolvent. If not, he is made a bankrupt, and pays 20*s*. in the pound.

When the impression prevails that, the Bank reserve is likely to be exhausted, everybody rushes to the Bank of England for notes and locks them up for usury. Then comes the panic and the crash of falling houses with loss of confidence, the worst of all.

Our capital is estimated at thousands of millions, and our ready money or currency in notes and gold, at the highest estimate, is £160,000,000.

And, yet, the *Times* says :—"The Act no more limits the currency than it limits the quantity of tea and sugar in the kingdom."

Many suppose that, to invest the Bank of England with a monoply of the paper issues is to interfere with the freedom of trade.

This is a great mistake.

It is manifest that, as the paper-money stands precisely in the same situation as the coined-money, a monopoly in the issue of the one can no more interfere with the freedom of trade, than a monopoly in the issue of the other.

The only rational ground of objection to a monopoly is that, it confers an advantage on one individual or set of individuals in the State, to the prejudice of all the others.

The only justification for a monopoly is that, it does better than liberty,—that it renders services superior to those attainable by the system of competition.

There can be no objection to a monopoly when conferred for the equal benefit of all. On the contrary, the more complete the monopoly the greater the benefit,—if then it may be called a monopoly. The only objection now is that, the monopoly of the issue of paper-money in the Bank of England is not complete for the object of unity.

To do better,—is it not to distribute commercial credit abundantly, and to distribute it cheaply?

With a liberal system for the Banks, the abundance of capital would have no other limit than that of the benefits obtained by the industry so exercised; assuredly, the capital would not be wanting so long as the benefits were as great as they are in these days,—so long as this industry has not been reduced to the rate of other industries.

The restrictions of which the Bank makes such frequent use, under the pretence of prudence and moderation, cannot be justified, and are calculated to cause regret for the absence of competition.

As M. Isaac Pereire observes:—"We are thus led to examine whether it be not useful to prescribe a *maximum* of discount in the system of monopoly."

It would be rendering a great service to the country to appreciate at their true value the pretences of the Bank for the exercise, which it is so continually making, of its restrictive powers.

For that purpose it would be essential to inquire into the causes of the depreciation of the bills and bonds of the great enterprises of public utility, and into the number of those bills which are floating upon the market; nor would it be less necessary to find out if the depreciation arise only from their abundance, or from the abandonment in which they are left by the Bauk.

The work which these bills represent can have been executed only with existing capital. The workmen who have produced the work can have been supported only by subsistence money, or capital before produced.

The savings of a nation, or the products which form the savings, are thus transformed into advantageous investments, being reproductive.

But, that the bills which prove the accomplishment of these works of public utility may acquire all their value, it is necessary to facilitate the classing in the hands where they rest in a state of definitive investment; their value again is subordinate to the rate of revenue which their capitalisation will bring, and that rate depends generally on the interest adopted by the Banks.

In vain is it said, to justify the abandonment in which these bills are left, that they represent only fixed capital, that the debentures and bonds are of this character, and that a bank of discount and advance ought not to sink its capital in such securities.

That the Bank of England ought not to sink its capital in such securities is admitted, but that is no reason why the Bank of England should refuse to discount bills drawn on such securities; for there are no properties more quickly and easily realised than those which, like railway debentures and bonds, are daily the objects of multiplied transaction.

When the Bank of England alleges, for motives of its resistance to the sale of its stock, the danger of producing too great a depression of the funds, why does the Bank never hesitate, when it is the question of imposing upon others to make the same depression, and at the same time to depreciate all other property, in suddenly diminishing its discounts, and thus suddenly throwing a mass of bills upon the market?

It is not necessary to seek further for the cause of a great part of the disturbance in the public funds.

The attacks directed against foreign loans, or public works executed abroad, are connected again with the infantine prejudices of the lamentable theory of the balance of trade; it is necessary, consequently, in order to appreciate the value, to measure the extent.

It may be easily shown that these loans and these works, the international utility of which cannot be disputed, are a powerful means for facilitating from without the investment of the produce of our agriculture and of our industry.

All are bound and linked together in the work of production.

If there did not exist a certain number of English and Foreign Capitalists disposed to accept, stock, debentures, and bonds of foreign enterprise, in payment for these products, our exports assuredly would never be raised to the colossal amounts which they have attained for some years past.

It will be seen, by incontestable official proofs, that it is inaccurate to pretend, as the Bank of England and its supporters do, that these stocks, debentures, and bonds, have been paid for by the export of money abroad; in reality, they have been paid for only by the excess of our production ; but, even when they have been paid for in metallic value, how could we have procured these metals, if not against the products due to the fertility of our soil, or to our labor, since the British territory contains neither mines of gold nor of silver?

The issue of these loans and the creation of these enterprises have had, besides, for effect, to make the English market the centre of the capitals of Europe.

Our country, moreover, retains only as many of these new bonds and securities as it suits her to retain, and it has really retained only a portion of those which have been issued in England.

All restrictions exercised by the Bank of England against loans and foreign enterprises appear, consequently, to be more injurious than useful, when not exercised by the necessity of the case for safeguards of great political interests.

As long as a country shall not have created new employments in its own interior, it may be taken for certain that, it will be impossible to hinder disposable capital from seeking advantageous investments abroad.*

* "Principes de la Constitution des Banques et de l'Organisation du Crédit." Par M. Isaac Pereire—page 15.

Credit money is only the representative of metallic money, and upon it only can rest.

To suppose that the issue of notes, representing money, has anything to do with banking,—or, not to distinguish between the bank of issue and the bank of deposit, is to confound things totally distinct.

This is a manifest error, and yet into this error the learned members of 'L'ACADÉMIE DES SCIENCES MORALES ET POLITIQUES,' of Paris, seem to have fallen, in their long and tedious discussions, 'SUR LES BANQUES D'ÉMISSION,' when the principal speakers were M. Michel Chevaliea, M. le baron Dupin, M. Wolowski, and M. Dumont. It is strange that men with such distinguished names should have talked so much to so little purpose, as they have done, by their own account of "la séance du 27 Février, 1864," occupying a *brochure* of 165 pages.

But, the most sensible remark on that occasion was made by M. Dupin, who said, in answer on the *monopoly* question :—" Peu m'importe que la cupidité de quelques particuliers ne soit pas ici satisfaite ; je m'occupe avant tout de l'intérêt national. Chacun peut acheter en nombre illimité des actions de la Banque nationale et participer à ses bénéfices aussi bien que ses fondateurs ; voilà la véritable égalité, et celle-là me suffit."

And that ought to satisfy everybody, being all that need be said on the subject of this monopoly.

Those learned gentlemen who dwelt at so much length on the great extent and requirements of the French Empire, for the purpose of showing the necessity for more than one Bank of Issue in France, seem to have overlooked the simple fact that, their difficulty on this ground could be as easily and effectually removed by the establishment of Branch Banks from the present Bank of France, as by the establishment of new Banks of Issue.

It is very remarkable that such an over-sight should have been made by such an assemblage of *savans*, and that the true principle of a Bank of Issue should have been unperceived by any of them.

M. de Lavergne, (who was prevented from attending la Séance de l'Académie), in his written address, subsequently given, says :—" On se tromperait d'ailleurs en croyant qu'une succursale dessert tout le département où elle se trouve. Son action s'arrête au contraire dans un rayon très-étroit, et il est plus facile d'y escompter du papier sur Paris ou sur une autre succursale que sur les petites villes voisines." But why a Branch Bank should not provide for the department as well as another Bank of Issue, M. de Lavergne has not explained. He says that, Scotland, with a population less than the tenth part of the population of France, provides 460 Branch Banks, or one for 8000 inhabitants, and that it cannot be an exorbitant demand for France, divided into 373 arrondissements, to require 373, or one for 100,000 inhabitants. "Alors seulement l'organisation du crédit embrassera l'ensemble du territoire; jusque-là on ne fera rien que de partiel et d'incomplet."

According to this reasoning, it is the number of the inhabitants on the square mile, and not the wants of the inhabitants, that is to determine the number of Banks! M. de Lavergne seems to have forgotten that, Banks are but shops, dependent, not so much on the number of the inhabitants as, on their wants.

But, whatever may be the wants of France, those wants might be supplied by the Bank of France, properly constituted, or by Branch Banks, as effectually as by any number of new Banks of Issue, and, for many evident reasons, much more so. France has only one Bank of Issue, but the Bank of France, which has 53 Branches, and is increasing the number every year, would find no more difficulty in directing 373 Branch Banks, if required, than it now finds in directing the

89 Branch Banks which are authorised by the law.

The metallic currency of France is estimated at from £160,000,000 to £200,000,000, English money.

M. de Lavergne, with perfect naïveté, asks:—
"N'est-il pas regrettable que quand la Banque a de grandes demandes à satisfaire à Paris, elle réduise ses escomptes à Marseille, à Bordeaux, à Lyon, qui n'en peuvent rien?"

It is *regrettable*, but the conclusion which M. de Lavergne draws from this fact is astonishing. He asks:—"Ne voyons-vous pas ce phénomène singulier que, si elle se croit forcée d'élever le taux de son escompte à Paris, elle l'élève par ce seul fait dans toutes ses succursales? Parce qu'il y a crise à Paris, faut-il de toute nécessité que l'escompte monte aussitôt à Bayonne, à Nice, à Agen, à Bastia?"

It would, indeed, be a singular phenomenon if the consequence were otherwise, as M. de Lavergne seems to think it ought to be and would be, with separate Banks of Issue in all those places.

If the rate of discount in Paris were 8 or 9 per cent., the probability is that, those provincial Banks of Issue would be unable to discount at any rate.

If anything more can be wanting to show the error of M. de Lavergne's conclusion, his own words may supply that want. He says:—"Toute banque présente des dangers: diviser les banques, c'est diviser le risque. Tout le monde connaît ce proverbe vulgaire:—'Il ne faut pas mettre tous ses œufs dans le même panier.'"

In support of his peculiar views, M. de Lavergne refers to Sir Robert Peel, and his Bank Acts of 1844–45, and asks, if he suppressed a single one of the 200 Banks of Isssue and more then in England. "A-t-il supprimé une seule banque? Pas une seule. Il s'est borné à empêcher qu'on n'en créât de nouvelles. Si la France avait autant de banques d'émission que l'Angleterre proportionnellement à sa surface, elle en aurait mille. Nous n'en demandons pas tant."

That reference to Sir Robert Peel was unfortunate. M. de Lavergne was not likely to know how much Sir Robert Peel desired to confine the issue of Bank Notes to the Bank of England, and to suppress all other Banks of Issue in the United Kingdom; nor that he was prevented from attempting this much-desired object only by the formidable opposition of the Country Bankers, which would have endangered his Bill. Sir Robert Peel did all he could to establish one great central Bank of Issue under the regulation of a stringent law. He regarded country issues as an unavoidable evil, to be suffered for a season, and he made the best provision that he could for merging all other issues into the Bank of England. But, up to the present time, that unity of issue, for which he was so desirous, has not been accomplished, and, without fresh legislation, may never be accomplished.

It is astonishing that a French *Académicien* should have ventured to write on a subject on which he has shown so little knowledge of facts or principles, and that he should have expressed himself in such a style of confidence and authority.

M. Wolowski, who advocates one only Bank of Issue, replied shortly to M. de Lavergne, commencing thus:—"Je ne crois pas que le système développé par M. de Lavergne dans le remarquable travail dont il vient de faire hommage à l'Académie soit inconciliable avec celui que je défends. Il ne faut pas perdre de vue la distinction sur laquelle j'ai insisté; j'ai demandé, il est vrai, une banque unique d'émission, mettant dans la circulation des billets faisant office de monnaie; mais j'ai réservé la liberté la plus entière pour les autres fonctions qui appartiennent aux banques. En fin de compte, M. de Lavergne ne me semble pas fort éloigné de mes idées, &c."

The answer of M. Michel Chevalier is scarcely less astonishing than the original *programme* of M. de Lavergne. It is even more astonishing that M. Michel Chevalier, whose name is so much better known in England than M. de Lavergne's, should have fallen into the same error with regard to the object and intention of Sir Robert Peel in the Bank Charter Acts of 1844-45.

That Sir Robert Peel yielded to the force of circumstances, in permitting the continuance of the Country Banks of Issue, and that his object and intention was to deprive all these Banks of the power of issuing their own notes as soon as he possibly could, are facts well known in England, though, apparently, unknown in France.

But, that so eminent an authority as M. Michel Chevalier should attempt to support his argument in favor of Country Banks of Issue, on the false assumption that Sir Robert Peel was ever favourable to them, is astonishing to English readers. Even if Sir Robert Peel had maintained an opinion so erroneous, that would only have placed him in the unfortunate position in which M. Michel Chevalier has placed himself,—of error in the principle on which bank notes are issued to represent money of gold.

M. Chevalier thus commences his observations on M. de Lavergne's production :—

"J'ai lu le travail de M. de Lavergne avec une véritable admiration. Il m'a paru démontrer de la manière la plus concluante l'impossibilité de suffire aux besoins qu'éprouve la France, en fait de crédit, par le moyen d'une seule institution d'émission. Dans les observations qu'il vient de présenter à l'Académie, M. Wolowski a persisté dans sa thèse, qui consiste à invoquer le royaume-uni de la Grande-Bretagne et d'Irlande comme un argument en faveur du système de la banque unique. Qu'il me permette de lui dire que je trouve la prétention quelque peu outrée, car M. Wolowski sait aussi bien que nous tous que le Royaume-Uni compte plusieurs centaines de banques. Est-ce là l'unité? Et si Sir Robert Peel avait pensé que l'unité d'émission fut une question vitale pour le commerce, est-ce qu'il n'aurait pas cherché et trouvé un moyen de couper court à une telle pluralité? C'est dans le programme de M. de Lavergne, au contraire, et non dans celui de M. Wolowski qu'on retrouve de l'analogie avec le système des Anglais tel qu'il a été organisé par Sir Robert Peel. Ce dernier est en effet une sorte de système régional. Sir Robert Peel a organisé les banques d'émission d'une manière distincte dans chacun des trois royaumes. Il y a une loi sur les banques pour l'Angleterre proprement dite, une pour l'Ecosse, une pour l'Irlande. Ce sont trois organisations indépendantes."

M. Chevalier then renews his attack on M. Wolowski,—who, in this part of the question, is nearer to the right road than any of them,—and proceeds as follows :—" Ce n'est donc pas pour respecter le système d'une législation différente que Sir Robert Peel a admis une constitution séparée pour les banques d'émission dans chacun des trois royaumes ; c'est tout simplement parce que l'unité appliquée en pareil cas lui paraissait une énormité."

The enormity in this case is simply in the assumption by M. Chevalier, directly contrary to the fact, the fact being that, neither Scotland nor Ireland would consent to one Bank of Issue *pour les trois royaumes*.

M. Chevalier, in support of his mistaken view, refers to a bill brought into the House of Commons in that year, (1864) by Mr. Gladstone, for maintaining the amount of bank-notes in circulation in Scotland, as authorised by the law of 1845, that amount having been diminished by some of the Scotch Banks having, in the mean time, ceased to exist. From this fact, M. Chevalier assumes that the British Government is opposed " à l'unité du billet pour le Royaume-Uni ;"—an assumption quite unwarranted.

But M. Chevalier omits to notice, or rather, has not subsequently noticed, that, in the present year, (1865,) Mr. Gladstone brought into the House of Commons a bill for suppressing all country banks of issue, *pour arriver à l'unité du billet pour le Royaume-Uni.*

M. Chevalier concludes his observations with the following extraordinary words:—"En un mot, le système anglais dont se prévaut M. Wolowski n'est point le système de l'unité absolu du billet. Il implique d'une manière fondamentale des billets différents pour chacun des grandes sections du Royaume-Uni; il est la condamnation du système unitaire. Le système de M. Wolowski est d'ailleurs condamné par le nom qui est son nom propre: ce nom est en effet le monopole."

M. de Lavergne, in a further paper, (in reply to M. Wolowski,) says:—"Les banques d'escompte et de dépôt sont libres, les banques d'émissions ne le sont pas. Or, l'éxperience démontre que, jusqu'ici du moins, et probablement pour longtemps encore, les banques d'escompte et de dépôt ne peuvent prendre quelque importance si elles n'y joignent le droit d'émission."

Was M. de Lavergne ignorant of our Joint-Stock Banks when he wrote this?

The following is from the concluding paragraph of M. de Lavergne's reply:—"Quant à l'acte de 1844 en Angleterre, cet exemple ne prouve rien contre ma thèse, il vient au contraire à l'appui. Sir Robert Peel s'est opposé à l'émission illimitée, soit des banques de province, soit de la Banque d'Angleterre."

Here seems to be some confusion between the limit to the issues and the limit to the banks of issue.

Sir Robert Peel was always in favour of confining the issues to one bank, and so fixing a limit to the issues of that bank. But he was able to accomplish only the last. Nobody in this country proposes to invest any bank with an unlimited power of issuing notes.

M. Wolowski, in his further reply to M. de Lavergne, corrects him in his errors of fact with regard to the objects and intentions of Sir Robert Peel, and also with regard to our Joint-Stock Banks, showing more correct knowledge on this part of the subjcct than all the other *Académiciens* put together.

M. Vuitry, sensibly and sarcastically, observes that, M. Michel Chevalier, though opposed to monopoly, seems to have given his approbation to the system of M. de Lavergne, the partisan of monopoly.

To this M. de Lavergne replies, objecting to the word *monopoly*. "L'étymologie de ce mot suppose l'unité, et je me suis prononcé au contraire pour la pluralité."

M. Chevalier then replies to MM. Vuitry and Wolowski.

M. Wolowski then replies to M. Chevalier.

M. Chevalier again replies to M. Wolowski.

M. Pellat then stands up and hits out gently at M. Chevalier.

M. Chevalier then modestly resumes his attitude of defence.

M. de Lavergne then reappears upon the platform against M. Pellat, but seems rather shy.

M. Pellat then comes forward again and says, as he said before :—" Je suis partisan décidé de la liberté de l'industrie et du commerce ;" and then, —" tirez le rideau—la farce est jouée."

Certainly, these learned members, 'De L'Académie Des Sciences Morales Et Politiques,' do not throw much light on this question for English readers, whatever they may do for French readers.

As M. Isaac Pereire says :—" L'histoire des grands établissements de crédit n'est pas brillante, et l'on peut affirmer que l'appui seul du pouvoir les a préservés d'un naufrage certain, en les plaçant, à des moments critiques, en dehors du droit commun, en donnant à leurs billets le privilége du cours forcé ; sans cet appui, ils auraient tous succombé, et seraient ainsi devenu la cause des plus grandes calamités.

"Il est vrai de dire que la plupart de ces établissements ont été presque toujours compromis par des exigences gouvernementales ; mais, il faut le reconnaître, ils ont d'autant moins cherché à s'y soustraire qu'ils comptaient précisément sur leur complaisance envers le pouvoir pour obtenir les faveurs dont ils ont été l'objet, les facilités qu'on leur a laissées d'abuser de leur crédit afin de s'assurer des bénéfices plus considérables.

"Partout, en l'absence de contrôle ou de concurrence, ces grands établissements se sont laissé entraîner à étendre leur circulation, en même temps que, pour grossir leurs dividendes, ils détournaient leur capital de sa destination ; oubliant que ce capital devait rester constamment disponible pour faire face aux éventualités de remboursement, ils l'immobilisaient dans des placements sur l'État afin de se procurer de plus beaux revenus.

"La répétition de mêmes abus par toutes les banques investies d'un privilége exclusif semble être la loi commune des établissements de crédit placés dans les mêmes conditions ; il y a, dès lors, nécessité de chercher à ces abus un correctif sérieux, efficace." *

* "Principes de la Constitution des Banques."—Par Isaac Pereire.—pp. 23, 24.

M. Pereire says of the Bank of France ;— "Sa position privilégiée lui donne, en réalité, le droit absolu de régler comme elle l'entend le taux de l'intéret dans toute l'étendue de l'empire français." *

It ought to be so in England, but only on certain conditions within certain limits.

That, the Bank of England does not possess the power of regulating the rate of interest, is the complaint; and the present object is to show that, the Bank might and ought to possess that power.

With new and enlarged resources, as proposed, the Bank of England would be able to maintain and exercise that power.

But, it is said, how are these resources to be procured and maintained ?

If the principles here laid down be true, that question has been answered.

On these principles, the capital cannot be wanting in England or in France for maintaining the trade and indnstry of the country, which alone is required for regulating the rate of interest and fixing the *maximum* rate of discount. The Government Securities held by the Bank of England, are not placed in a different category from the same securities held by private indi-

* Ibid. p. 32.

viduals, or from those issued by the State when it raises a new loan. The sale of the one or the issue of the other in no way diminishes the mass of notes in circulation, but rather augments the treasury of the Bank.

Government Stock, it is impossible to deny, enters into the mass of the exchangeable articles of a country, articles which have their own peculiar value. With these can be procured all things wanted, metals as well as all other merchandise, and, as before said, the metals are, certainly, not wanting in England, being more abundant in England than anywhere else; but no one is able to obtain them, otherwise than by borrowing, without giving an equivalent.

But, it is said again, the Government Securities of the Bank of England being realised, the produce would soon be absorbed by the increased demands for discounts.

That, at least, could happen only with the consent of the Bank, by the right of disposing as it pleases of the capital which belongs to it, whilst not being the owner of that with which it is now carrying on its business, and possessing nothing but what is confided to it by the Public, the Bank has no right to regulate the wants of its creditors according to its own pleasure or convenience.

All the world is able to appreciate the help which the power of disposal over such a capital as proposed would have brought to the Bank of England in these latter times, coming to strengthen its reserve, and to augment its means of discount.

From the foregoing it can be easily seen that, all things remaining the same, the scale of Government Securities by the Bank of England would have the certain, necessary, and absolute effect of augmenting the metallic reserve permanently, with a sum equal to the amount of the Securities sold, and that, thus would be dispelled the only motive alleged to justify the Bank of England in raising the rate of discount.

The gold so obtained, belonging of right to the Bank, could then be drawn away from it only by a new development of affairs, and in that case, according to this view, the Bank would have no other means of satisfying its new wants than by augmenting its *real* capital.

No one will venture to say that, with a capital fixed and invariable, the Bank of England can satisfy increasing wants in proportion more and more considerable, if we may judge by the example which the past has furnished.

This view of the subject is completely confirmed by M. Isaac Pereire, in his last able and convincing work, already referred to:—"Principes de la Constitution des Banques, et de l'organisation du Crédit,"—and especially, Chapters III. and IV.

But, to justify what has been affirmed, relative to the facility with which gold can be procured in any required quantity, it may be necessary, for satisfying those who have doubts on this part of the question, to make a few further remarks.

Gold and silver have been spread in great abundance over the whole surface of the earth during a long series of ages. Of a nature almost inalterable, they have, the one and the other, all the qualities of durability, and they are admirably adapted for the services to which they are applied.

It is doubtful whether there has been any sensible depreciation in the value of gold, since the discovery of the mines of California and Australia. The conditions for the working of the precious metals have little changed, and their price, consequently, has undergone little, if any, appreciable variation.

It may be seen that, under these conditions, the variations of price are scarcely perceptible, for a merchandise which is prcduced in such great abundance, which has all the characters of universality, and which circulates throughout the whole world; also that, whatever may be the quantities to be bought or sold, the purchases or sales may be sure to be effected with facility, without fear of provoking any sensible movements, as would inevitably be the case in the price of all other merchandise, under the same circumstances, even that of corn, which approaches nearest to the character of the precious metals under the universal use of which it is the object.

But to procure gold, as to procure corn, it is necessary, as before remarked, to furnish an equivalent in real value, *real riches.*

A rise in the rate of interest can do nothing towards obtaining the *real* value, unless you wish or are able to obtain it by borrowing, which is not the manner in which the Bank understands the influence of raising the rate of discount upon the abundance of the precious metals.

The banks are very well able to procure gold in exchange for their notes, but they can keep it only on the express condition not to exceed the limits of the want and of the confidence.

The only motive of those who consent to pay interest, to keep the gold unproductive in the Bank vaults, is the hope of being able to draw it out at a premium, and every premium given for gold has the effect of making it scarce, of depreciating the notes and leading to demands for repayment.

To maintain abundance of gold in circulation, it is necessary that the value should be in exact equilibrium with that of the bank-paper and should never exceed it, which happens when this trouble is produced or proved by a premium.

It is the Bank itself then which furnishes the dealers in gold with the means for diminishing its reserve.

Would it not be better for the Bank to do without these middle-men who press upon it, and to give itself up to the trade in gold and silver?

Would not the Bank have acted more prudently and in a manner more intelligent, if the part of its capital, which has been shut up in Government Securities or in ingots, had been actively employed in the trade of the precious metals, or in bills of exchange on those places where the precious metals could be obtained on the best terms?

The Bank would then, *at its pleasure*, always have been able to procure, in the measure which itself should have fixed, all the gold of which it would have been in want. By such simple means would have been avoided the frequent recourse to that desperate remedy of raising the rate of discount to a ruinous height, which has been the real and only cause of those *crises* under which England, as well as France, has so frequently suffered.

The raising of the rate of discount by the Bank being determined only by the insufficiency of its reserve, it is very evident that, if it had been possible to remedy this insufficiency, whether by measures proper to assure at once the disposability and good employment of its resources, whether even, at an extremity, by the augmentation of these resources, the raising of the rate of discount would not have been necessary.

In reality, the only rule to prescribe to banks consists in the rigorous observance of the acknowledged necessary connection between the metallic reserve and the notes in circulation, so that there shall never be any fear of the power of satisfying the demands of repayment.

It is generally believed that, the rate of interest is the indication of the price of gold; that, the price ought naturally to be raised higher when the gold is scarce or when the wants of commerce bring about a certain export of money.

This opinion, which is widely spread, rests upon the false notion of the part which gold really plays in the relations industrial and commercial.

Gold and silver are merchandise, like all other products of the soil or of human industry; they have, like those products, a price absolute, which results from the cost of production, and a price relative, which depends on their abundance or scarcity; this last is indicated by the rise or fall of the market value. Thus gold and silver, according to the circumstances, gain a premium or sustain a loss; in other words, the merchandise or other values, against which they are exchanged, rise or fall relatively, in the sense that a larger or a smaller quantity is given for the same sum.

It is in this way that the variations in the price of gold and silver are manifested.

They are not manifested by the rise or fall of the rate of interest, the rate being only the expression of the aggregate of the capitals of all kinds with the demand which is made on them.

Gold and silver are bought, like all merchandise, by means of exchange direct or indirect with other products.

Every country could, in effect, if it took such a fancy, transform at its pleasure, in a given time, the greatest part, or even the whole, of its savings into the precious metals; the only result of this hoarding would be an increased price for the precious metals to the foreigner, and conquently new activity given to the working of the mines. But a like operation would have for its consequence the impoverishment of the country which had attempted it, by causing that country to fall into a state of inaction, a state of stagnation; it would produce an effect directly opposed to that which would be expected as regards the rate of interest, since these riches, unproductive in this form, would thus be subtracted from the support of labor and reproduction. Interest would rise instead of fall.

The true, the only means for obtaining possession of the precious metals, which are wanted, is not to hold them or attract them by a high rate of interest, but it is to work and produce. The nation which would have the most gold and silver will always be the nation which is the most industrious, and, consequently, the richest. All that is injurious to labour, to the work of production, such as a high rate of interest, all that which tends to fetter the springs of commerce by restraining the circulation of the precious metals, to limit the exchanges or the liberty of investment of capital, has no other effect than to diminish the prosperity of the nation, by diminishing its power of acquiring wealth, and rather reducing than augmenting its monetary circulation.

The rate of interest is regulated not by the quantity of money which the nation possesses, because money does not constitute riches, but by the amount of loanable capital and the demand for it; and the demand is regulated by the profit which can be obtained from the employment of that capital in business.

Even the forms of familiar language lend themselves to propagate the errors spread over the nature of money.

Thus, it is vulgarly said,—*interest of money*,—for interest, the loan of capital, solely because all capital is expressed and can be expressed in no other way than by money, the common measure of all values; but in this you may deceive yourself, and in this you generally do deceive yourself. At the bottom, it is never in reality the money that is borrowed, but exclusively the objects which can be procured with money, which is not always in a metallic state and may supply its place, as it effectively does in England, whether by bank-notes, by the clearing-houses, or by a system of compensations.

The rate of discount depends not on the abundance or scarcity of money, but on the importance of the capital which the country can devote to operations of this kind, and the importance of this capital depends in its turn on the rate of profit which this industry procures.

In the particular case of the Bank of England, the Bank works with a capital exclusively subtracted from the circulation, and, consequently, capital *costs the Bank nothing.*

The Bank, therefore, cannot fairly make the high price of money a pretext for raising the discount.

The only money which the Bank of England makes use of is its own notes, and this not being *dear* money for the Bank, its impositions are, consequently, without any justification.

Nor can the Bank argue on the small quantity of notes that it can put in circulation, for this quantity, already very considerable, tends to increase without ceasing, in proportion to the development of trade and the increase of the exchanges.

But the Bank is too much in the habit of considering this credit capital as a property of the same kind as all other property.

The Bank, however, ought not to forget that, it is not to increase the fortune of some families that the Government has divested itself of the power of issuing credit money; and the misuse which is made of a privilege, the concession of which is to be justified only on the ground of public interest, is not to be seen without protesting against it.

The reasons drawn from the export of gold for justifying the raising of the interest enter into the subject here considered relative to the abundance or scarcity of money.

These reasons, false in fact, do not even bear examination. They reproduce, as already said, to be destroyed, the prejudices of another age.

Let it be remembered that, those who speak of the export of gold and silver always omit to speak of the import; nevertheless, in taking any certain period of time, it can be proved that, the import of gold and silver into England greatly exceeds the export.

There are, necessarily, oscillations from one year to another, according to the special circumstances, such as a famine or a war, by the effect of which the ordinary relations of exchange are disturbed; but it is necessary to consider the general fact only, not the exception.

It is, moreover, precisely the special quality of gold and silver to serve for auxiliaries, for intermediums in like circumstances; the money is the merchandise pre-eminently, the merchandise type, that which, as already said, has a universal currency, which goes everywhere, and which we ought to hold in reserve to facilitate our relations with foreign countries, when we are not able to furnish them with the products of our soil or our industry in a proportion corresponding with the want which we have for theirs, or when we cannot pay them by proxy, with that which another country owes us.

Gold and silver thus fill outwardly the functions which have devolved upon them inwardly, in the ordinary practice of life.

They remedy the absolute impossibility of direct exchange in nature, or, in other words, gold and silver abolish exchange.

The opinion of that most distinguished Frenchman, Bastiat, on this point, is too valuable to be given in any other than his own words:—

"L'opinion que l'exportation du numéraire constitue une perte étant très-répandue, et, selon nous, très-funeste, qu'il nous soit permis de saisir cette occasion d'en dire un mot.

. . . . . .

. . . "Par où l'on voit que, par l'intervention de la monnaie, *le troc de service contre service* se décompose en deux échanges. On rend d'abord un service contre lequel on reçoit de l'argent, et l'on donne ensuite l'argent contre lequel on reçoit un service. Ce n'est qu'alors que le *troc* est consommé.

"Il en est ainsi pour les peuples.

"Quand il n'y a pas de mines d'or et d'argent dans un pays, comme c'est le cas pour la France et l'Angleterre, il faut nécessairement rendre des *services effectifs* aux étrangers pour recevoir leur numéraire.

"On les nourrit, on les abreuve, on les meuble, &c.; mais tant qu'on n'a que leur numéraire, on n'a pas encore reçu d'eux les *services effectifs* auxquels on a droit. Il faut bien en arriver à la satisfaction des besoins réels, en vue de laquelle on a travaillé. La présence même de cet or prouve que la nation a satisfait au dehors des besoins réels et qu'elle est créancière de services équivalents à ceux qu'elle a rendus. Ce n'est donc qu'en exportant cet or contre des produits consommables qu'elle est *efficacement* payée de ses travaux.

"En définitive, les nations entre elles, comme les individus entre eux, se rendent des *services réciproques*. Le numéraire n'est qu'un moyen ingénieux de faciliter ces *trocs de services*. Entraver directement ou indirectement l'exportation de l'or, c'est traiter le peuple comme on traiterait un chapelier à qui l'on défendrait de jamais retirer de la société, en depensant son argent, des services aussi efficaces que ceux qu'il lui a rendus."

. . . .

There can be no fear for the means of procuring the precious metals. As long as California, Australia, Mexico, and the other parts of the world produce and do not cease to furnish the precious metals, every country which wants them will always be able to obtain them, directly or indirectly, with the produce of its own soil or its own industry.

The quantity which each country will receive has no other limit than the means of payment:—it is simply a question of price.

This obligation to pay for what is bought, vulgar as it may seem to be, is not the less generally accepted; all the world submits to it, with the exception of the Bank of England, which makes the largest purchases of gold and silver, but obstinately withholds any return of value, by refusing to put into its industry any funds which belong to it to satisfy the necessities which that industry admits of; it seriously believes to have found, in raising the rate of interest, a new source for the production of gold and silver.

It is the old story of the Alchemists over again, only the Bank, more lucky, finds the means indirectly of enriching itself, whilst the credulous alchemists were ruined by their laborious and vain efforts.

If the Bank have reason to congratulate itself on the result obtained from the application of its doctrines, it is not so for the public, which suffers for it.

These remarks apply equally to the Bank of France, and are used with unanswerable force by M. Isaac Pereire, in his last work, before referred to, "Principes de la Constitution des Banques," &c. Chapter V.

It must be admitted that, there is no other way of maintaining an abundance of specie than buying it and paying for it, produce in hand, as the countries do which pay us, in their turn, with cotton, corn, and silk; however, if it be desired to know where the loss ought to fall, should any arise in procuring the specie, there should be no hesitation in admitting that, the loss ought to fall on the Bank, and not on the country, since it is the Bank alone that feels the want and derives the direct profit; it is the prime article of its industry.

The price of the money expresses only its intrinsic or market value; it has no relation to the rate of interest, which is only the price of the hiring of capital in general; and the capital of a country, as Voltaire has so well expressed it, comprises the aggregate of all the goods, all the provisions, all the savings, all the riches, following their proper expressions, consisting in the soil and in the labor, and not in the possession of a greater or less quantity of specie.*

If, in support of the opinion here expressed, a greater authority than that of Voltaire be desired, it would only be necessary to refer to Adam Smith in his chapter on the Balance of Trade.

There is, then, no connection between the

* Embellissements de Cachemire. Mélanges, tome III.

rate of interest and the abundance or scarcity of money.

Neither is there any between the rate of interest and the movements of export or import of specie.

These are two orders of phenomena entirely distinct, and are subject to laws essentially different.

The rate of interest has nearly always been higher in England than in France, Germany, and Holland, and yet the metallic reserve of either of those kingdoms has not often exceeded that of England, and is generally much below it.

The rate of interest at this moment is very high in the United States, in Spain, and in Austria; and, of late years, it has been equally so in Russia.

The circulation of gold, however, has followed a direction quite opposed to that which the rate of interest would seem to indicate.

These countries, contrary to the common opinion, have generally exported instead of imported gold.

Immense amounts of specie were received by England and France, in 1864, from Spain, where the interest had mounted to 12 and 14 per cent.

In still greater proportions were the receipts by England and France from Austria and the German Confederation in the year, 1864.

Also from the United States where the interest was so very high.

Italy alone presents an exception in this respect for the years 1862 and 1863, the loans which she has raised in England and France having rendered necessary an export of specie into Italy to a large amount.

But, in 1864, the imports of specie from Italy have brought it all back, and a great deal more.

Such facts as these are the best answer to the errors propagated upon the outflow of our specie to the foreigner, in consequence of the great European enterprises to which England has had the glory of co-operating, and of which she has received in part the profits, and to the pretended danger which would follow : they reduce to nothing the ill founded and unreflecting attacks, the malevolent insinuations, to which these errors have served for pretext.

When a country sends its capital abroad, it is not necessarily gold that is sent ; that is sent only in default of the products or industry of the country ; and when the country sends money, it is on the condition of having procured it beforehand by the sale of that country's products.

"Les capitaux cherchent les lieux où ils trouvent de la sûreté et des emplois lucratifs, et abandonnent peu à peu où l'on ne sait pas leur offrir de tels avantages; *mais pour déserter, ils n'ont nul besoin de se transformer en* NUMÉRAIRE."

M. Pereire, who quotes this from Jean-Baptiste Say, adds:—

"Nous sommes loin de nier cependant qu'il existe une certaine solidarité entre les divers pays. Quand les capitaux sont abondants sur un point, ils ont une tendance à se porter partout où ils sont rares; mais cette solidarité n'a pas l'importance qu'on veut bien lui attribuer, particulièrement en ce qui concerne l'emploi momentaire de capitaux sous la forme de l'escompte."*

Capitalists do not displace very considerable sums for the simple benefit of a temporary difference of interest.

This, which is true of capital in general, is especially true of the import and export of gold and silver.

The movements of gold and silver are in general determined only by the wants for the liquidation of the exchanges between nations.

A country exports specie when the mass of its imports of merchandise or values of all sorts ex-

* Principes de la Constitution des Banques, p. 81.

ceeds that of its exports, and reciprocally; or, when the balance of all its transactions is against it.

This balance, which is paid or received in specie, is what is called the Balance of Trade.

It was formerly believed that this payment in specie represented the profit or loss of a nation in its foreign trade. It was therefore that each nation endeavoured to turn the balance in its favour by Customs' Tariffs.

The contrary was nearer the truth, for the more industrious the nation the less it imports money; it prefers always to replace the money with the raw materials, which will enable it to support the labour of its workshops.

Thus, England much prefers to receive cotton than gold from America.

England has always obtained, against its products, all the gold for which it has had occasion, and always will obtain enough for all its wants, as long as the value of its exports exceeds that of its imports.

The Bank of England has wanted gold only because the same means have not been employed for obtaining it.

Instead of simply buying gold with real capital, the Bank has obtained gold by uselessly augmenting the already considerable mass of its engagements; and notwithstanding the numerous warnings which have been given, the Bank has persisted in this system, so lamentable to trade and industry.

In doing this, the Bank has forgotten that its situation, relatively to the holders of its notes was that of debtor and creditor; that the more a debtor multiplies his engagements the more his position becomes precarious and dangerous; that he can only ameliorate it by the intervention of capital in the acknowledged necessary proportions.

Thus, it will be seen, the course of the exchange is independent of the reserve of the banks or of the rate of interest. This independence confirms the principles here laid down at the commencement, and reduces to nothing the false assertions accepted by superficial minds which, stopping at the appearance of things, persuade themselves, contrary to the facts, that the arbitrary fixing of the rate of interest can have some sort of action on the metallic reserve.

It is especially with reference to France, when the principle of joint responsibility (*solidarité*) is referred to for justifying the raising of the rate of interest in England, the relations of all sorts between these two countries being very numerous.

The facts before established, and the general principles here laid down, have already shown how little this joint responsibility is to be feared for our metallic reserve.

It may be proper now to examine the question more closely, to look into it more deeply from the point of view of the two Banks of England and France, and of the re-action which they are able to exercise the one upon the other.

The constant anxiety of the Bank of France is the fancied danger to its reserve (*encaisse*) from the raising of the rate of discount by the Bank of England.

It is said by the authorities of the Bank of France, and the same is said by the authorities of the Bank of England that, the slightest difference in the rate of interest between the Bank of England and the Bank of France, would have the effect of drawing away from the coffers of the Bank the most richly provided to pour into that of the Bank deprived of its specie. That, consequently, it is necessary to avert the danger by temporary elevations of the rate of discount, in order that there may be no stoppage in the circulation of the credit money, no shaking of the confidence indispensable to commercial transactions and to public credit.

Such is the doctrine of the Bank of France, and such is the doctrine of the Bank of England. This is clearly defined, and put forward, by the Bank authorities of both countries, with an imperturbable assurance, as if such a declaration by them defied all objections.

In England this unsteadiness of the rate of discount arises from the very restrictive and very defective organisation of the Bank of England, an organisation entirely different from that of the Bank of France, but each Bank being the principal establishment of credit in its own country.

It is admitted that the rate of interest may be sufficiently high in France and other countries to determine the English Capitalists to send their large Capitals there.

But, how do they get their capitals there? Is it in the form of export of specie that this operation is accomplished?

Before having recourse to this means, which is generally the most costly, they would buy all the bills of exchange which the creditors of France would draw upon this country, and they would not begin to export specie until the bills of exchange, always extremely abundant, began to be exhausted, or, at least, to become scarce, to the extent of being less economical than sending specie, notwithstanding the expense of transport and the risk inherent to this kind of remittance.

It is admitted again that, for obtaining the means of profiting by the difference in the rate of discount between the two Banks, the bankers and money-jobbers, devoted to these kind of operations, make demands for discount on the Bank of England.

It would be necessary at first that, the demands presented a certain importance to attract the attention of the Bank of England, and that would be only when accompanied with a sufficiently considerable withdrawal of specie; in that case the Bank, better placed than any one whosoever, for appreciating the causes and the motives of the demands made upon it, would certainly have the perfect right to put aside those which appeared to be of a nature dangerous to its reserve. A few such warnings would be sufficient to confine these demands within moderate limits.

In this way the Directors of the Bank of England and the Governor of the Bank of France do act at present, and the punishment of the whole community for the fault of some, if it be a fault, is thus, to a small extent, avoided. They do not modify the normal conditions of all the commercial operations of a country on the ground that some money-jobbers have endeavoured to give an unusual extension to their operations.

But what would an unusual extension of these operations be able to effect?

Is it dependent on some bankers and money-jobbers to draw away suddenly the metallic reserve from one country to another?

Would they have the power and the credit necessary for that?

They must be very little acquainted with facts, and with the situation of the two countries respectively, who suppose that France can want our gold and silver, or that England can want their gold and silver to an extent to inspire either country, even for a moment, with serious uneasiness. Nothing of the sort.

It cannot be denied, and, in fact, it is universally admitted that, England is the great market for gold and silver,—the principal, if not the only, medium for this trade between America Australia, and other parts, with Europe;—that England is always abundantly provided with these precious metals;—that, it is England which furnishes nearly the whole of these metals, which France and other countries import;—and that, it is only very exceptional when this order of things is inverted. Nor can it be doubted that France, with her immense natural resources and her unrivalled industry and skill, can always command any required amount of the precious metals.

In the face of this state of things, it may be seen how vain are the terrors with which Bank

Directors are agitated, and it may be safely affirmed that, in abandoning affairs to their natural course,—assuredly the wisest course,—the specie which we might be able thus accidentally to send to France or other countries would not be long in returning to us, simply by the effect of the fall in the price of the specie, which the sending of goods of a certain importance would produce on the French market or markets of other countries.

The specie would return so much the more promptly that it is by no means the want of specie, as before shown, that determines the rise in the rate of discount with us.

This want, besides, if it should happen to be so, could never be but very exceptional and temporary.

In England, where the economy of means is carried much farther than in France, the alarmists have imagined the most ingenious proceedings for diminishing the employment of money. All excess of a certain quantity of the precious metals indispensable to the wants of commerce being considered as a power lost, would be soon exported, to be transferred into objects directly useful.

We know, in fact, that, with a stock of the precious metals comparatively small, England is able to realise, by means of a system of settlement of accounts and compensations in practice in the clearing-houses, a mass of commercial operations, of exchanges, infinitely more considerable than that which takes place in France.

It is thus that, we are able to render disposable several millions, sterling, of specie, which was unproductive, and the employment of which has furnished new resources for augmenting the floating capital of the country, for extending the railways and increasing the stock of machinery, engines, and instruments of all sorts.

But, it will be said, it is not so much of the general wants of British Commerce that we would speak, as of those of the Bank of England, the special situation of which, sufficiently indicated by the high rate of discount, may require large importations of gold.

From this side, again, the danger is altogether illusory, as already shown in explaining the special mechanism of the Bank of England, and if any one of the National Banks have cause to fear the designs of its neighbour, it may be seen that, it is not ours.

It is true that, the Bank of France is often the direct cause of raising the rate of discount by the Bank of England, through purchases of gold by factitious means, and generally at the expense of the Bank of England.

But, the Bank of France, instead of attacking thus the metallic reserves of other banks, would have had simply to draw from real sources, from those where the gold really exists, in the considerable stock which the country possesses, and which is the fruit of the savings realised by the nation upon the products of labor or upon the revenues of capital; but, as already shown, the Bank of France, as well as the Bank of England, knows no other way of supplying itself with gold than by the issue of notes, which, being in over abundant quantities, from that time go into circulation only to return immediately to the point of departure. Those who are charged to furnish that gold, against which no new value is given, procure it generally by means of a circulation of which the Bank of England is the pivot; thereupon the Bank of England raises its rate of interest to counteract these operations, which result at the same time in diminishing its reserve of notes and its stock of the precious metals. The Bank of France does not fail, then, to imitate this example, and the Bank of England responds to the rise of the rate of discount in France by a new rise.

From this it results that, from both sides of the Channel, the discount is carried to its extreme limits. These excessive raisings of the rate in the two countries thus become alternately cause and effect. It is a true declaration of war, war without profit for one party or the other, war of which commerce, industry and public credit pay all the expenses, as in most cases of war, from whatever cause.

M. Isaac Pereire is desirous of proving, however, that the Bank of England enters only exceptionally into this mode of reprisals, and that its conduct is influenced by other motives.

The proof of this, he says, is found in the frequent examples, furnished by the Bank of England, of the adoption and maintenance for a long period of time of its rate of interest below that of the Bank of France of $1\frac{1}{2}$ and 2 per cent., and even 3 per cent. without suffering the least from this difference.

Thus, in the years following, the rate of discount of the Bank of England was below that of the Bank of France in the proportions following:—

In 1844, 1850, 1852, 1859, of	$1\frac{1}{2}$ per cent.
In 1861	$2\frac{1}{2}$ & 3 ,,
In 1862	$1\frac{1}{2}$ & $2\frac{1}{2}$,,
In 1863	$\frac{1}{2}$ & 1 ,,

However, at none of these epochs did the reserve (*l'encaisse*) of the Bank of England cease to be in a perfectly normal condition. It constantly maintained a very high relative position with the circulation.

M. Pereire then quotes the figures from our Bank returns which completely confirm his statement.*

At this very day, the 30th December, 1865, the rate of discount in France is 3 per cent. less than in England, being 7 per cent. in England and 4 per cent. in France.†

The amount of bullion in the Bank of England at the end of 1864, stood at £14,100,974, and is now, the 30th Dec., 1865, £13,403,102, showing a decrease of £697,872. It touched its highest point, £16,407,666 on the 28th June, and its lowest, £12,736,346 on the 11th October.

The amount of bullion in the Bank of France, at the end of 1864, was £14,400,000, and is now £17,760,000. It touched its highest point, £20,850,000, on the 6th July.

The Exchange on London is now 25.12½.

But, long previously to this day, the difference in the rate of discount has been 2 per cent. in favour of France, and yet it does not appear that any considerable amount of money has been drawn from France into England.

* Principes de la Constitution des Banques, &c., p. 110.

† In June, July, and August, 1866, the rate of discount in France was 4, and 3½ per cent., and in England 12 and 10 per cent.

The changes in the rate of discount at the Bank of England were 15 in number in the year, 1864, and were 16 in number in the year, 1865. On the 1st of January, 1865, the rate was 6 per cent., and after ranging between 7 and 3 per cent., it was, on the 30th Dec., 1865, again 7 per cent.

M. Pereire's object is to show that, the danger invoked by the Bank of France to excuse it for raising the discount is absolutely nothing, and that it is so considered by the Bank of England, which does not alter its course, and is in no way affected, as the figures, he says, eloquently and unexceptionably prove.

This is unexceptionable proof that, there is no danger to the Bank of England, though the Bank does not always act as if it so considered it.

But, as M. Pereire goes on to remark, there is better evidence still.

The doctrine, in virtue of which the rate of interest is obliged to be raised, when the rate of interest is raised in a neighbouring country, M. Pereire says, dates, in fact, only from 1857, and, he adds,—it might be the want of a theory to justify this excessive power given to the Bank to raise without limit the rate of discount ; or, it might be, the authors of this theory were sincerely imbued with these false ideas,—a century at least behind,—upon the nature and importance of the precious metals.

In 1847, particularly, notwithstanding the scarcity which prevailed in France at that epoch, requiring large exports of specie, nothwithstanding the financial crisis which raged with the greatest intensity in the United States, in England, and in the principal States in Europe, notwithstanding the rise in the rate of interest in England, even to 8 per cent., the Bank of France did not go beyond 5 per cent.; the difference in the rate of discount between the two Banks of England and France was then 3 per cent., and nevertheless, however great was this difference, the specie from France did not go to England: far from that, in this same year the imports of gold and silver into France from England exceeded the exports by a sum of 54,700,000 francs.*

M. Pereire, with great simplicity and perfect truth, adds:—Our specie could go no other way than to the countries where we went to seek coin, especially to Russia, and, instead of our gold, Russia consented, happily for the Bank of France, to accept payment in *rentes* to the amount of 50 millions, which that establishment possessed. It is by mistake that Russia is sup-

* Ibid., p. 102.

posed to have paid for these *rentes* in gold: she paid the price with coin: it is the gold which the Emperor Nicholas owed to the Bank which served to pay for the transport of the coin in Russia, and that gold, which the Bank received and kept, was furnished by the French consumers, themselves, of that same coin: it is thus that things would have taken place, whatever might have been, at the end of the operation, the movements of money between the Russian Government and the Bank of France.

Again, M. Pereire adds:—In this year, in fact, when Russia had sent us a very large quantity of cereals, the export of gold and silver to that country did not exceed the sum of 5,739,400 francs, thanks to the sale of the *rentes* of the Bank of France.

It is seen then, as M. Pereire says that, at the numerous times when there is an important difference in the rate of discount between the two countries, there has been neither a stoppage in the circulation of the credit money, nor a shaking of the confidence indispensable to commercial transactions and public credit.

These phenomena are, on the contrary, the direct consequence of a too high rate of discount.

These convincing facts and arguments are continued by M. Pereire to the end of Chapter VII.

of his most able work referred to, and altogether form the most conclusive answer to the objections so much relied on in this part of the question.

It results from these facts and arguments that, neither the Bank of England nor the Bank of France has anything to fear from the export of gold, and that the export of gold has in reality no more relation to the rate of interest or discount than has the export of corn or any other commodity.

This is, really, the whole question, and to present the truth in its own clear light, free from obscurity, these references have been made to the profound work of M. Isaac Pereire, whose experience on this subject in all its bearings exceeds, perhaps, that of any other man now living.

The facts and reasoning on this important point are further given with convincing clearness in the Evidence of Messrs. Isaac and Émile Pereire before the French Commission of Inquiry into the constitution and practice of the Bank of France.

An abstract of this evidence, so far as it is applicable to the Bank of England, is given, in English, in the Appendix.

In the United States, by a law, approved 3rd June, 1864, a new system has been adopted to avoid the evils of the old system.*

* The Author has had much difficulty in procuring a copy

The new system (which will be afterwards more particularly noticed), consists in the State delivering to the Associations or Joint Stock Banks the notes which they want, on the condition of equal value being secured in Government Securities, corresponding with our Consols or Exchequer Bills.

These notes are stamped with the names of the Associations to which the notes are delivered, and for which each Association is responsible for the payment in specie. The holders of these notes take precedence of all other creditors of the Bank.

It is evident that, the value of the notes is thus guaranteed; but the conditions imposed on the banks are hard, since they are obliged to be provided with two capitals,—one capital in the Government securities, equal to the amount of the notes issued; the other capital sufficient to meet the demands for repayment of the notes.

Thus, by this system, the Bank of England, with its capital of £14,553,000, would be obliged

of this Act, and has been obliged to send to New York for it. As this Act is so much approved by the Liverpool merchants, it may be interesting to them and others to see an outline of it, and that is, probably, more than they have yet seen or will ever take the trouble to read. But those who want it will find it in the Appendix, though even this short outline is hardly worth the space it occupies.

to raise its capital to a figure representing, at least, the notes issued, and also to possess the means of meeting the demands for repayment.

Taking the week's return of the Bank of England, dated the 16th November, 1865, the figures would stand thus :—

Notes issued	£27,509,995
Gold Coin and Bullion in both Departments . .	13,677,098
Minimum Capital	£41,187,093

of the Bank of England required by the New York system, and, for practical purposes, this ought to be carried, at least, to £46,000,000.

By this system, the figures, taken on the account of the Bank of France for the same 16th November, 1865, would stand thus :—

For the Notes	fr. 879,420,775
,, Coined money and ingots .	399,099,185
Minimum Capital . .	fr. 1,278,519,960

of the Bank of France required by the New York system, and, for practical purposes, this ought to be carried, at least, to fr. 1,400,000,000, or £56,000,000, English money.

The inconvenience of this system would be not only in the difficulty of collecting together so considerable a capital, but in making the banking trade much less profitable than it now is, for the dividend, which is now spread over a capital of £14,553,000 in the Bank of England, or over a capital of fr. 182,500,000 in the Bank of France, would be, proportionately, very much reduced, if in remuneration of a capital of £46,000,000, or of a capital of fr: 1,400,000,000, in English money, £56,000,000.

By this system the conditions of discount would be very much aggravated, to the detriment of commerce, and nothing in England or France would justify taking such excessive guarantees to insure the payment of the notes, the risks run by the banks in these countries being, in reality, nothing.

Under this system, the circulation of notes is very little extended, being not more than from 5 to 6 millions of dollars at New York; consequently, it is a system not much in repute even there, and, though called *free-banking*, is liberal only in name; nor is it easy to see, if notes are to be issued at pleasure on Government securities, how that arrangement can have the effect of preventing fluctuations in the rate of discount, provided the capability of meeting these notes in gold is to be preserved, and the extent to which they can circulate is thus dependent on the supply of that precious metal.

But, some of the principal merchants of Liverpool, who are very much opposed to our existing Bank Act, express themselves very much in favor of the American system of free-banking!

It is a proverbial saying that, "people best understand their own business," but this, like most other proverbs, is open to exceptions, though, of all people in the world, Liverpool merchants might have been supposed the last to prove the exception.

The merchants of Liverpool also treat as fanciful the notion of fixing a *maximum* rate of discount.

But this is only an instance of one of the many bad consequences of the present organisation of the Bank of England, by perverting public opinion and supporting the false idea of the unavoidable unsteadiness of the rate of interest and discount, and the impossibility of fixing a *maximum*. In this way only can be explained the incredulity of the merchants of Liverpool.

It is much to be regretted that, in this great commercial country, a better understanding does not exist among the leading merchants on a question of such great commercial importance, and the want of uniform action is the more remarkable, inasmuch as the defects of our existing Bank Act are universally felt and acknowledged by all who have become acquainted with these defects, by practical experience of the injurious consequences both in this country and abroad.

But the American Banks were not spared in the Crisis of 1857. The crisis began in the August of that year, and the American Banks taking alarm then began to curtail their advances to the commercial community by refusing to discount their bills, the New York Banks reducing their discounts to the amount of £5,000,000 sterling, between the 8th of August and the 10th of October.*

It was the restrictive policy pursued by the American Banks, which ultimately obliged them all to suspend.

In that general crash the New York Banks fell; but their notes were never distrusted, and even after the suspension of payments in specie, these notes continued to circulate at par. It was a run for deposits which shut up the New York Banks, and a similar run would shut up all Banks.†

But if those Banks, instead of curtailing their advances, had discounted freely at 4 per cent., there would have been no crisis, and no losses; or, the losses, whatever they might have been, would have been comparatively trifling, and would have

* 'Economy of Capital,' p. 92. † Ibid. p. 93.

been confined entirely to the Banks, which alone ought to bear the loss.

When the American Banks reversed their policy and discounted freely, though reduced almost to their last dollar, the crisis was at an end. Within three months after the 14th of October, when cash payments were suspended, the stock of specie in the New York Banks increased from £1,744,000 to £6,500,000, being a million sterling higher than it had ever been before;* and in the five principal sea-port cities of the Union, the stock of specie advanced from £3,400,000 to £10,000,000, although £3,200,000 was sent to Europe in the interval.†

It is the restrictive policy which is the fatal error, and this is an unavoidable incident to the Bank of England, as at present constituted.

The same remark applies to the Bank of France, and to all the other National Banks of Europe.

When all the National Banks of Europe and America are established upon sound principles, and all act on the same uniform system, public credit will rest on a basis so broad and firm as to be out of the reach of the shocks of panic. The great burden of sustaining credit which, in times

* 'Economy of Capital,' p. 98.

† 'Times'' City Article, 27th January, 1856.

of political and commercial difficulty, is now thrown upon the Bank of England, will then rest upon a wider basis, and a uniform system will enable the Banks to maintain a cordial cooperation sufficient to reduce to manageable proportions any difficulties which can arise, and to avert those panics, which now periodically occur and overwhelm with their disastrous consequences all the countries.

It is not more gold that is required to strengthen the banking system, for the gold can always be obtained when required, but it is more credit that is wanted, and that can be sustained only by the possession of actual value. A uniform system and cooperation on sound principles alone can establish credit on a firm basis.

In the mean time, the Bank of England, even if it stand alone, will be proof against all shocks of panic when established on these principles, for the Organisation of Credit in England.

But, by these remarks it is by no means intended to deny that the price of money must always be subject to variations. For this there are special causes, which are unavoidable. Like all the products, which answer to the wants of primary necessity, money must rise or fall in price, according as it is more or less abundant in reference to those wants.

When in 1848, the mines of California, and in 1851, the mines of Australia, began to spread over the Continent of Europe hundreds of millions, sterling, a year, it was said that gold would depreciate, and in proof of that assertion, many publications have appeared from persons of consideration and authority. However, the result has been, hitherto, quite otherwise. There are still some persons who attribute the rise in the price of certain things to the depreciation of gold; but this opinion is becoming more and more rare, and as the facts are considered with attention, it is more clearly seen that, high prices are to be attributed to another reason than the depreciation of gold. Considered as a measure of value, gold is the same now as it was twenty years ago, notwithstanding the very great addition to the common stock made within the last fifteen years. It has produced, in regard to money, the same effect as in regard to other commodities of primary necessity. The production of food has tripled in the last fifteen years; but that has not prevented the rise of price. In cereals the amount is, at the least, doubled, but the price remains very nearly as it was fifteen years ago. The same of wine and many other things. All these things have increased in quantity, but the wants have increased in quantity still more, as may be easily shown by the increase of population and the development of wealth.

If the produce of food be now three times what it was fifteen years ago, there are, perhaps, four times as many people now who are able to consume it; the same of the cereals, the same of the wine, and the same for the use of the money.

Money responds in society to a want which is susceptible of great development; the more commercial relations become important, the more transactions multiply, and the greater is the want of the medium of exchange. No doubt, the supply is assisted by combination of credits, by balancing accounts, by what is called the system of compensations; but money is always at the bottom of all the transactions, for, throughout the world, that alone is accepted as a definitive settlement; consequently, until the means be found for making the progress of credit equal to the progress of transactions, it will be always necessary to have more money in proportion to more affairs.

Within the last ten years only we have seen our foreign commerce doubled, and our home trade tripled. During that time, what has been the increase of our money? Whilst our affairs have doubled on the one side and tripled on the other, our money has scarcely augmented in the proportion of a fourth. The railroads and the gold mines are the two secrets of the prosperity industrial and commercial of Europe for a certain number of past years.

The money has been for the circulation of capital what the railroads have been for the circulation of merchandise and travellers. These have exercised a prodigious influence on the progress of national wealth, and money has been able to maintain its price, even to rise in price, in becoming more abundant. If the price had been lower, the circulation would have been greater, and the national wealth would have been greater in the same proportion.

But the actual increase of money has, perhaps, had less to do with these results than the Organisation of Credit, and, however organised, gold must be the foundation.

Gold possesses a value quite exceptional, and which belongs to its own peculiar character. As it is an instrument in universal use as a medium of exchange, or for avoiding the inconvenience of exchange by barter, it possesses an immense market, always open, and not dependent on commercial risks. The possessors of it are not affected by panics. It is on those occasions that its standard measure of value is most manifest, and it is difficult to imagine where a standard measure of value could be found without it, or what would be the consequences of a crisis in commercial affairs without this universal standard.

Adam Smith does not seem to have appreciated fully the advantages of gold and silver money, when, comparing these with other products, he said that, the disappearance of money would have a less injurious effect than the disappearance of such or such other commodity; as there is no agent, in our social organism, which may be so useful as money, though the very term, *agent*, presupposes the existence of something to be acted upon. The precious metals may be said to be, almost without exaggeration, to the social body, what the atmosphere is to the physical world, that both furnish the instrument of circulation, and that the dissolution of the physical body into its elements, when deprived of air, is not more certain than is the dissolution of society when it is deprived of metallic money. So said Mr. Carey, a distinguished American Economist, and when we reflect on the movement industrial and commercial, such as we now see it, it is impossible to imagine this existing without the powerful auxiliary of the precious metals, or what is called money of gold and silver. It is not meant to be said that, these may not be in such great abundance, at a given time, as to be exposed to a certain depreciation, as there may be too many railroads, if made where they are not wanted, but we have not nearly arrived at that state for the one or the other of these two instruments of circulation. As to the precious metals, the mines must furnish a great deal more, both of gold and silver, before there is any excess, so great is the power of expansion of the commerce destined to absorb them.

If this be the true view, that must be a miserable economy, which contracts the expansive power of commerce by reducing the quantity, or enhancing the price, of the money necessary for meeting the requirements.

The investment of capital in foreign enterprise, however good it may be, can never give, in a social point of view, or in an economical point of view, all the profits which are given by the investment of capital, equally good, in one's own country.

If, for example, a railroad be made in a foreign country with English capital, the produce in the form of dividends can be the only benefit; but if the railroad be made in England, besides the produce in dividends, will be the immense social utility, which will result to the country.

That the benefits from works of national utility in one country are in some degree extended to other countries by reciprocity of interests is not denied, but the immediate and greater benefits must always be to the country which utilises its own capital in its own interior.

It should, therefore, be the first object of a National Bank to encourage the creation of new capital and to aid in utilising it by giving the utmost possible assistance to industry, without any other view of profit to the Bank, than through the increased circulation of its notes. For this there is no other way so effectual as being always provided with a reserve of notes for discounting the bills, which are evidence of the capital already expended, or keeping a reserve always on a level with the wants of the community.

If the discounts be augmented so as to exceed the credits, which the Bank has at its disposal, and to diminish its reserve below the level of the wants, it is clear that, the effect of this must be to discourage industry and the creation of new capital. In that case, it seems to follow, as a necessary consequence, that the capital of the Bank ought to be augmented in the same proportion, under one form or another. It is the natural law, imposed on all industry, to keep itself to the level of the wants that it is called on to satisfy.

Under a free system, the rise of profits leads inevitably to that result.

Why, then, should the Bank seek to profit by its privileged situation to escape from this natural law?

Why should the monopoly be used as the means of exemption?

Why should not monopoly be made to fulfil the conditions which are observed by free competition?

The only excuse—the only possible justification for monopoly is that, it does better than competition could do.

Now, under a system of liberty—of free competition,—of the plurality of banks,—when the wants of discount increase, the capital devoted to that employment increases in like proportion, new establishments are raised up, or the old ones increase their means of action.

Why should the Bank of England avoid placing itself in the same situation?

Why, because it stands alone, should it fail to follow the natural development of commerce?

Why should it thwart that natural development, under the miserable pretext of giving what it calls salutary warnings?

Why should it, under a false pretext, levy a tax on the whole commerce of the country?

Why should not the capital of the Bank be augmented when the necessity for so doing is universally recognised by all who are most concerned in so doing?

That there is a limit to the issue of Credit Notes is fully admitted; but the reserve ought always to be in a ratio with the amount of the issue of notes.

If, in consequence of the development of discount, the Bank be obliged to increase the issue of notes, the reserve ought to be increased in the same proportion, in the proportion recognised to be necessary, and the reserve can be safely augmented only by the increase of the capital of the Bank; there are no other means.

If the Bank, by the exclusive privilege conferred upon it, be made to regulate the commerce of discount, the Bank ought to be equal to this want. The Bank ought not to be, as it is, an obstacle to the development of affairs. Commerce is not made for the great profit of the Bank, but the Bank is made for commerce. Nor is it a bad condition to have to satisfy the development of affairs, for it is in this development that the Bank of England draws the benefits that it realises. As the affairs extend, the means of the Bank ought to extend equally. So, when the quantity of notes tends to increase by the effect of legitimate demands, instead of seeking to restrain these issues, and thus to injure commerce by confining its movements, the Bank ought to augment in like manner its reserve, in the recognised necessary proportions, and that can be done only by the addition of new capital.

But how is this new capital to be found? Is it by the creation of new stock or by the issue of bonds?

The two means are equally admissible, equally easy, and either way would render it more easy for the Bank to maintain its dividends at their actual level, for the charges would be augmented only by a supplementary fixed interest, for which the Bank would find compensation by the increase of the circulation of its notes, the profits of which, in that case, would properly belong to the Bank. Besides, if the Bank were in want of money, why should it not re-discount its bills? There would be plenty of capital always ready for such safe investment, for there are in England large disposable funds always ready to be invested at a rate below that of the Bank.

If, then, the Bank of England wished to re-discount its bills, all the capitalists would hasten in competition to obtain such investment for their funds, with the same confidence that they now confide them to Exchequer Bills, for a very low rate of interest, or to other Government Securities.

But that mode of proceeding, being open to many objections, is not to be recommended. A better mode of proceeding than that would be for the Bank to issue notes for a term carrying interest, which would make the Bank the principal centre, perhaps the exclusive centre of all the operations of lending and borrowing; and the Bank of England might then be, what it ought to be, the true medium between the capitalists and the borrowers, between capital on one side—and labor on the other.

The Bank can employ these various means, which are all positive, efficacious, and especially preferable in all respects to those which have been used to the present time, and which only end in raising the rate of interest. But the means here pointed out would have the effect of maintaining the interest at a low rate without diminishing the profits of the Bank, on the contrary, perhaps in augmenting them, by reason of the development which affairs might take, if they were not thwarted, as they now are, by the restrictions of the circulation and by the reduction, which the rise in the rate of interest imposes on labour.

The Bank of England must always be in a situation to procure capital on very favourable conditions, and though the conditions must vary according to the terms on which the Bank borrows, yet the terms will always be advantageous to the Bank.

If the maturity of the new engagements, which the Bank offered to the capitalists, were shortened, the rate of interest that the Bank would pay would be very low, which would enable it to lend at a higher rate of interest, but still very moderate, relatively to that which now is.

If the maturity were lengthened, the interest that the Bank would pay ought to be higher; but, however much higher, the benefit to the Bank in having the disposal of a new permanent capital would still be considerable, since all increase of the reserve would serve to guarantee a new credit capital three times, at least, more considerable;—in borrowing *one*, it would lend *three*.

This is the secret of the profits that the banks make; but wishing too much their own proper means in order to gain more, these establishments end by abusing their situation and rendering themselves unendurable.

The Bank of England derives its profits from having at its disposal a credit capital which costs nothing, and is superior to that which serves to guarantee its operations.

By the manner in which the Bank conducts its operations, it not only does not fulfil the condition of the services which are imposed upon it, but makes a still worse calculation; for if its own proper capital were in possession and disposable, that would be employed directly in discounts or serve for guarantee to a larger credit issue; so that the Bank would be far from losing the whole of the benefit that it derives from its capital as now invested.

The privilege of disposing gratuitously of a Credit Capital of £15,000,000 has not been given to the Bank for the sole benefit of its shareholders, but it is given specially in the public interest, to favour commerce and industry; besides, it is just that, by lowering the rate of discount, the public should participate in the advantages derived from the employment of capital, which they themselves furnish; it is, in fact, commerce, it is industry which furnishes the capital of which we avail ourselves to discount their bills; it is not, then, too exacting towards the Bank, to demand of it to associate the public, in a certain measure, so as to admit them to participate in the benefit of the privilege which the Bank enjoys. It would, therefore, be equitable to impose on the Bank, as an equivalent, a permanent reduction in the rate of interest in favour of trade and industry.

If the capital of the Bank were augmented in proportion to the successive increase of affairs, it would always be in the same relative situation. When the issue of notes and the discount come to double, the Bank ought to double its capital. The same relative situation would subsist; the Bank would lose the advantage of the high discount; but, in all probability, it would find a large compensation in the benefits which it would derive from the increase of affairs. Besides, the advantages resulting from the rise of discount are those which cannot be too hastily renounced for they are of a bad nature; the consequences are lamentable.

It is from the annual *savings* of England that the Bank of England should really raise the new resources which it stands in need of.

The savings of the United Kingdom are estimated at 130 millions, sterling, a year. The possessors of these millions evidently seek to give them the most useful and profitable employment. They co-operate for the construction of our railroads even to the extent of 400 or 500 millions, sterling. The surplus is employed in new constructions, in improvements of all sorts, or serves to provide for English or Foreign Loans, for English or foreign enterprises, etc.

The Bank of England might be able to take its part in these savings, without causing the smallest void outside, and that would be so much more easy for the Bank of England as its profits are superior to those of all other enterprises.

If Banks of Issue were now free to be established, it cannot be doubted that, all the capitals would flow towards an industry which brings back 25 to 30 per cent. There is nothing in England or in Europe comparable to this. Assuredly, all the unemployed capitals would be brought to it, until the profits had been brought down to the level of the other investments.

The exaggerated profits of the Bank of England, under the system of monopoly, indicate precisely the utility there would have been in the new capital devoted to the commerce of discount.

The products do not circulate with sufficient rapidity in the present day; their distribution leaves much to be desired; the movement of production and manufacture is not carried on in a regular manner. Industry suffers from this state of things, and at the bottom it suffers only from the insufficiency of the capital of the Bank of England. If the commerce of the Bank were free, the capital would not be wanting, and it would be easy to augment the resources of credit, which are not at the height of the wants.

The conditions under which the power of issuing credit money is exercised are not equal to all, since that power is a monopoly in which the Bank of England alone profits. Now, it is the employment of a capital of this nature, without intrinsic value, which constitutes the principal advantage of the commerce of discount; and it is because all the establishments outside the Bank are deprived of it, that the situation of this commerce is very precarious, and that the capital engaged in it is not got at without difficulty, unless with the temptation of large interest imposed on the industry which borrows and is made to discount its bills.

The Bank of England counts too exclusively upon the credit capital of which it has the enjoyment, and not enough upon its own proper capital, —upon that new capital which should be obtained from the shareholders or from the public. The action of the Bank is, at the present day, paralysed by the want of a sufficient capital. The Bank finds itself under the necessity of raising its discount, only because its reserve is relatively too weak, and it is so because it has not disposable capital to turn into it. It is, then, only in consequence of the absence of a disposable capital that the Bank is obliged to raise the rate of discount, and when the Bank raises it, the interest is raised everywhere in like manner, to the great detriment of the whole community. This damage is felt not only by the customers of the bank, but also by all those who are borrowers, whether under the form of discount or of mortgage ; it reaches all parties of the public wealth, for the rise of the interest lowers in a corresponding manner the capital of all funded property, of all industrial enterprises, shares and bonds, as it reaches the Government funds.

This may give some notion of the enormous injury which results, for everybody and everything, from the rise of the rate of interest.

The question is, how to seek the efficacious means for avoiding the rise. That is only by increasing the reserve of the banks, in a ratio with the wants of the circulation, and that can be only by the realisation or augmentation of their capital.

The new capital which would be demanded of the public would be by no means taken from the commerce of discount; it would be furnished only by the capitalists seeking investments for their disposable funds, and this investment would be the more sought after, inasmuch as it would be neither less useful nor less advantageous.

Discount ought always to be lower at the Bank than without, and in that all the world is interested. The object should be to bring about the general lowering of the hire of capital by the competition of credit paper; the discounters outside the Bank would lose nothing, for it is not only with their own capitals that they work, it is also and especially with those that they procure for themselves by re-discounting their bills at the Bank; then, that which concerns them is that, the rate even of these discounts leaves them the same profit, and this profit would be so much the greater, as the affairs would have taken greater extension; as to the advantages which industry in all its branches would derive from it, agricultural, manufactural, and commercial, and especially in the cheapness which would result from it for all its products, they would be considerable and of a nature to compensate very largely certain partial and, besides, temporary inconveniences.

The lowering of the discount would immediately produce a corresponding lowering in all the relations of lending and borrowing; but not that if the Bank rate of discount were 3 per cent. all the investments would be made at that rate; the interest varies according to the risk. But, certainly, the action of the Bank of England will make itself perceived throughout the kingdom in all the affairs, in the temporary as in the permanent investments; the English establishments analogous to the French establishments, would always be able to make the same profits, since these profits result only from the difference of interest; only the base will be different, the level will be everywhere lowered. There is nothing absolute, in fact, in the rate of interest; there is no reason why it should be at 4 per cent. rather than at 3 per cent.; thus, the competition of an establishment of credit, like the Bank of England, into which the great mass of capitals would be concentrated, would exercise an influence very salutary on the rate of interest in general.

On the question of the *maximum* of the rate of discount, which, for the Banks, is the equivalent of the tariff imposed on the railway companies, this *maximum* is only the legitimate compensation for the monopoly which the Banks enjoy, that of issuing notes without interest, of the disposal of a capital which costs them nothing. It is only by this tarification of the interest that the public can have a chance of enjoying a moderate rate.

To that it is objected that, the rate of interest cannot be fixed, that the interest must necessarily vary.

But it is not a fixed rate of interest that is required. It is only necessary to confine it within certain limits,—that the Bank of England should be able to vary it only within these limits; the object is to diminish the extent of the oscillations. The Bank is in possession of a monopoly; now, as long as a monopoly exists, it must be regulated, in order that those who work it be not tempted to abuse it. Why do they impose tariffs on railroads for the transport of travellers and merchandise, if it be not that they have a privilege? If a *maximum* be judged necessary in that which touches the tariffs to the privileged enterprises of the railroads, why should it not be the same in that which concerns the Bank of England, which is in a situation of monopoly still more characterised?

The railroads cannot imitate the Bank, by reason that they are under the system of the *maximum* of charges; otherwise, even as the Bank refuses not only to augment its capital, but also to render disposable that which it possesses, so the railroads might, with as much reason, refuse to augment their rolling stock, the number of their waggons as well as the number of their locomotives, they might thus profit by the insufficiency of their stock to levy contributions on the commerce when its products were presented in too great quantity; it is precisely that they do not abuse this privileged situation that the obligation is imposed on them to satisfy, on determinate conditions, all the wants of transport for the travellers and the merchandise.

The analogy is complete: it would not be more difficult for the Bank to satisfy the demands of discount than for the railroads to satisfy the demands of transport; it is a question of capital, and as already shown, the capital would not be wanting, if it were wished to procure it. Now, why should the Bank not do that which competition would certainly do in its place under the system of liberty?

To support the doctrine of a *maximum* rate of interest for the Bank of England, we have the practice, during a hundred and forty years, by that establishment itself, and that can hardly be called Utopian, which has continued in practice for so many years.

The Bank of England having been able to maintain during that period the rate of its discounts at 4 per cent. there can be no reason why the Bank should not be able to do the same thing now, when clearing-houses and other compensations, then unknown, are now so extensively used, and the capital of the country is increased, at least, as largely as the demand for discount.

It is objected, that the affairs were then considerably less, and that, the increase is so great that, the Bank would find it impossible now to act in the same way.

But everything is relative: the savings of a country are so much greater the richer the country is; its power is always at the height of its wants. The Bank, having to carry on its operations in a like intermediate course, would always be able very easily to place its means in a ratio with the state of affairs, whatever it may be, and to take a proportional development. The principle of a *maximum* rate of interest would be in these days an application so much the more easy as capital is more abundant. The principle, moreover, cannot change its nature by reason that the affairs have augmented: thus, to compare the Bank to a steam-engine, the principle of which is in no way modified because, to execute a certain nature of work, that work being augmented, it requires the power of a hundred horses, instead of the power of ten.

The theory of the *maximum* of interest has been applied for upwards of a hundred and forty years by the Bank of England; it is not, therefore, a thing so extraordinary that the Bank should consider it as a chimera. The legal rate, besides, is only the same idea, it is only a *maximum* imposed on the interest of the whole country, and we have lived under the legal rate for many centuries. Certainly, the legal rate was not abandoned in this country to assist capitalists in aggravating the conditions of loans; the object was totally opposite to that.

In order that the intention of the legislature should be realised, in order that the lowering of the rate of interest should be produced as a natural consequence of free competition, as the effect of the suppression of the trammels that the law now places on the free investment of capital, certain precautions are necessary ; the better, the most certain of all, is assuredly that of fixing a *maximum* rate of interest for the regulating establishment, and that measure would not have the least inconvenience for commerce, for it would be always certain to obtain the same powers, when the Bank was placed in a position to raise its means to the height of its wants.

That which has been practised with success during so long a time ought, therefore, to be restored in vigor, and the liberty of the Bank, as to fixing the rate of its discounts, ought to be limited ; the privileges accorded to it require this compensation.

This question, of the rate of interest, is a considerable question, it is vital, in a political point of view.

Any means for protecting the reserve are inadmissible. The words—*To protect the reserve of the Bank,*—express nothing else than the desire of the Bank to elude its engagements, to avoid, in a word, paying its debts ; when, on the contrary, it ought to be always ready to fulfil its obligations. The means here pointed out for attaining this end are simple and easy; it will suffice for the Bank to do what all merchants do, to have a reserve and a capital proportioned to its affairs.

The last few pages are, for the most part, nearly a literal translation of the latter part of M. Isaac Pereire's evidence before the Commission of Inquiry into the Bank of France, a translation of which evidence is given in the Appendix.

This is a repetition, which may appear to some unnecessary, but others may see the importance of comparing the views of M. Isaac Pereire with the text of an anonymous Author, who had formed his own views long before he had become acquainted with those of this distinguished financier and banker; and as the Appendix is a part of the book which often receives the least attention, and, especially in this case, deserves the most, it has been thought desirable thus to assist the reader in making the comparison between the two Authors in the two countries, who, without any previous communication, are in perfect concurrence on this most important question.

But, it is a very remarkable fact that, the principles here laid down on the theory and practice of Banking, and confirmed in every particular by such eminent practical authorities as M. Isaac Pereire and his brother, M. Émile Pereire, are disputed and positively denied by all the twenty-six Directors of the Bank of England, without a single exception.

This is a remarkable and also a suspicious fact, for, without doubting the sincerity of these twenty-six men, who are supposed to have and may have no direct personal interest in the question, still, the suspicion will arise that, they are under the influence of old ideas from long habit, and that influence, we know, often impairs the judgment. But, however this may be, it is not to be expected that the Directors should be the reformers of the Bank of England. They wisely keep silent, and they will continue silent, as long as the commercial community continue indifferent.

It is not easy to extract from these Bank Directors the grounds on which they deny the principles here laid down. They have always been consistent in opposing every measure of freedom in banking affairs. They have been the persistent opponents of the Joint Stock Banks, and they have not been scrupulous in their means of opposition. The fact of their having apparently no personal interest, as Bank Directors, in maintaining the injurious system of the Bank of England has not prevented them from using the powers of their monopoly to throw every impediment in the way of the Joint Stock Banks that self-interest and even personal enmity could suggest, and for every exercise of their despotic power they shelter themselves behind the cast-iron and unyielding machinery of their Act.

Thus, the trade and industry of the country are brought under the dominion of the Bank of England and the great capitalists, whilst the commercial community, like helpless victims, submit in silence. But it is the silence of ignorance, not of indifference, nor is this ignorance confined to the shop-keepers. In Liverpool, Bristol, Birmingham, Manchester, and other great commercial cities, the Author, whenever he has had any opportunity of ascertaining the opinions of those who are called the merchant Princes, has been astonished at their little knowledge on this subject. They all complain of the cruel losses which they suffer from the fluctuations and high rate of the Bank discount; but none seem to understand, and very few pretend to understand, the operation of the Bank Act, or to have taken the trouble even to read it.

It is impossible to imagine more profound ignorance of the principles, than in the mercantile community in general of this country; for, literally, they know nothing beyond the practical operation of the Act in the ordinary course of their business; moreover, they, most of them, admit this, and excuse themselves by the pressure of their own affairs, which leaves them little leisure for the study of this abstruse and complicated question, as they call it.

It is unfortunate for the country that this impression so generally prevails; for, when freedom from old ideas is once attained and the whole subject is carefully considered in the new light, this question is neither abstruse nor difficult; it is a simple question, the answer to which is to be traced out by the clear deductions of sound reasoning, with the same certainty as the solution of a mathematical problem, where nothing is assumed that is not proved.

As far as the Author has been able to ascertain the opinion of the Directors of the Bank of England on the principles here laid down, their objections may be reduced to this single point.

They say that, to increase the issue of notes and to fix a *maximum* for the Bank rate of discount, must have the effect of destroying the measure of value in this country, of depreciating the Bank note, and of sending away the gold out of the country, and that such would be the necessary consequences of an increased issue of notes, even to the amount of one million : they say, this experiment has been already tried by the Bank of England, and that such has been the result.

Now, here are two unfounded assertions : *first*, the assertion of a theory ; *second*, the assertion of a fact ; both of which unsupported assertions are denied.

Gold, as the measure of value, can never maintain a fixed price in the markets of the world, but must always be subject to certain variations.

Whenever gold ceases to be of a fixed value, of a value *certain* in reference to all other values, and that happens when it is sought with a premium, gold is necessarily exported.

As M. Isaac Pereire says, to give a premium to procure gold, as the Bank of France sometimes does, is then to depreciate in an exact proportion the relative value of the notes, to encourage demands for the repayment of the same notes, to favor the withdrawal of gold or silver from circulation with a view to speculation ; it is again to raise artificially the price of drafts on the foreigner, and thus to increase the charges of importation ; it is only to serve the interests of some houses sufficiently rich, sufficiently powerful to be prepared to act upon all the places to profit by the smallest variations in the rate of exchange or in the price of the precious metals.

It is certain that the rate of exchange, when it is not falsified by operations in a contrary direction, ought to indicate perfectly the direction that gold takes or ought to take.

It remains, consequently, well established that, the movements of export or import of the precious metals have no relations with the variations of the rate of interest.

All the observations in this respect can concentrate themselves between England and France, or rather between Paris and London, because these two places are justly considered as the regulators of the exchange; they centralise, in effect, in great part, the liquidation of the exchanges of the whole world.

The price of gold, therefore, may be fixed by law, as it is in this country, but that does not prevent variations in the price of gold in the markets of the world; nor does it fix the *value* of gold in this country; for, though the price be fixed, the *value* varies in this country as in other countries. These variations are slight, but yet sufficient to remove the gold from one country to another, from the country where it is plentiful to excess, to another where it is scarce to deficiency.

But this in no way affects the notes, which represent gold and are always convertible into gold.

As long as the notes are convertible into gold, there can never be too many of them. Their mass is without the smallest influence on prices when these notes represent money.

Prices can rise only with paper money, which has not the control of money; or by consequence of a reduction in the cost of procuring the precious metals.

As long as there is no reduction in the cost of procuring the precious metals, the variations in their value will be very light, and will be subject only to the variations of supply and demand, which are very trifling, the wants being nearly constant.

The variations of prices depend either on the merchandise other than money, or on the money. Those which arise from the money are extremely weak, even insensible. They do not arise from the notes, unless in the point of view that they contribute in a certain measure to diminish the demand for gold or silver. But this last consideration is so very feeble as to be undiscernible.

If the notes, which represent gold, be at all times convertible into gold, the market price of gold is immaterial, as the notes will always represent it.

In that case there can no more be an overissue of notes than of gold; for the over-issue of either must correct itself; and there can never be a depreciation of the notes, which must always be on a level with the value of the gold.

Therefore, the experiment referred to by the Bank Directors could not have been fairly tried, or could have been no failure at all; but, on the contrary, must have been a complete confirmation of the theory here laid down, proving that the notes had depreciated, not by the increased issue of a million, but by such increased issue without any real capital in the Bank to retain or repurchase the gold which was then drained away.

It is impossible to understand the experiment in any other way, or the reasoning by which the Bank Directors arrive at their conclusion. They cannot suppose that, fixing the *price* of gold in this country fixes the value in all other countries. To impute to them such an error of reasoning as that, would be to impeach their common sense, and yet that is what their conclusion seems to point to.

Therefore, the very example which the Bank Directors bring forward to prove the principles here laid down erroneous, proves the very contrary, and also strengthens the suspicion of their judgment weakened by long indulgence in old ideas. But this is no imputation on the virtue of the old Ladies of Threadneedle Street.

If the extreme issue of credit money be attained, as the Bank Directors say it is, it is very obvious that, the additional issue of a million of paper money, without a corresponding increase of real money, must have the effect of depreciating the whole of the notes in circulation. As a necessary consequence of this state of things, the gold goes away, and the notes still further depreciate. It would be very wonderful if it were otherwise. Gold being merchandise, and the Bank having no merchandise of any kind to give in exchange for the gold, and no real money to spare, the Bank has no other means of bringing back and retaining the gold than by taking from the profits of trade and industry. That is just what the Bank does when it raises its rate of discount, thereby fixing at its pleasure a high per centage tax on the profits of the whole commercial community, and they, ignorant of the cause though suffering from the effect, permit the Bank to go on taking what does not belong to it, whilst the Government, blind and indifferent, stands by quietly; and so a whole nation of industrious workers are deprived of a portion of their profits, for the benefit of the Bank shareholders, though their benefit, by these means, is very doubtful in the end.

No further evidence can be required to show the prevailing ignorance on the true principles of banks and banking than the wild ideas which exist on the subject, even among men who are looked up to as authorities in their own countries. That this ignorance is almost universal is shown by the want of anything like uniformity of action in regard to banks and banking in all the civilised nations of the world. This can be accounted for only by ignorance of the true principles, for there cannot be different principles for different countries, and what is true in one country must be true in all countries.

The machinery of issue is the main subject of difference and dispute, though other important questions are involved No two countries agree on the whole question, and no country carries out its own system consistently. When paper money was introduced into India, the British Government relinquished in a great measure the doctrines of Sir Robert Peel. In India the Government issues the notes, which are in form and substance promissory notes of the Government of India. The Government alone is liable to pay each note in money to the bearer on demand. Different notes are issued in different districts, and different centres of operations are appointed. The notes are issued by agents, appointed by Government for the purpose, in exchange for current silver coin or standard silver bullion, or, to a limited extent, for gold. All the coin and bullion so received is retained by the Government, and secured as a reserve to pay the notes, with the exception of such an amount, not exceeding four crores of rupees (about £4,000,000) as the Governor General in Council, with the Secretary of State for India, shall from time to time fix. The amount so fixed is invested in Government securities, which, together with the coin and bullion, is appropriated to provide for the satisfaction and discharge of the notes; and the notes by law are "deemed to have been issued on the security of the coin and bullion and securities so appropriated, as well as the general credit of the Government." The profit, if any, from the circulation of the notes, passes into the State revenues of India. The notes of each district are a legal tender in that district, except by the Government of India, at any Government office or at the Issue department of any Agency of Issue.

The paper money of India, therefore, consists of State notes, not bank notes. This is an anomalous case, against all principle; but India is altogether an anomaly.

The system of the United States of America puts the Government in an intermediate position, in which, without becoming issuer itself, it still holds direct command of all issues, and, without any central bank, affords convenience to all banks.

A department of State at Washington, under the general direction of the Secretary of the Treasury, is entrusted with those functions of issue assumed by the Federal Government as its own peculiar prerogative. Over this department presides a chief officer, called Comptroller of the Currency, second in authority to the Secretary of the Treasury, but immediately responsible to Congress for the due execution of the law by the office under his direction. The duty of the Currency Department is, in the first place, to perform the mechanical operation of engraving so many notes, to an amount not exceeding 300,000,000 of dollars (say £60,000,000), as may be required for circulation within the United States. But the Government, under the National Banking Act, does not *issue*. No note is complete until it be filled in with the name of a bank, from which it is to be put into circulation, and by which it is to be made convertible. The Currency Department controls the form of the notes, and restricts the total amount of them; for the rest the banks are answerable under the provisions of the law. Once issued by an authorised Association, each note becomes money, receivable at par throughout the United States in payment of debt, and, as a rule, of taxes and all other Government dues. But to the Associations alone it appertains to maintain convertibility on demand into *lawful money*, that is to say, at present, into Government legal tender notes or *greenbacks*, but hereafter, when these shall have been funded or otherwise withdrawn, into cash, which will then be the only remaining lawful money of the United States. Any Joint Stock Association, having a specified capital, may become a Bank of Issue. On approval of a certificate sent in to the Comptroller of the Currency, stating particulars of its formation and means, and on compliance with the terms of the law, the association will be provided with any amount of notes in blank, not exceeding the amount of its capital stock actually paid up, out of the store for the time being at the disposal of the Department. But the Government requires of every Bank of Issue a deposit of United States Stock bearing interest, and will only deliver, in exchange, notes equal in amount to 90 per cent. of the current market value of the stock so deposited, but not exceeding the par value thereof. Thus the holders of notes are assured of redemption in the form of a debt due from the whole nation, in case, through misconduct of the issuers or any other accident, they should be disappointed of payment in lawful money. Furthermore, it is enacted that, each Association shall have at all times on hand, in lawful money of the United States, an amount equal to, at least, 25 per cent. of the aggregate amount of its outstanding notes of circulation and deposits. Finally, periodical accounts are to be rendered by the cashiers of the banks, and visitors or auditors are appointed on behalf of the Government.*

Thus we have in India an example of paper money issued directly by the State, and in America an example of paper money issued by banks, under the restriction of a law, and also under the supervision of a Department of the State.

The system of the American Banks, or Joint Stock Associations, has been already noticed. (See page 496.) M. Michel Chevalier has himself briefly described this system, which is called the "free banking" system, and of which this distinguished authority and the merchants of Liverpool are enamoured. Here is M. Chevalier's description, rendered into English :—" The State does not constitute itself a banker; it restricts itself to the fabrication of Bank notes, without having the right to put them in circulation on its

* See Article on " Modern Reforms in Paper Money," by Mr. William Latham, in the 'Fortnightly Review' for 1st March, 1866.

own account. All the world, without exception, individual or association, is entitled to demand them of the State, in order to carry on banking business, on the sole condition of conforming to the law. This law, uniform to all, is that they should lodge with the State public funds, selected as being especially sound and secure, and designated by the law itself, for an amount equal to the sum required in notes."

It is unnecessary here to make any further remarks on this system of "free banking," or on M. Michel Chevalier's views with regard to unlimited issues, though it might have been supposed that the examples in his own country of John Law and the French Assignats would have been warnings to him.

But it is a pardonable curiosity to desire to know how so eminent an authority as M. Michel Chevalier would avoid the perils of entrusting the function of these issues to the amount of sixty millions, sterling, to the executive power of the State.

M. Chevalier, if rightly understood, would allow the whole or the greatest part of the national debt to bear up a corresponding amount of paper money, if banks should choose to take such license. According to this principle, if rightly understood, the greater the debt, the greater the credit. His object is freedom of issue, which he classes with freedom of trade. He requires convertibility into coin by law, but he adopts no means to ensure observance of the law. He trusts to the faith of the banks, and to the decrees of the Courts against defaulters. He is opposed to legislative restrictions on the amount of paper money, to legislative compulsion on the maintenance of reserves of bullion, and to any separation of the business of issue from the business of banking.

It is hardly possible to believe that these are really the views of M. Michel Chevalier, but if so, he and all others who are so imbued with republican or free trade notions as to regard a monopoly with horror may be reminded, without outrage to their feelings, that a monopoly by any finite number of banks, though more than one, is still a monopoly in principle. In the United States of America there are already more than 1,600 national banks of issue; yet when the 300,000,000 of dollars, authorised by Congress to be issued in bank paper money, shall have been dispensed, there will still remain many banks excluded from the privilege so widely extended. In the United Kingdom the number of country banks of issue, English, Scotch, and Irish, is restricted by law, so that no new applications, however meritorious, can be introduced. But all these are so many little monopolies.

The plan of M. Chevalier, without modification, would involve issues to an unlimited amount. Unlimited issues, if there be any profit in issuing, as there certainly would be under M. Chevalier's system, must end in excessive issues, and excessive issues of money, which means *depreciation*, must make unfavourable exchanges. Unfavourable exchanges, long continued, must ultimately expel the precious metals, and, at last, the issuers must suspend specie payments, because all their specie will have been exported, and they will be without any means for getting it back. All this is so plain that, so eminent an authority as M. Michel Chevalier cannot fail to see it; therefore, he must be in possession of a secret, and that may excuse curiosity. Perhaps, the secret may lurk in that very common confusion, already noticed, by confounding the issue of money with trade or banking. The *jus cudendæ monetæ* resident in the sovereign power must include the engraving of paper, no less than the stamping of gold and silver, destined for use as money. Hence, it follows that, the subject derives the privilege of making paper money, not by natural right, but by right conferred by the State alone. With trade or banking it is different. There is no sovereign right of trade or of banking, except by usurpation. These are the natural rights of all mankind, without distinction. Free trade and free banking are liberties essential to a free people; but free issue of money would be an encroachment on the sovereign prerogative of government even in a free country, and free issue of money has nothing to do with free trade or free banking. Those who confound them are simply in a state of confused ideas, and that is pretty nearly the condition of the whole commercial community in this country, as well as in all other countries. But to attempt to enlighten our commercial community by more Parliamentary Committees or by Royal Commission is simply to waste further time and public money, for such an attempt would proceed on the erroneous notion that Members of Parliament know more about the matter than the Bankers, Merchants, and Shopkeepers who are brought up for examination before the noble lords, right honorable and honorable members. Any such attempt is worse than useless on a subject which can be worked out only by thoughtful minds in the privacy of study.

It would be more to the purpose and much less expensive to the country, if the Government would avail itself of the gratuitous services of those who are competent and willing to give them, in preparing the outline of an Amended Bank Charter Act.

Public attention would then be directed to a few well defined and practical points, instead of being led into endless discussions on speculative theories, and the Government, for its own information, could obtain the opinions of those whom it might think fit to consult as the most competent advisers.

So prepared, it might not be too much to expect that the Government would form its own judgment, and take upon itself the responsibility of framing an Amended Bill for the consideration of Parliament and the country.

In this way the wearisome and wasteful discussions on visionary and unpractical theories would be avoided, and the inquiry would be confined to a few definite points on sound principles.

The great object is to establish the Bank of England and the Bank of France on the same sound principles, and these two great National Banks, acting in unison, instead of counteracting each other, would then regulate the monetary affairs of Europe, if not of the whole world.

The importance of this object is so great that it is impossible to exaggerate it, as concerns commercial relations and union between all the nations, on the only secure foundation of mutual interests.

The author has reason to believe that, the adoption of this suggestion by the British Government would be very gratefully received by the French Government at this time, when the whole subject is under consideration in relation to the Bank of France, also by the Emperor and a large and influential party in France, with the leaders of which the Author is in communication. This party, seeking to establish the Bank of France on the broad and liberal principles here laid down, and to which the Emperor is supposed to be favorable, comprises some of the most distinguished names connected with the trade and industry of that great Empire.

To keep money at a low, and as nearly as possible, uniform rate of interest throughout all the nations, must be conducive to the general prosperity of commerce, and to no countries in the world can the importance of this object be so great as to England and France. With these two countries united for this object, all other countries must follow. The two National Banks of England and France established on the same sound principles would, in effect, be like the establishment of one Bank for the regulation and control of all the national Banks of Europe, if not of the whole of the civilised world.

As M. Isaac Pereire observes, the Banks act upon the rate of interest not only by the re-union, by the concentration of a gross capital destined to discount, but also by the employment of credit money.

Money is necessary to exchanges, since it is the common measure of all values, but money, as money, is steril capital, as land taken for railways is steril land, producing nothing by itself. The domestic uses for which the precious metals are used is another thing. Money, used as money, acts only as a medium in the exchange of products, and, as such, has no value.

The capital that all society employs for this purpose is considerable, and it can be procured only by means of products of a corresponding value. Credit money costing nothing, and replacing in part this money, which represents effectively the value for which it circulates, there results from its employment a very great economy. Besides, credit money is much more convenient than coined money. Credit money acts, finally, in the service of the Banks as a powerful means for lowering the rate of interest, since it furnishes the means of discounting, almost without expense, the promises of industry. Credit money is nothing else than the means by which the powerful credit of the Banks supersedes the obscure credit of the private houses. The bank note is nothing else, in effect, than the conjointly responsible representation of a certain number of bills of exchange.

The pretext for considering credit money as diminishing, by its mass, the value of the metallic money, and, consequently, as necessarily raising the price of all things, is a pretext completely devoid of foundation ; it is only a paradox.

The credit money is, in effect, the equivalent, the representation exact of the real money, the value of which has nothing arbitrary, since it is only the expression of the cost of production of the precious metals, and that value is universally recognised.

The credit money postpones itself to the money of gold and silver ; supplies and replaces it, and there remains in each country of the one or the other only that which is necessary for the wants of the exchanges.

The character of credit money augments with the development of affairs. Its employment is not unlimited, but it is indefinite. It is impossible to say, beforehand, within what limits it ought to be confined : it has no other limits than those of the development of affairs.

Credit develops itself at the same time, in a manner parallel, as much by the issue of notes as by the help of compensations at the *clearing-house*, accounts current, cheques, etc.

In proportion as a nation enters more forward in the ways of credit, she has more recourse to the modes of clearing and compensation, which are, in effect, means of regulation very simple and very convenient. But the bank note is appropriate to all uses, to others even to which the cheque cannot be applied; it is employed as money of which it is the appendix. Thus, with a cheque, which represents only an individual engagement, you cannot easily buy all the things which you are in want of, whilst with a bank note, which represents money, each can procure in all places all that is necessary for his wants.

The system of clearings or compensations ought not to hurt the development of the circulation of notes, nor will it diminish the use of money, the quantity of which augments every day. This system is in practice much more in England than in France; but, as affairs develop, this system must be more practised in France.

In England it is by a sort of compression that the use of cheques generalizes itself. It is in consequence of the adoption of the extremely restrictive system applied to the Bank of England that the circulation of the notes has languished, and this restrictive system, from which commerce suffers, is the principal cause of the crises which occur almost daily in London. If we adopted more liberal ideas, the circulation of the notes would be developed, parallel with the use of the clearing-houses, in a considerable proportion. In England it is the notes that want development; in France the clearing-houses.

But it is essential that credit money should be constantly convertible into real money. Without the control of money, there would be not only instability, but a continual degradation of prices, the depreciation of paper money being always produced in direct ratio to its multiplication. Money is for the Banks a counterpoise, an indispensable touchstone; it permits us to recognise if there be too much or too little paper. When there is too much, we naturally call it in, and the real level of the wants of circulation is immediately restored. We are thus sure that, with the constant convertibility of the bank note, there cannot be excessive issue. When there is not enough, you carry money to the bank to take out notes, or else you issue new notes with the same funds in the treasury. There is no excess, unless when the paper has a forced circulation, than which nothing can be more detestable.

It is, therefore, an essential condition for the circulation of the bank note, that it should be constantly convertible into money.

We must not, however, confound the *check* with the *bank note;* this is not only, like the check, a means of payment, an instrument of compensation or of liquidation of engagements arrived at maturity; it is again and especially an instrument of credit; it represents capital, since it is only the transformation of the bill of exchange; it admits of utilising, by means of discount, a portion of the floating capital that industry and commerce hold in reserve for the wants of their transactions.

This distinction in the nature of the two effects is indispensable to avoid falling into fatal errors.*

From the foregoing facts and reasoning, if rightly understood, it will be evident that, the Bank of England can never be made equal to the occasion, as a National Bank, without a great increase of its *actual* and *credit* capital, and that to enlarge the issue of notes without enlarging the means of converting them into gold on demand, would be only an aggravation of the existing evils.

This is a very important and evident conclu-

* See evidence of M. Isaac Pereire in the Appendix.

sion, but there is another of equal importance, which may not be equally evident to all readers. For the purpose of directing more particular attention to this, a few further remarks may be useful, even at the risk of tedious repetition.

It is objected that, an additional issue of notes would, under ordinary circumstances, depreciate the notes in circulation and drive away the gold.

Under the existing system and ordinary circumstances this would be so.

But under the proposed system and any circumstances it would not be so.

The notes in circulation could never exceed the requirements, unless for the purpose of hoarding, under the influence of panic and the fear of a crisis, but with plenty of notes, payable in gold on demand, there could be no panic and no crisis.

The notes in circulation could never depreciate, if, at all times and under all circumstances, convertible into gold on demand.

These are simple truisms in theory, confirmed by experience, the truth of which, no scientific Economist will venture to deny.

The principal points on which Economists differ are these.

Some, indeed, most, Economists say that, with the issue of notes equal to the requirements, at a fixed and low rate of discount, it is impossible, at all times and under all circumstances, to make the notes payable in gold on demand. In support of their assertion they refer to the experience of the past.

But what is the experience of the past?

It is the experience of the existing system, which has proved its own failure in all the intended objects, except in that single object of preserving the convertibility of the notes into gold, an object which has never been the subject of much, if any, doubt or difficulty.

It is the experience of the existing system in its very defects, which has helped to bring to light the true theory here propounded, and to confirm the practical rules here laid down.

It has proved that, Credit cannot be made available for practical purposes, as a general principle, unless supported by actual Capital.

It has proved that, there is no limit to Credit, if Capital be in due proportion.

It has proved that, Credit in excess deteriorates or drives away Capital, and that, Credit in due proportion to Capital is, in effect, the same as Capital.

It has proved that, it is impossible to keep gold with an excessive issue of notes.

It has proved that, the signs of excessive issue are in these two facts:—the gold goes away, and the foreign exchanges are unfavourable.

It has proved that, when the market price and the Mint price of gold are the same, and the foreign exchanges are favorable, the gold never goes away.

It has also proved that, the Bank has no other means for bringing back the gold than by raising the rate of discount.

And, lastly, it has proved that, this is the cause of panic, crisis, and great destruction of Capital.

The real points in the question, therefore, are, how to keep up the issue of notes to the level of the requirements, and at the same time to keep the gold from going away, and the foreign exchanges from being unfavorable.

It seems a very simple answer to say that, the only effectual mode of meeting these points is, to increase the actual capital of the bank, and to enlarge, in due proportion, the power of the Bank to issue its credit notes.

Experience has proved that, it is not safe to trust the Bank with an unlimited power of issue, nor to trust to the discretion of Bank Directors, even if that power be limited. But, to invest any Corporate and irresponsible body with such a power would be contrary to all principle and practice in this world's affairs.

It is, therefore, essential that, the discretion of the Bank Directors should be confined within the narrowest limits, by fixing the *maximum* Bank rate of discount at 4 per cent.

Thus guarded, the power of issuing notes to an amount exceeding all possible requirements might be safely entrusted to the Directors of the Bank of England. They would then be relieved from all anxiety about their *reserve*. With the capital of the Bank restored and in hand, with the power of issuing 40 millions in notes, if confined to England and Wales, or 50 millions, if extended to Great Britain and Ireland, and the absurd distinction between the Issue Department and the Banking Department removed, the *reserve* would be too ample to admit of the smallest anxiety to the Bank Directors or to the community on that ground.

For their guidance, the Bank Directors, instead of their present complex and unintelligible rules, which seem reducible to no principle, would have to direct their attention only to the market price of gold and to the foreign exchanges. As long as the market price and the Mint price of gold are the same, or at par, *i.e.* at the rate of £3. 17*s*. 10½*d*. per ounce, and the foreign exchanges are favorable, it could not be profitable to export gold; and with the certainty of an ample supply of notes, convertible into gold on demand, at all times and under all circumstances, and this further certainty that, good bills could always be discounted at the Bank of England at a rate not exceeding 4 per cent., it is inconceivable that, the market price and the Mint price of gold should be otherwise than the same, or that the exchanges should be otherwise than favorable, as long as this country preserves its present pre-eminent position in Trade and Industry.

Now, the meaning of the Mint price of gold is simply this :—

In 1717 the coins were then improperly rated according to the market value of gold and silver, and Sir Isaac Newton pointed out that the effect of this would necessarily be to drive silver out of circulation.

In consequence of his representations, the value of the gold coin was reduced, but not to a sufficient extent, and the consequence which he predicted took place.

The gold, in coin, being still over-rated, in comparison with its relative market value to silver, merchants, during the course of the last century, adopted the universal custom of paying their bills in gold coin in preference to silver, and thus gold became gradually to be considered as *the* measure of value in England.

In 1816, this custom was adopted as the law, and gold was declared to be the only legal measure of value, and the pound, the legal tender or measure of value, became the equivalent in gold of 20*s*. in silver.

The pound weight of gold bullion was ordered to be cut into 46 pieces of the value of 20*s*. or £1 each, with a piece over, equal to 14-20ths and 6-12ths of 1-20th, or the Mint Price of 1 lb. of gold was fixed at £46. 14*s*. 6*d*.

But, as the value of gold is estimated by the ounce, the Mint Price of gold is fixed at £3. 17*s*. 10½*d*. per ounce, and, as long as the coins are ordered to be coined of the same weight, the Mint Price cannot vary.

The Mint Price of gold, therefore, in its modern meaning, is nothing more than a public declaration of the weight of metal the law requires to be in the coin, which accidental circumstances have caused to be considered as the legal measure of value in this country; and any alteration of the Mint Price of gold would be simply an alteration in the standard weight of the coin, and would be the same thing in principle as an alteration of the standard yard measure. Those persons who ridicule the idea of having the Mint Price of gold fixed, should, if they be consistent, also ridicule the idea of having the standard yard measure fixed. Those who wish to let the Mint Price of gold follow the Market Price, should also contend that, every tradesman should have his yard measure of as many inches as he pleases, because when the Market Price of gold rises above the Mint Price, it is precisely analogous to curtailing so many inches of the yard.*

But, let the case of *excessive* issues and *over-trading* be assumed, with an unfavorable exchange, and that the gold is going away.

What then?

There can be no fear about the notes, and for those who want them, there they are at the Bank, at a price not exceeding 4 per cent.; and, surely, the Bank Directors must have the best means of judging the nature of the bills brought to them for discount. By reducing the discounts, any excess of issues might be gradually corrected without injury and without alarm; or, if more prompt and decisive measures were required for calling in the notes and stopping the outflow of gold, the Bank Directors might sell a sufficient amount of Government securities and hold or cancel the notes thus obtained, or buy gold in the open market, or foreign bills to be

* "Theory and Practice of Banking." Vol. I. pp. 221–224.

converted into gold. With the power which real capital must always command, the market price of gold must soon be brought to the level of the Mint price, the difference between the two being at any time very trifling, and any loss to the Bank from these operations must be too trifling to deserve a moment's consideration, when the object is to save the whole community from far greater losses; and if it be objected that, such sales by the Bank would lower the Government funds, the answer is that, the depreciation would be much greater by the sales forced by the Bank or the commercial community in like circumstances under the present system.

It is impossible that the outflow of gold should continue long under these operations, and as long as the Market and the Mint price of gold were the same, and our trade and industry continued in the ascendant, the foreign exchanges could never be long unfavourable to this country, nor could it then be profitable to export gold, as a commodity.

The difficulty about gold, therefore, under those circumstances, could never arise; or, if it did, it would concern the Bank only, and not the community; and alarm about the notes could never arise, for of those there would always be plenty at the Bank.

The notes in reserve could always far exceed the possible requirements, and the commanding influence of the Bank over the market of gold would place the convertibility of the note into gold far beyond the risk of, what may be considered, possible circumstances.

In this state of affairs, it is impossible to conceive any larger requirements for gold than in the ordinary transactions for foreign payments or advances on foreign loans, and the ordinary purposes of change. If this view be correct, it is a sheer waste of capital to keep more than a sufficient amount of gold in the Bank to meet these ordinary requirements, and what that sufficient amount will be, the Bank Directors, surely, ought to be the most competent judges.

These are, in effect, the principles of the Bullion Report of 1810, for the amount of gold to be retained by Bank is not a question of principle, but of practice, to be determined only by experience.

The main principles of that celebrated Report are:—

1. That, the mere *numerical* amount of notes in circulation at any time is no criteron whether the notes be excessive or not.

2. That, the sole test or criterion of the depreciation of the paper currency is to be found in

the price of gold bullion, and the state of the foreign exchanges.

3. Any positive limitation of the issues is expressly condemned.

4. That, at certain crises to which our paper is exposed, an enlargement of accommodation is the true remedy, and that, too severe a contraction may lead to general ruin.

The Bullion Report, in principle, is undoubtedly right in condemning any positive limitation of the issues; but, after the experience we have had of Bank Directors, the Public can hardly be expected to approve of vesting a regulating power in such a body, or in any responsible body, and least of all in the Government, without some limitation. A sort of middle course is, therefore, proposed, by fixing the limit so far beyond the present requirements as to leave ample room for the discretion of the Bank Directors, and to leave the further extension of the limit to the wisdom of Parliament.

But the Bank Act of 1844 expressly prevents what the Bullion Report expressly recommends:—that the Bank should extend its issues liberally to support public credit.

Mr. Henry Thornton, one of the Authors of the Bullion Report, in his "Inquiry into the Nature and Effects of Paper Credit" (p. 245), says:—

"Two kinds of error on the subject of the affairs of the Bank of England have been prevalent. Some political persons have assumed it to be a principle that, in proportion as the gold of the Bank lessens, its paper, or as is sometimes said, its loans, (for the amount of the one has been confounded with that of the other) ought to be reduced. It has been already shown that, a maxim of this sort, if strictly followed up, *would lead to universal failure.*

This is exactly the principle of the Bank Act of 1844, and such would have been the consequences of it in 1847, 1857, and 1866, if it had not been suspended on each occasion.

But Mr. Göschen, in his "Theory of the Foreign Exchanges," says:—

"It seems to be evident that, when the exchanges are manifestly against any country, and it is perceived that excessive indebtedness is the cause, there are only two modes of restoring the equilibrium,—the one being to increase the exports and diminish the imports,—the other to raise the rate of interest. In both these cases, that which will effectually bring the gold from abroad, in the most general and practical sense, will be the opportunities offered by a high rate of interest, to effect profitable and attractive investments."

Mr. Göschen may be right in this opinion, but his evident preference of the "*high rate of interest*" shows the tendency of the Bank Director and Capitalist, rather than the wisdom of the Cabinet minister. He seems to forget that, "the opportunities offered by a *high rate of interest* to effect profitable and attractive investments" arise out of ruinous losses, or the sale of bankrupts' effects, and a general fall of prices below the cost of production.

It is a bad look out for the commercial community of this country, which ought to be the market, *par excellence*, for the produce of the world, when a man possessing the experience and knowledge of Mr. Göschen, but with the predilections of the Bank Director and capitalist, is found in the Council of State.

If faith be our best hope in spiritual affairs; surely, the want of faith is our best protection in temporal affairs, and if we may not put our trust in Princes, neither may we put our trust in Jew or Gentile, especially in money matters.

Mr. Macleod, in his valuable work on the "Theory and Practice of Banking" (vol. 2. p. 222, 2nd Ed.), quotes this passage from Mr. Göschen on 'Foreign Exchanges,' with approval of his recommendation of a "*high rate of interest*," for bringing back the gold from abroad, and adds :—" Let the Directors settle what sum ought to be retained in the country at all hazards, as indispensably necessary to support the credit of their notes, *i. e.* to maintain their convertibility. Let them then determine upon such a rate of discount as would render it beyond the bounds of any ordinary contingency that their treasure could leave the country when discount was at such a rate." Here Mr. Macleod seems to lose sight of the Bullion Report, although he expresses his entire concurrence in it, and is its most eloquent advocate throughout his work. It is difficult to understand how he can reconcile his approval of the principle of that Report with his proposal to regulate the Bank rate of discount by the amount of Bullion in the Bank according to the scale which he gives. He takes the sum of " £8,000,000, as indispensable to be raised," and the rate of discount then to be 10 per cent. As the bullion increased discount to be lowered according to the scale, commencing with £20,000,000 at 2½ per cent., £14,000,000 at 4 per cent., £10,000,000 at 8 per cent., £7,000,000 at 12 per cent., £6,000,000 at 16 per cent., and so in proportion for the intermediate numbers in the scale.

Mr. Macleod, referring to the practice of the Bank for the last few years, says :—" It will be seen that the Bank has been managed entirely on this plan."

Assuming this to be so, it is not easy to see why he should derive satisfaction from this fact, his opinion on all other points in question being entirely at variance with the practice of the Bank; nor why he should propose a scheme, which seems calculated to augment rather than to diminish the evils of the existing system.

Mr. Macleod also treats lightly the continual fluctuations in the rate of discount.

He says; (vol. 2, p. 194, 2nd Ed.:)—"The rate of discount is only the *sign* of the evil. The real evil is the altered proportion between capital and credit, and a variation in the rate of discount is the grand natural corrector of the evil."

Admitting this to be so, still these fluctuations are in themselves a very great evil, and the question seems to be, whether "the real evil" cannot be got rid of in some other and better way, as already remarked (p. 40).

Mr. Macleod, of course, considers this impossible, because, in his next sentence, he says:—"To attempt to keep the rate of discount uniform, is to thwart and contravene the laws of nature, just the same as to attempt to fix the price of wheat."

If it be "just the same," Mr. Macleod must be right; but if it be quite different, he may be wrong.

The difference between the price of money and the price of wheat is evidently a different question.

The price of money may be said to be dependent on the demand; the price of wheat on the supply. The supply in the one case is dependent on human means; in the other on causes beyond human control.

If this be so, the *dictum* of Mr. Macleod must be wrong, and it is much to be regretted that a writer so acute as Mr. Macleod should have given his countenance to this common error of a large class of ignorant scribblers on the subject in Newspapers and Reviews.

In this way the subject, notwithstanding its momentous importance to the country, has been brought into such disrepute that, even the most thoughtful turn away from it with the feeling of utter hopelessness of arriving at any satisfactory conclusion. Positive assertions of ill-considered opinions are made with all the authority of admitted maxims, and the mind of the reader is left in the writer's own state of bewilderment, with this difference only, that the reader is conscious of his own bewilderment, and the writer is not.

The difficulties are felt and acknowledged by all, and every one who thinks himself qualified to point out these difficulties, also thinks himself qualified to remove them by a perfect remedy. The consequence is, a collection of the wildest schemes, resting on the most ignorant assertions, one pulling down what another sets up, making it appear that the existing evils are the necessary consequence of some mysterious law of Nature, and that any attempt to remove them will only introduce greater evils.

No doubt, Mr. Macleod is among the many who consider it impracticable to fix the *maximum* for the Bank rate of discount, because, as he says, opposed to "the laws of nature";—but this is *the* question, and he has nowhere shown, nor even attempted to show,—beyond the assertion of the natural law, whatever that means,—that this is impracticable.

Mr. Macleod refers to the period when gold and silver were equally used and their relative values were fixed by law, and he says; "this was their legal par of exchange, but we also saw that, their market values were continually varying, and from causes quite beyond any law; and that, it was no more possible to have a fixed legal price of one in terms of the other, than to have a fixed legal price for corn or other commodity."

But there is no sort of analogy between these two propositions.

To fix the *maximum* Bank rate of discount is not to fix the price of anything. It is only one of the proposed means for *regulating* the price of money, the supply of which is entirely within human means, but the supply of corn is not.

It is evidently impossible to fix prices by law, and it is also evident that there can be no true par of exchange between two countries, which do not employ the same metals as their legal standard.

But there is no reason why a uniform rate of interest and discount should not be preserved between different countries, nor why the rate of interest and discount should be almost always higher in this country than in France and other countries, when we see that, the exchanges between England and France, and between other countries, with different legal standards, can be regulated and brought to par.

That is the question, and in *that* there is nothing "to thwart and contravene the natural law," nor anything open to the common charge of absurdity.

It is confidently asserted by the most distinguished writers that, any considerable difference in the rate of discount between London and Paris, or between other countries, cannot possibly continue for any considerable length of time, and that the gold will go where it finds the highest interest, as all other commodities will go to the best market. The experience of the last year is sufficient to prove this to be an assertion contrary to the fact.

Mr. Göschen, in his book on "Foreign Exchanges," says,—there must be a difference of 2 per cent. between London and Paris, to cover the expenses of transmission, before the operation of sending gold over for the sake of the higher interest will pay. And, of course, between other Continental cities the difference may be greater.

This may be so, and, therefore, it is assumed that, the gold must be transmitted, when the rate of interest is so much higher in one country than in another as to pay for those expenses and leave a profit.

Under ordinary circumstances it would be so, but the question is, whether that natural consequence cannot be prevented by other means than by raising the rate of interest and discount injuriously to the whole commercial community.

This proposition is met, almost universally, with contempt and ridicule, and, to expose the absurdity, the usual reference is made to the folly of attempting to fix the price of wheat, or to keep it away from the best market, a sort of plausible reasoning and inapplicable illustration, which meets with almost universal approval.

But how stand the facts for the support of this theory?

Taking twelve months from 5th August, 1865, to 16th August, 1866, the following figures seem to answer this question.

Date.			Discount. London.	Discount. Paris.
1865	August	5 . . .	4	3
	Septemb.	28 . . .	$4\frac{1}{2}$	4
	Octob.	5 . . .	6	4
	"	7 . . .	7	4
	Novemb.	23 . . .	6	4
	Decemb.	28 . . .	7	5
1866	January	6 . . .	8	5
	February	22 . . .	7	4
	March	15 . . .	6	$3\frac{1}{2}$
	May	8 . . .	8	4
	"	12 . . .	10	4
	June	6 . . .	10	4
	July	. . . . .	10	$3\frac{1}{2}$
	August	16 . . .	10	3

On the 2nd August, 1866, the amount of coin and Bullion in the Bank of England was £13,793,340, and the Bank rate of discount was 10 per cent.

On the same day, the amount of Coin and Bullion in the Bank of France was £28,300,000, and the Bank rate of discount was three per cent.

According to these figures, therefore, the theory of M. Göschen, Mr. Macleod, and others of their opinion, does not fit with the facts.

Of course, there is no want of explanations to account for this inconsistency, but the explanations are very far from convincing, and to follow them would lead only to interminable and unconvincing controversy.

At any rate, the facts prove incontrovertibly that there are circumstances which may prevent the gold from going away from the cheapest to the dearest market, which under no circumstances could happen with the wheat, and that is sufficient to show that, these two cases are not parallel, or not under the same law.

How to prevent the gold from going away, under these circumstances, has been already shown in the foregoing pages, and, notwithstanding the opinion of Mr. Göschen, Mr. Macleod, and the other distinguished authorities who agree with them, this is not only practicable but quite easy and effectual by the means here pointed out.

Another recent publication on this question, by Mr. Fowler, an influential partner in the firm of Alexander & Co., bill-brokers in Lombard Street, may be here shortly noticed.

In his Essay on the Crisis of 1866, he says :—"I see no reason why a power should not be given to the First Lord of the Treasury and the Chancellor of the Exchequer to give the needful authority to the Bank, [to suspend the Act] it being left entirely to the discretion of those Ministers when, and on what conditions, to exercise the power. In this way the required authority would be obtained without a breach of the law."

Such a provision would be only giving a power which has been assumed; the only difference being that, in the one case, legal authority would be given for the exercise of the power *before* the suspension, and in the other case, that authority is given *after* the suspension.

How the fact of breach or no breach of the law can affect the question is inconceivable. But it seems inconsistent to make a law, the main object of which is to restrict the Bank of England in its issues, and at the same time to invest two individuals with the power to remove that restriction at their discretion.

This is, in effect, very much like saying :—the Bank of England shall keep to the rule as long as it likes, and depart from it when it likes; for the two individuals, members of the Government, could hardly be expected to take upon themselves the responsibility of exercising the power without the application of the Bank Directors, or of refusing to exercise the power on their application, and, therefore, virtually the power of suspension would be in them, as it always has been.

The whole operation of the Act is to fetter the Bank, and the Bank Directors may, in fact, unfetter it whenever they please. This is hardly fair to thôse who might have been saved from falling, if the fetter had been taken off a few hours sooner.

In such a case there would be no breach of the law, but then the law may as well be repealed. If an absolute discretion be necessary, where can the discretion be better placed than in the Bank Directors themselves?

But why make a law, which is to be dependent for its operation on the discretion of any one? That must be a weak law at the best, and often a mischievous one; and to vest a discretionary power in the Government for the regulation of the money of the country is very objectionable for many obvious reasons.

Mr. Fowler says;—"If the power be not given to the Government, it would naturally be given to the Bank."

Certainly. And why not?

Mr. Fowler answers this question thus:—"But to give the Bank this power would be an infringement of that most important principle of the Act, which severs entirely issue from banking."

So it would. But this most important principle of the Act is, as already shown, one of its most important errors.

Mr. Fowler's reasoning for this would be good if the Bank issued inconvertible notes, but is good for nothing when the notes are convertible into gold. The paper notes are then money, just the same as the gold coin, and this shows the inconsistency and impolicy of separating the issue from the banking departments.

Mr. Fowler's Essay seems to have been favorably received by men of practical experience and influence in the City of London.

No wonder there is so much difference of opinion about Peel's Act, when such reasoning as this is favorably received in the great metropolis of Commerce.

But there are in Mr. Fowler's Essay many shrewd remarks, showing a clear mind and much practical experience; and the whole is recommended to attention by an unassuming style.

With all due deference to the opinions of others, it is submitted that, on the principles here laid down and on these only, can the ORGANISATION OF CREDIT IN ENGLAND ever be firmly established.

CHAPTER XI.

THE PRESENT AND THE PROPOSED BANK CHARTER ACTS COMPARED.

THE three most prominent and effective of all the proposed changes will be :—

1. Restoring the actual and independent capital of the Bank of England :

2. Raising the credit capital of the Bank from £14,000,000 to £40,000,000.

3. Empowering the Bank to issue notes, beyond the amount of £40,000,000, against gold and silver bullion, both or either, without limitation.

These additional powers, as already shown, will enable the Bank of England to exercise a much greater influence than it has ever yet possessed for the Organisation of Credit in England, by keeping down the price of loanable capital in England.

But, for making these powers more effective for this object, it is essential that the distinction between the Issue Department and the Banking Department should be abolished; that the *maximum* rate of discount for the Bank of England should be 4 per cent.; and that the Bank of England should be prohibited from advancing money on loan, except by way of advances on Government securities.

Other important changes will be in throwing open the Royal Mint, for the coinage of gold and silver bullion in the coin of the realm, *free of charge;* and empowering the Bank of England to issue notes against gold and silver coin and bullion, without regard to proportions, but payable in gold coin only; and not making it compulsory on the Bank of England to give its notes for gold or silver bullion.

The effect of these changes will be to enable the Bank of England to increase the supply of gold and silver coin and bullion, and also of notes, when these are wanted, without inflicting any loss on the trade and industry of the country by raising the rate of discount, and at the same time to strengthen the basis of security for the notes.

Advancing the legal tender in silver to £5 will be an additional security to the Bank of England, and also an additional convenience to the country. The great demand for silver in the East Indies has actually produced, at several times, a very inconvenient scarcity of silver in this country. In the year 1857 the silver sent to the East Indies amounted to £17,000,000, and from Marseilles £3,610,000, and for many years past the average annual export of silver to the East Indies has been £6,000,000 sterling. The effect of this has been that, very recently the Bank of England was compelled, from want of silver, to issue a notice to the public that no silver would be given in exchange for notes or gold, an announcement of no small inconvenience to those having to meet the Saturday Pay to large numbers of workmen. To the People the free circulation of silver is more important than that of gold.

Another great convenience to the country will be in removing the present singular anomalies in regard to legal tender money, by making Bank of England Notes discharge a debt in Scotland and Ireland, as well as in England.

The tendency of these changes will be to keep the exchanges favorable to this country. As before explained, the term "favorable," or "unfavorable," applied to the rate of exchange upon foreign countries, is simply a form to express whether more specie be coming in or going out.

The par of the currency of any two countries means, among merchants, the equivalence of the certain amount of the currency of the one in the currency of the other, supposing the currencies of both to be of the precise weight and purity fixed by their respective Mints. Thus, according to the Mint regulations of Great Britain and France, one pound, sterling, is equal to 25 francs 20 cents., which is said to be the par between London and Paris. And the exchange between the two countries is said to be at par when bills are negotiated on this footing; that is, for example, when a bill for £100 drawn in London is worth 2520 francs in Paris, and conversely. When £1 in London buys a bill on Paris for more than 25 francs 20 cents., the exchange is said to be in favour of London and against Paris; and when, on the other hand, £1 in London will not buy a bill on Paris for 25 fr. 20 cents., the exchange is against London and in favour of Paris.*

But, the state of the exchanges has, perhaps, more to do with the profits of Bankers than of Traders, for, when there is a demand for specie, the bankers keep on hand a larger stock of specie than usual to meet the requirements of their customers. This causes a temporary diminution of Bankers' profits. Hence, Bankers term the exchanges "favorable" when specie is flowing into the

* Lawson, 'History of Banking,' p. 48.

country, and "unfavorable" when flowing out. This, and nothing more, is signified by "the state of the exchanges." The effect of these changes would be, to give the Bank of England more power to "correct the exchanges," or to keep them constantly favorable to this country, without raising the discount to a panic rate.

The discontinuance of the Issue Department, as separate and distinct from the Banking Department, will again strengthen the Bank, by making its assets at all times available for active and real service, instead of shutting up in the Bank vaults so many millions of gold bullion for inactive and wholly imaginary service.

As already shown, nearly seven millions of coin and bullion may now be in the Issue Department, and no part of this large amount may be available for the Banking Department; so that the Banking Department may be obliged to stop payment, when nearly seven millions worth of gold and silver coin and bullion are in the Issue Department.

This is a possible and not very improbable state of things, as experience has proved, but this could hardly have been intended or foreseen.

Lord Overstone (then Mr. Samuel Jones Loyd) the Author, or supposed Author, thus explained the object of his new measure:—

"Contraction of circulation is to be made precisely coincident as regards time and amount, with diminution of the bullion ; and thus, it is conceived that, the danger of total exhaustion, which could not befal a metallic circulation, will be rendered equally impossible with respect to a mixed circulation of gold and paper. The result remains to be ascertained ; but all reasoning confirms the soundness of the grounds upon which this experiment is founded, and justifies a sanguine expectation that, by a close and steady adherence to principle, the safety of our monetary system will be more effectually secured. Whatever may be the inconvenience to the public involved in the measures necessary for this purpose, it would be unwise in the extreme not to submit to it."

So wrote Mr. Samuel Jones Loyd in 1844, when "the result remained to be ascertained." In 1847, the third year of the trial of *this experiment*, the *result* was *ascertained*, and, as is too well remembered by many, was proved to be a total failure.

But, notwithstanding that failure, and the no less disastrous failure ten years afterwards, it is still maintained with singular audacity by the advocates of the theory for dividing the Bank of England into two separate and distinct departments that, the Act did what it was intended it should do, namely, prevent an entire drain of bullion from the coffers of the Issue Department. But, the answer is, *that* was not the real danger. The real danger was the stoppage of the Banking Department; and that was very nearly happening, although more than six millions of coin and bullion were then in the Issue Department.

But, if the Act did prevent an entire drain of bullion, the Act did not prevent a panic, and a loss of capital to the country very far exceeding the whole amount of coin and bullion in the Issue Department.

The power of the Bank of England to issue notes on the 2nd of January, 1847, was £28,258,260, and the reserve of notes in the Banking Department was £8,277,085.

On the 23rd of October, 1847, the power of the Bank to issue notes was reduced to £21,865,445, and the reserve of notes in the Banking Department was £1,547,270; further reduced, on the 30th of October, to £1,176,740.

Here was a decrease in the amount of notes issued on the 23rd of October, 1847, compared with the amount of notes issued on the 2nd of January, 1847, of £6,392,815, and a decrease in the reserve of notes of £6,729,815, and a further decrease in the reserve of notes on the 30th of October, 1847, of £7,100,345.

On the 9th of January, 1847, the amount of notes in circulation was £20,836,845, and on the 18th of December, 1847, £17,758,255, being a decrease in the amount of notes in circulation of £3,078,590.

The amount of gold in the Issue Department on the 2nd of January, 1847, was £11,788,770, and of silver, £2,469,490, making together a total of £14,258,260.

On the 23rd of October, 1847, the gold was reduced to £6,745,354, and the silver to £1,120,091, making together a total of £7,865,445.

So much for Lord Overstone's theory for dividing the Bank of England into two separate and distinct departments; and so much for his sanguine expectation that "contraction of the circulation is to be made *precisely coincident*, as regards *time* and *amount*, with the diminution of bullion."

Lord Overstone appears to be under a great misconception of what may rightfully be demanded from him as a theorist. He is not entitled to frame a theory from one class of facts which does not fit, and excuse himself by saying that, if we cannot make it fit, it is because the ultimate facts are controlled by other and special facts. If we propound a theory, we are bound to prove all it asserts. It is not philosophical to assert a theory, and to make any special facts an excuse for not proving it. Whatever is a hindrance to proving a theory ought to be a hindrance to affirming it. The "variation theory" of Lord Overstone has been disproved by facts, and the best test of right or wrong for any theory is that, it does, or does not, fit perfectly.

Newton made it an absolute condition of adopting the theory of gravitation, that it should fit; and when, owing to incorrect data, he could not make it fit perfectly, he abandoned the speculation for many years.

It will be seen from the foregoing figures from the Bank Weekly Returns that, the fluctuations under the four different heads, the Issues, the Notes in circulation, the Bullion in the Issue Department, and the Reserve of Notes in the Banking Department, were in the following proportions in the year 1847, between the highest and the lowest amounts :—

	Highest.	Lowest.	Decrease per Cent.
	£.	£.	£.
Notes Issuable	28,258,260	21,865,445	22·7
Notes in Circulation	20,836,845	17,758,255	14·8
Bullion in the Issue Department	14,258,260	7,865,445	45·6
Notes in reserve	8,227,085	1,176,740	85·7

Thus, it appears, while the active circulation of the Bank was contracted 14 per cent., the bullion in the Bank diminished 45 per cent.; and while the power of the Bank to issue notes diminished 22 per cent., the reserve of notes in the Banking Department decreased to the extent of 85 per cent.

These facts ought to be conclusive against the separation of the Bank of England into two separate and distinct departments. Examples of the failure of this experiment might be multiplied to any required extent, but one example is as good as a hundred examples to show that there is something wrong in this theory.

As to "the inconvenience to the public involved in the measures necessary for this purpose," it is one thing to submit to a painful remedy which effects a cure, and quite another thing to submit to that which is no remedy but an aggravation of the disease.

The theory of "variation" which is the main principle of the Bank Act of 1844, and which now regulates our monetary system, is simply this:—When a large amount of gold is brought into this country, a corresponding amount of Bank of England notes is brought into circulation; and when gold is withdrawn a corresponding amount of notes is also withdrawn. If, for some temporary cause, all our monetary gold were sent abroad, all our Bank of England notes would at the same time disappear, and the country would be left without legal tender money of any kind, beyond forty shillings in silver. So, if gold money fail us, we are, *therefore*, to lose our paper money, and we are not to use silver for gold, though we have no gold and plenty of silver. This is the masterpiece of monetary science, which we are required to regard as the great discovery of our time, on which rests chiefly the fame of the greatest statesman of our time, and for the helping hand lent to this great work by the greatest Banker and Capitalist of our time, he was made noble by his Sovereign, to be held in perpetual remembrance by his grateful countrymen, for giving them an additional supply of bank-notes when they don't want any more, and for giving them none when they do want more; or, for giving them a double amount of bank-notes when they have gold enough, and, when they have no gold, taking away their bank-notes and leaving them nothing.

This is called the Overstone "variation" theory, or, the rule of contrary.

The ebbing of the gold, which occasionally occurs in this country as in other countries, is temporary only, and as surely as the tide flows after the ebb, so surely would the gold return to us if left to the ordinary course of trade. The gold does not leave us through any depreciation of the currency, and it will come back again without any artificial measures taken to enhance the value of money. Under the present system, these transient ebbings of the gold, instead of being neutralised, are so treated as to produce a serious derangement of our measure of value. Thus we violate the sole object for which standard-measures are instituted.

The effect of the repeal of that clause in the Bank Act of 1844, which limits the issue of notes against silver bullion to the proportion of one-fourth of the gold coin and bullion in the Issue Department, will be no inconsiderable benefit to the trade of the country, by encouraging the import of silver into this country, now discouraged, and a very considerable relief to the Bank of England by removing the necessity, now imposed upon it by the Act, of keeping the exact proportions between the gold and the silver in the Issue Department.

This inconvenience was pointed out by Mr. Glyn in his evidence before the Committee of the House of Lords, in 1848, when asked :—

"Do you approve of that clause of the Act which restricts the Bank in the purchase of silver bullion?"

Answer. "I certainly do not. I think the restriction to one-fifth is very inconvenient, and, practically, in the spring of last year, it was found so. Merchants from the Pacific, whose returns are very much in silver bullion, found, when it arrived last spring, that there was no market for it here, and they had to send it over to Paris for return in bills of exchange, and when they came back there was a difficulty in discounting. The interval lost, which is about six weeks, is a very serious thing to a mercantile house; and there is another evil in it:—supposing the amount of bullion held in the Issue Department to be in exact proportions allowed by the Act, with one-fifth silver, and supposing £400,000 of notes go in, taking the same amount of sovereigns out, that immediately alters the proportions, and the Issue Department must necessarily sell silver bullion to keep the proportion right, and thus *reduce the circulation another* £100,000 *to keep up the proportion.*"

It is hardly possible to imagine anything more absurd than this necessary consequence imposed by the Act!

There was scarcely a single witness who was examined before the Committee in 1848, that did not condemn this limitation of silver, including Mr. Morris, the Governor of the Bank of England.

Thus, the present system throws the whole weight of our commercial and trading operations upon gold, and as no compensating power is allowed to come in to the aid of our paper circulation, in the form of silver coin or bullion, when the gold is withdrawn from the Bank, the natural consequence is that, the mercantile credit of the country must be reduced to the level which will enable the Bank of England to bring down the amount of its notes in circulation to what is called, *a safe margin.*

Under the proposed new system these evils will disappear.

The ulterior effects of these important changes will be more numerous than can be easily told, but some of the immediate effects will be manifest.

The power of the Bank of England to issue Notes will be increased nearly four-fold.

The attempt to fix the price of gold in this country, by compelling the Bank of England to give notes on demand for gold bullion, at £3 17*s.* 9*d.* per ounce, will cease, and the Bank of England, like all other Banks, will be left free to buy gold and silver in the open market, at the market-price.

The trade in gold and silver will then be free, as the trade in all commodities ought to be, and this country will then be the best supplied market in the world for silver as well as gold.

By confining the issue of notes to the Bank of England greater stability will be given to credit generally, by one uniform issue of paper-money, substituted for the present issue by country-banks, at the will and pleasure of the issuers, without any security for payment, these notes circulating only within a certain confined radius from the place of issue, whilst Bank of England notes circulate throughout the length and breadth of the land, and are the secured legal tender money of the kingdom.

If it be considered by some a strong measure to deprive the private banks, now issuing their notes, from continuing to exercise this privilege, notwithstanding that it was conferred only as a temporary measure, and might be discontinued at any time, yet, when the necessity for discontinuing it is more clearly seen, this may be no insuperable difficulty, and, at the worst, it is only a question of compensation. But when the Government refused to stamp any more one-pound notes, without which such notes could not be issued, and when they limited the period for issuing such notes, this was virtually a prohibition to issue one-pound notes beyond that period, but for that deprivation no compensation whatever was given.

As Mr. Lawson asks:—"Is it not strange that the framers of the Act, while applying to a large and wealthy corporation, like the Bank of England, very stringent regulations, in order to secure the convertibility of its notes, should have allowed so large an amount of the note circulation of the country to be conducted by men who, to adopt the phrase of Lord Liverpool, 'might have been cobblers or cheesemongers,' and to give to such parties, whether good or bad, an absolute monopoly of the issues of the country? This was, however, absolutely done; not only was the monopoly granted to them for an indefinite period, but the amount of notes to be issued by each bank was fixed."*

It is not easy to see the answer to this question, nor has it ever been answered, unless by the suggestion that, this was a necessary concession to the country bankers for insuring the passing of the Act.

With regard to the Weekly Return of the Bank of England, the change proposed in the form of this return will be a great improvement for the convenience of the Public.

If this Weekly Return had been intended to disguise the facts most important to be known,

* "The Bank of England, As It Is, And As It Ought To be." page 11.

the present form has been ingeniously contrived for the purpose.

It is of great importance that the financial state of the Bank of England, which is entrusted with the issue of the money of the country, should be clearly and precisely shown. This is not clearly shown in the present form, and all that is necessary to be known by the Public will be clearly and precisely shown in the proposed new form.

The following is the actual Account of the Issue and Banking Departments of the Bank of England, for the Week ending on Saturday the 9th day of May, 1857.

Bank of England.

ISSUE DEPARTMENT.

	£		£
Notes Issued . .	23,567,945	Government Debt	11,015,100
		Other Securities .	3,459,900
		Gold Coin and Bullion . . .	9,092,945
		Silver Bullion .	
	£23,567,945		£23,567,945

BANKING DEPARTMENT.

	£		£
Proprietors' Capital	14,553,000	Government Securities, (including Dead Weight Annuity) . . .	10,303,838
Rest	3,328,676	Other Securities	12,630,357
Public Deposits, including Exchequer, Savings Bank, Commissioners of National Debt and Dividend Accounts . .	5,163,146	Notes	4,226,355
Other Deposits .	10,081,864	Gold and Silver Coin	715,182
Seven Day and other Bills . .	749,046		
	£33,87532		£33,875,732

It will be seen, from the foregoing Account, that the Issue Department purports to represent the amount of Notes issued, £23,567,945; whereas, the amount actually issued was only, £19,341,590.

Of these notes actually issued, £14,475,000 were issued against Government Securities, leaving only £4,866,590 issued against bullion. And yet, gold coin and bullion, to the amount of £9,092,945, are entered in this Account of the Issue Department!

Now, here are two deceptions practised.

1. Notes to the amount of £4,226,355 are stated to be issued, more than are issued.

2. Gold Coin and Bullion to the amount of

£4,226,355, which ought to be in the Banking Department, are placed in the Issue Department.

In the Banking Department, the Account is, in like manner, untruly stated, the amount of Notes there entered as issued being £4,226,355; whereas, in fact, there are no such notes issued, there being only a power to issue them, but which power was not then exercised. If actually issued, as they ought to have been, and if the same amount of gold coin and bullion had been placed to the account of the Banking Department, instead of the Issue Department, the Notes in reserve in the Banking Department would then have been £4,226,355; and the Gold and Silver Coin and Bullion would then have been £4,941,537, making the total reserve of Bank Notes, and Gold and Silver Coin in the Banking Department, together, £9,167,892, instead of £4,941,537.

Thus, absurd and useless as is the division into two separate and distinct Departments, this account, if truly stated, would, at least, be intelligible to everyone, instead of being, as it now is, intelligible only to a few, and a delusion and a snare to many.

By the Account in the form proposed (page 298), the amount of notes in circulation, and the real reserve in the Bank, applicable to the accommodation of the Public, are stated in plain and unmistakeable figures.

It will be seen that, this is not a mere question of form in the statement of the Account, but that a substantial defect is exposed in the system, for it is manifest that, but for this absurd and deceptive system, the Public, on the 9th day of May, 1857, would have had the accommodation, and the Country the benefit, of a reserve of bank-notes and gold and silver coin and bullion, together, £9,167,892, instead of a reserve of bank-notes and gold and silver coin together, only £4,941,537.

How great would have been the accommodation to the Public and benefit to the country at that time of severe financial pressure needs no explanation.

Few, probably, read in the newspapers the Weekly Return of the Bank of England, for many do not understand even the meaning of the terms used in that Account, and those who do are not much the wiser. To the inexperienced, the conjuring tricks played off between the Issue and Banking Departments must be suggestive of *thimble-rigging*. When the inexperienced eye looks for the paper note or the gold sovereign in one department, it is pretty sure to be in the other, and how it came there is no more clear than how the pea comes under the conjuror's cup.

At any rate, all *hocus-pocus* will be got rid of in the new form of the Weekly Account. All that is immaterial is excluded, and all that is material is presented in a form intelligible to the commonest understanding.

The following explanation of the items in the present form of the Weekly Account will show the clearness and simplicity of the new form.

The credit side of the present Weekly Account commences with the Government Debt to the Bank of England.

Debt was the foundation of the Charter, as well as the means of the great success and power which the Bank of England has since obtained over other Banks, and to this hour Debt forms the basis of its privileges and prosperity.

But the error is when this forms the only foundation, and this is the weakness of the Bank of England.

The same error has been committed in the foundation of the Bank of France, a great part of its capital being advanced to the Government without interest.

The Government that granted the Charter to the Bank of England began by borrowing of the Bank, and almost every succeeding Government has been guilty of the same abuse. No attempt was made to repay any part of this Debt for nearly 100 years, namely, between 1738 and 1835, as shown by the following statement, giving the origin and progress of the Debt :—

THE PUBLIC DEBT DUE TO THE BANK.

		£.
1694.	Original Subscription lent to Government at 8 per cent. per annum	1,200,000
1708.	Advanced to Government without interest . . .	400,000
,,	Exchequer Bills cancelled .	1,775,027
1717.	Ditto ditto .	2,000,000
1722.	Advanced to pay off South Sea Stock-holders . . .	4,000,000
		£9,375,027
1727–8.	Deduct amount paid from the Sinking Fund . .	1,775,027
		£7,600,000
1728.	Advanced on the Security of Taxes	1,750,000
,,	Ditto upon Lottery . . .	1,250,000
		£10,600,000

		£.
1728. Paid from Sinking Fund . . .	500,000	
1738. Ditto ditto	1,000,000	
		1,500,000
		£9,100,000
1742. Advanced without Interest .		1,600,000
1746. Exchequer Bills cancelled .		986,800
1816. Advanced at 3 per cent. Interest		3,000,000
		£14,686,800
1835. By the transfer of £4,080,000 Reduced 3 per Cent. Annuities, equal to one-fourth of the debt in accordance with the 9th section of the Charter Act of 1833 (3 and 4 Will. IV. c. 98) . . .		3,671,700
Total Debt		£11,015,100

This total will be found to correspond with what is called the "Government Debt," which is placed on the credit side of the Weekly Returns of the Bank, forming part of the basis on which its notes are issued.

The sum of £2,984,900, which makes up the total of £14,000,000, consists of other securities held by the Bank for claims it possessed upon the Government when the Act of 1844 first came into operation, and this sum, as before mentioned, was further increased to £3,459,900 in December, 1855, making up the total of £14,475,000, which has been subsequently increased by lapsed issues, to £14,650,000,* on the credit of which the Bank now issues its notes to that amount.

The "*Weekly Returns*," as they now appear in the *London Gazette*, give no account of the notes *actually* issued, or of the amount in circulation, but these facts are to be obtained, as already shown, from the Accounts of the Issue and Banking Departments.

The "*Proprietors' Capital*" requires no explanation, this being the amount which has been from time to time authorised by Parliament.

The "*Rest*" is simply the amount to the credit of the Bank when all its liabilities are balanced against its assets, thus:—The total amount of securities held in the Banking Department on the 9th day of May, 1857, was £33,875,732, but its liabilities on the other side were only £30,547,056, leaving a surplus balance of £3,328,676, which was the amount of the

* Now £15,000,000. See page 197.

"Rest." This mode of keeping the Accounts was introduced into the Bank management in 1722.

"*Public Deposits*" constitute what is considered the Treasury Account of Government in the hands of the Bank; and "*Other Deposits*" belong to private individuals, public companies, or corporate bodies. Independent of the Discount Accounts, nearly all the Bankers have what they call 'Drawing Accounts' at the Bank of England, or 'Deposit Accounts.'

"*Seven Day and other Bills*" comprise the various Bills of the Bank due at different dates. These together comprehend the debit side of the returns in the Banking Department

The "*Government Securities*" on the credit side are made up of various kinds held by the Bank for the purpose of realisation, including the "*Dead Weight Annuity*," which is an Annuity of £585,740 paid by the Public to the Bank until 1867.

The meaning and origin of this term—"Dead Weight"—are not generally understood. It means the payment by the Government to the Bank of England of an Annuity of £583,740, and originated in a bargain made by the Government with the Bank in the year 1823, whereby the Bank, in consideration of this Annuity, payable by the Government for 45 years, to terminate in 1867 agreed to advance to the Government, within 5 years, the capital sum of £13,089,419, to enable the Government to pay the money due for pensions to the retired officers of the Army and Navy, and the widows of officers who fell at Waterloo.

The Bank of England accepted the terms and advanced the money, and has been receiving from the Government, since the year 1823, this Annuity, under the expressive name of the "Dead Weight," for such it has been to the Government, and also a very heavy loss to the Bank of England, which ought never to have entered into such a transaction. The Bank having no capital of its own advanced this large sum of £13,089,419 out of the deposits belonging to the customers of the Bank, for which no interest was payable, but for which the Bank was equally liable as for its notes, payable on demand. If the depositors had been acquainted with that transaction at the time and if they had been alarmed for the safety of their deposits, they might have demanded instant payment, and then the Bank must have stopped payment, or the Government must have come to the rescue. In the material point, there is too much similarity between this case and those cases of some other banks of painful notoriety.

What will be the situation of the Bank of England in 1867, when this Annuity will cease, is a question which concerns the commercial community of this country. But, perhaps, the Bank, with the certainty of this approaching diminution of its resources, has been prudently preparing for the event. In an ordinary case, the Court of Chancery would certainly have held this to be a misapplication of the trust fund, and a gross breach of trust, being contrary to the express provision of the Trust Deed, or, in this case, the Charter.

"*Other Securities*" comprise all descriptions on which the Bank make advances, including bills under discount.

The gold and silver coin requires no explanation; but the item called "*Notes*," is not very intelligible and is frequently misinterpreted.

As already remarked, the Bank returns do not give the amount of notes actually in circulation, and what are called "Notes Issued," in reality indicate only the *power* of the Bank to issue such Notes. Therefore, to ascertain the amount of Bank of England notes in actual circulation, the amount given under the head of "Notes," in the Banking Department, must be deducted from the "Notes Issued" in the Issue Department, which leaves the amount in actual circulation, or out of the Bank; thus:—in the Weekly Return of the Bank, for the Week ending on Saturday, the 9th day of May, 1857,—(given on page 589) the

"Notes Issued" amounted to £4,226,355, and, deducting the latter from the former sum, leaves £19,341,590, which was the amount of notes in actual circulation at that time.

The "*Notes,*" therefore, forming the "Bank Reserve," are simply the amount of notes unemployed in the Banking Department; the notes in circulation with the public being one portion of the Bank's issue, and the notes in reserve being the other.

As the notes in the Banking Department, with the gold and silver coin, are the only means for meeting the requirements of the public, it is obvious that, if three or four of the great joint-stock banks were to agree to withdraw, at the same time, £2,000,000 each from the Bank of England, which they could do at any time with the most perfect ease, the Bank of England must stop. The bullion in the Issue Department would avail nothing to the Banking Department deprived of all its notes. But the Issue Department may also be without a sovereign. The Act does not require that any amount of bullion should be kept in the Issue Department. There might not be a single sovereign in the Issue Department, nor a single note in the Banking Department. The Bank might be utterly without gold or silver or paper, and yet there might be £14,000,000 of its notes in circulation. All this might happen and still be in strict accordance with the provisions of the Act of 1844. And what, if all this were to happen, would be the consequence? Great inconvenience to the community. Nothing more. The convertibility of the note could not be brought into question. The Government guarantee would save the note holder. The depositors would be safe for their deposits. There would be a little delay. Nothing more. The holder of the sovereign would have the security in his own pocket. The holder of the note would be equally secure. Many Bankers, Merchants, and Tradesmen would stop payment, to renew when the Bank of England was re-established on a broader and a safer basis. Business would not be suspended. The embarrassment would be general, but of short duration. All would soon be restored on a much more easy and permanent footing.

In the meantime, as long as the Government furnished the means, payment of the dividends to the public creditors would continue to be made at the Bank, each Loan Act containing a clause constituting the Bank of England a Corporation until the loan be paid off, and directing that, the interest on such loan shall be paid at the Bank of England, thereby constituting the Bank of England a corporation until the whole of the National Debt be paid off.

This is the pledge and the only pledge that Parliament has given of the permanency of the Bank, and, though deprived of all its other privileges, still the Bank of England would be a corporation for the payment of the dividends to the public creditors. The holders of stock, therefore, are entitled to insist that the dividends shall continue to be paid at the Bank of England, and whatever may be the embarrassments of the Bank, these need not interfere with public faith to the prejudice of the interest of the Stockholders, so far as regards the punctual payment of the dividends on the National Debt.

In the meantime, until the Bank of England should be re-established, the business of the country would be carried on by the other Banks through bills and cheques, and though the interval of suspension would be attended with great inconvenience to the trading community, the loss to the country would be insignificant in comparison with that which is continually recurring under the existing system of the Bank of England.

It is not in the nature of things that many more years should elapse without that combination of circumstances which must bring the Bank of England to *a dead stop*. Great as that misfortune would be at any time, still it would be greatly aggravated if at a time of domestic or foreign disturbance. Nothing could be more fortunate for the country than such an occurrence falling upon a time of peace and plenty. Nothing could be more fortunate for the country than such a speedy termination to the existing Bank Act, unless that *happy event* were brought about by the unanimous determination of the Legislature. But, of all unlikely events, that is least likely to happen. The other is much more likely, and that is not very unlikely.

The bills becoming due to the London and Westminster Bank alone in November and December, 1857, are stated to have amounted to £5,623,000.

Therefore, that Bank alone could, at its pleasure, stop the Bank of England by only watching for the opportunity. It could have done so easily in November or December, 1857. Unfortunately for the country, it is not worth the while of any Bank to do so. But let not the Government count upon that as always to be so, for some day it may happen to be otherwise, and, however that may be, the day of trial must come under which the Bank Act of 1844 must fall.

Under the proposed new system, it must be unnecessary to give the public any more information on the transactions of the Bank than is given in the new form of the Weekly Account, as the public can have no concern with the Deposits, public or private, in the Bank. These entries, now not unimportant, would then be only confusing.

The fair principle of making the Bank of England accountable to the Government for the profits on the Issue of Notes beyond the Proprietors' Capital is continued. It is important that the Bank of England should be above the suspicion of being influenced by its own interests in the issue of notes, or in the rate of discount.

For the remuneration of the Bank for the loss of profits consequent on these restrictions, and for its management of the Public Debt, it is proposed to raise the allowance to the Bank to £250,000 per annum.

It is also proposed that the Government should allow to the Governor, the Deputy Governor, and Directors of the Bank of England, for their personal services, the yearly sums before mentioned. These are very honorable offices, involving high trust and responsibility, and it is not fitting that such offices should be, as supposed to be, without any direct emolument.

According to the evidence of Mr. Thomson

Hankey, one of the Directors, in his evidence before the Committee of the House of Commons, the financial operations of the Bank of England average £3,500,000 a day.

The sections 14, 15, 16, in the existing Bank Charter Act, regulating the union of Bank partnerships, must be re-enacted. But this ought to be by a separate Act, and the same principle ought to be extended to all partnerships.

The sections in the existing Act, relating to other Banks of Issue, being proposed to be repealed, any further notice of them here is unnecessary.

For the manner in which the Public Debt is managed and the Quarterly Dividends are paid by the Bank of England it may be said, without fear of contradiction, that this is the nearest approach to a perfect system which it is possible to conceive.

When the magnitude of this account and its innumerable, intricate, and minute divisions and subdivisions are considered, with the necessity of extreme accuracy, the practically perfect result brought out by this vast and complicated machinery worked entirely by human heads and hands, subject to all the human weaknesses and infirmities, the impression is that of wonder and admiration at the powers of the human mind, which could conceive and carry out such a system to such perfection.

To those who know little or nothing about it, the following short and clear explanation, from Mr. Lawson's excellent treatise on Banking, may be interesting.

"The Lords of the Treasury direct Warrants to be drawn out, which are sent to the Auditor of the Exchequer, who directs an order to be made out for the Teller of the Exchequer to pay certain sums to satisfy the Dividends then due. The Warrant and Order are sent to the Treasury, which returns them to the Auditor of the Exchequer, who keeps the Warrant in his own possession for his security, and upon the Order directs the Teller of the Exchequer to pay certain sums thereon to the amount of the Dividends then due and specified, which is done by giving to the Clerk of the Bank as many Exchequer Bills of £1000 each as the said quarterly dividends amount to, and for which the Chief Cashier gives a receipt, and thus the Bank pays each claimant a dividend thereon.

"The manner in which the Bank proceeds in preparing the Dividend Warrants is, by making the amount of each party's stock agree with the amount of that particular stock, and the amount of interest on each Warrant to correspond with the total amount of interest due on that particular stock by Government; but, as the Bank never pays the fractional parts of a penny, they are compelled to calculate the interest on each warrant to the third figure of decimals beyond a penny, which prevents, as far as human prudence can, the possibility of an error. The total differences of the decimals yield to the Bank a net profit of more than £100 per annum."*

The courteous attention which the Public meet with on all occasions and in every department of the Bank of England is universally acknowledged, and with a few simple amendments in its constitution, the Bank of England would be a National Establishment with which none other in the world could compare, and it would be a model from which all the civilised nations of the world would copy.

The Bank of England is, in fact, a mere machine for circulating the notes which pass under its name, but against the responsibility of the Government to a certain fixed amount, because experience has shown that the amount of notes in circulation will never fall below that amount, and above that amount every note is issued against an equal value of bullion or specie deposited in the coffers of the Issue Department. Although an affair of the State, here the State has no power, and here is no interference whatever with

* Lawson on Banking, page 184.

Banking, but the issue of notes is restricted to secure the convertibility of the Note.

The Bank of France is under a different and more imperfect law. It has an absolute monopoly of the issue of notes throughout the Empire, (and so far is more perfect), with the doubtful exception of Savoy, and there is no restriction on the amount of its issues; but, in exchange for this profitable privilege, a very considerable proportion of its capital is lent to the State without interest. The exclusive privilege of issuing notes is sold to the Bank of France, and the responsibility of preserving the convertibility of the note is intrusted to the Governor and Directors of the Bank, subject to the additional but questionable safeguard that the Governor of the Corporation is a nominee of the Emperor. The effect of this is to place the Bank of France wholly in the power of the Emperor.

The superiority of the Bank of England over the Bank of France, in the most essential requisites for such a National Establishment, is, therefore, obvious. Nor can anything be better imagined for securing the honourable and independent management of the Bank of England, than leaving its affairs to be conducted by a Governor and Deputy Governor, elected annually out of the Directory, and twenty-four Directors, selected from the most eminent and practical merchants in the City of London, and filling the heads of the numerous departments with men brought up in the Establishment and raised, through the various gradations, to the highest positions, by honorable conduct and superior intelligence. Perhaps, in no establishment in the world can so many honorable and able men be found collected together and so well qualified for their important and responsible duties as in the Bank of England.

Mr. Miller, the present Chief Cashier, is a gentleman distinguished by remarkable qualifications for his high office.*

He proved himself to be one of the most able of the advocates, in the attempt, made some years ago, for the introduction of a Decimal Coinage in this country, but which was defeated by the persistent opposition of Lord Overstone, and the indifference of a slow and apathetic public, and is deferred for another generation.

The complete and perfect Decimal Tables, used by the Bank of England for all its calculations, are the work of Mr. Miller.

The Chief Cashier of the Bank of England must always be selected for his high qualifications, and it may be deserving of consideration, whether the person holding this responsible office should

* The Bank and the country have lately lost the services of Mr. Miller by death.

not be, *ex officio*, a Bank Director; whether such an appointment would not tend to strengthen the position of the shareholders, and at the same time to confirm the confidence of the community. But this is a suggestion thrown out only for consideration. There may be objections to such an appointment not apparent to those who are unacquainted with the details of the internal working of the Bank of England.

Neither is this suggestion made with the intention of disparaging in the slightest degree the Directory as at present constituted. More honorable men or more zealous in the faithful discharge of their responsible duties could not be found. With practical experience in the affairs of the Bank of England, they combine the practical experience of private bankers and merchants, and to the best of their judgment they carry out faithfully the terms of the Act. Whether or not their judgment be always right is a very small and comparatively very immaterial question of opinion. The great and important question in this case is, the question of principle. If the principle, which they, as Directors of the Bank of England, are bound to carry out, be wrong, their judgment or discretion is a very secondary consideration, and if no better men are to be found,—and nobody suggests that better men are to found,—then a most immaterial question. But admitting that the present Directors are the best men that can be found for carrying out the terms of the Act, it by no means follows that, they are the best men to be found for advising on the principle in question. They may be, and probably are, the very worst advisers on this question, being themselves bankers and merchants, and large capitalists, accustomed to work in grooves, from which they cannot get off, and in which, so far as they are personally concerned, they run smoothly and pleasantly enough, those grooves having been laid down for them by the most successful banker and largest capitalist in the City of London, and who is reputed to be, on this question, the greatest authority in the whole world. Under these circumstances the Bank Directors may be, and probably are, the worst evidence which can be taken on the merits or demerits of the Bank Charter Act of 1844.

But though the Bank of England be in a position very superior to that of the Bank of France, in regard to independence of the Sovereign power, yet, it must be admitted that, the Bank of England is not so independent as it ought to be of the Government power, in regard to the advances of money by the Bank to the Government by way of loan.

This defect would be removed by the provision proposed, prohibiting the Bank from making any advance by way of loan, except on Government securities.

But this provision would not prevent, nor would it be expedient to prevent, the Bank of England from being a resource to the Government for ready money on emergencies, and such emergencies must occasionally occur.

It would still be open to the Bank of England to advance money to the Government on Exchequer Bills, by way of purchase.

The Exchequer now issues three descriptions of Exchequer bills, namely, "deficiency bills," "ways and means bills," and "supply bills."

1. "*Deficiency Bills.*" These are issued to the Bank of England as security for sums advanced to the Government to make good any deficiency in the consolidated fund, for payment of the interest of the National Debt, and other charges.

2. "*Ways and Means Bills.*" These are issued to the Bank of England as security for funds advanced to the Government to supply the deficiency in the consolidated fund, to meet the grants of ways and means for supply services.

3. "*Supply Bills.*" These are voted annually in Committee of Ways and Means, either to supply funds by the sale thereof, for defraying the

public expenditure when the income derived from taxation is insufficient for that purpose, or to meet a vote in supply for paying off outstanding Exchequer bills, voted in the preceding session of Parliament.

The deficiency bills are made payable to the Governor and Company of the Bank of England, or to their order.*

In the Report of the Select Committee on Public Moneys it is stated that, from 1842 to 1855, 450,000 Exchequer bills were issued, representing the enormous amount of £400,000,000, sterling, besides Exchequer bonds, which were first issued in 1853.

Of these Exchequer bonds, amounting to £46,000,000, sterling, or £7,000,000 more in amount than all the banks' promissory notes payable to bearer on demand in circulation on the 18th of March, 1854, in England, Ireland, and Scotland, no return is made, though carefully prepared returns are made of the amount of bankers notes in circulation.†

It does not come within the scope of the present work to comment on this objectionable practice of the Government in regard to the issue of this large amount of Exchequer bills, which are,

* Lawson—"Bank of England," etc. Page 83.

† Ibid. Page 84.

in fact, Government promissory notes payable to bearer, but as these are, like bills, purchasable in the market, at the market-price of the day, it would not be expedient to prevent the Government from taking these bills to the Bank of England and exchanging them for Bank of England notes, or selling them at the market-price of the day. But this is a great drain of bank-notes, and tends to raise the bank-rate of discount on all trade bills.

This comparative view of the two systems in practice in the Bank of England and the Bank of France will suffice to show that, in the changes proposed there is no disregard of any natural law, nor any attempt to force a deviation from the natural course; but only an attempt to adapt the artificial to the natural, and to make the whole work together uniformly and consistently with known and recognised principles, instead of bringing the artificial and the natural, or the paper-money and the gold, into continual conflict and disturbance, as under the present system.

The measures proposed are founded on the assumption that, the mission of the Bank of England is to provide, not the loanable capital, but the money or legal medium for the convenient transfer of the loanable capital, for carrying on the trade and industry of this country,—without regard to any other interests; and that, when the interest of money in this country exceeds the ordinary rate, it is the first duty of the Bank of England, by every means in its power, to check that excess, and restore the normal state, and thus to maintain a watchful superintendence and a regulating power for the Organisation of Credit in England.

To make these views still more clear, it may be convenient to show in more detail, the principles on which these views are founded, and wherein they are directly at variance with the principles and practice of the Bank of England under the existing Act.

By this Act the Bank of England is authorised to issue notes to the amount of fourteen millions, sterling,* against an equal amount of Government Securities; and further to issue an amount of notes corresponding with the value of the gold and silver in the Issue Department of the Bank. Although it be discretionary with the Bank Directors to exercise this power or not, yet, under no circumstances can they exceed it.

Now, as it is an universally acknowledged fact that, the issue of notes against Government Securities is very much below the amount always and absolutely required for the ordinary purposes of

* Now fifteen millions. See page 197.

the country, it follows, as a necessary consequence, that the amount of notes in circulation is constantly varying with the amount of gold and silver in the Issue Department, and that the rate of discount is constantly varying with these fluctuations.

That this is one of the evils of the present system, cannot be doubted, when the extraordinary variations, subsequently to the existing Act, are compared with the ordinary variations previously. For proof of this fact it is necessary only to refer to the printed lists, easily obtained, and which, therefore, need not be here given.

But it is also a fact, though not so generally known, that the rate of discount does not always rise in proportion to the diminution of the gold and silver in the Issue Department, and that the amount of notes in circulation often increases as the amount of gold and silver in the Bank diminishes. This has been already shown, and the examples which might be given are endless.

From these examples it will be seen that, the practice of the Bank of England is at variance with the principle and main object of the Act.

According to the Report of the Committee of the House of Commons in 1858,—"The main object of the Act of 1844 was undoubtedly to secure the *variation* of the paper-currency of the kingdom according to the same laws by which a metallic circulation would vary."

But Mr. Goulburn, then Chancellor of the Exchequer, in his Letter to the Governor of the Bank of England, (April, 1844,) explanatory of the Act, stated that, its chief object was, "to place the general circulation of the country on a sounder footing, and *prevent as much as possible, fluctuations in the currency*, of the nature of those which have at different times occasioned hazard to the Bank and embarrassment to the country."

Sir Robert Peel, in the House of Commons, on the 3rd of December, 1847, said: "The Bill of 1844 had a triple object. Its first object—that in which I admit it has failed—was to *prevent severe and sudden contraction*, and the panic and confusion inseparable from it. But the Bill had two other objects,—the one, to maintain and guarantee the convertibility of the paper-currency into gold; the other, to prevent the difficulties which arise at all times from undue speculation being aggravated by the abuse of paper-credit in the form of promissory notes."

These remarks of Sir Robert Peel were made after he had gained experience from the recent crisis, and after the failure of the Act in one of its principal objects. But here is no allusion to the "main object" declared by the Committee of the House of Commons ten years afterwards.

He repeatedly and explicitly stated that, the great object of the Act, after securing the convertibility of the Notes, was to prevent the sudden contraction and undue expansion of the currency; but, for one practical result, namely;— "to ensure to industry its legitimate profits."

Of Lord Overstone's doctrine that,—the supply of paper-currency ought to vary with that of gold,—there is not a word either from Mr. Goulburn or Sir Robert Peel, and, if that doctrine be right, when our gold diminishes, and we are most in need of bank-notes, we ought to diminish our bank-notes; and, when all our gold is gone, we ought to cancel all our notes, to bring gold and paper-notes to an equal amount, and so, leaving nothing, nothing would be left to vary.

But, the practice of the Bank of England, for some years past, seems not to have followed in any of these courses, for the ordinary note-circulation of the Bank is twenty-one millions, whatever may be the stock of gold in the Bank or the rate of the Bank discount, which is sometimes 8 or 9 per cent. when there are thirteen millions of gold in the Bank, and sometimes 4 or 5 per cent. when there are sixteen millions of gold in the Bank.

Practically the Bank does not regard the amount of the notes in circulation, with reference to the amount of the gold in the Bank. However much the gold in the Issue Department may diminish, the Bank takes no measures for withdrawing from circulation any portion of its notes. And, however much the gold in the Issue Department may increase, there seems to be a point beyond which the Bank will not expand its note circulation. The Directors carefully observe the provisions of the Act, but within that limit they do as they please. When a certain amount of gold is in the Issue Department, they are authorised to keep an equal amount of notes in the Banking Department. These notes constitute the reserve of loanable money, apart from the ordinary circulation, or a supply of money in excess of that which is employed by the Bank in its ordinary discount operations, and are, in fact, the Bank's *reserve* of loanable money. The Act regulates the amount of its reserve, by compelling it to vary with every change in the Bank's stock of gold; but the Act leaves the Directors free to use this reserve as they please. Accordingly, when this reserve is very large, the Directors lower the Bank-rate, thereby inviting more bills to be discounted at the Bank; and when the reserve of notes is diminished, they raise the Bank-rate, thereby reducing the amount of bills to be discounted. To this extent the Act authorises the Bank Directors to exercise their discretion, and they exercise it so as to keep the Bank-rate of discount in a continual state of fluctuation.

Now, as nearly all our trade is carried on by means of bills, which the holders have to get discounted in the ordinary course of business, it is manifest that these fluctuations in the rate of discount must very seriously affect the whole trade and industry of the country. Thus, if, after a contract made for the execution of a large work, the Bank-rate of discount be lowered to 2 per cent., the contractor makes a considerable profit; but if the rate be raised to 8 per cent., the contractor finds his expected profit *nil*, and himself, perhaps, in the Gazette. The effect is no less serious in the wider department of general trade, often obliging traders to withdraw money from their business for their own support, and thereby rendering them unable to meet their engagements.

Our manufacturing and trading community, before entering into their commercial enterprises, make their calculations on the current rate at which bills can be discounted. But if the Bank-rate be raised greatly and suddenly, as it is often is, they find that they have to pay more than double the amount of their calculations, and often not only their expected profit is gone, but their credit too.

It is said by some that, a very low rate of discount, such as 2 per cent., is not to be desired as a means of promoting trade ;* for the reason, among others, that the low rate is sure to be succeeded by a much higher rate, and that, traders are thus tempted to embark in enterprises which must end in failure when the much higher rate is attained. But this, if it be so, is a good reason for preventing a much higher rate, and for keeping a moderate and steady rate. There is a great distinction between an exceptionally low rate, and an exceptionally high rate. The effects of a very low rate are permissive ; the effects of a very high rate are compulsory. Prudence may prevent the abuse of a low rate, but no prudence will prevent the loss of a high rate.

These high rates have a double effect. They effect sales as well as loans. They alter prices as well as the terms of pecuniary accommodation. They depress the markets and the whole goods and property of the country, to a serious

* 'Economy of Capital,' p. 209.

extent. The sales go on, and must go on, but when the Bank-rate is 8 or 9 per cent. the holders of the goods lose heavily. But upon the import trade these losses fall the most heavily, for many months may elapse before an order for foreign produce can be executed; and if in the mean time the Bank-rate be raised from 2 or 3 per cent. to 8 or 9 per cent., the importer finds all his calculations upset, and his expected profit turned to loss. Moreover, at such times come forced sales to aggravate the loss. Very few, even of the wealthy merchants, can afford to hold back and wait for a better market. On the other hand, their customers having to pay high rates for the usual trade accommodation, curtail their business: they stop buying altogether, or buy only at very reduced prices. Thus, the same cause which forces sales prevents buyers; and so prices fall; and so the losses of the mercantile community are twofold: they have to pay double or more to get their bills discounted; and, by the depressed state of the markets, they lose from 15 to 30 per cent., sometimes 60 per cent. on the sale of their goods.

Hence it is that so many failures occur whenever the Bank-rate is raised to 9 or 10 per cent. Importers, instead of reaping profits, come in for crushing losses, and this is called *over-trading.*

Each firm, as it suspends payment, becomes the centre of fresh embarrassments to others. Failures and suspensions multiply; distrust spreads; credit is contracted; bills are refused in payment, and notes are demanded; to meet these additional requirements the Bank's reserve of notes is largely drawn upon, and is consequently largely diminished; consequently the Bank-rate is still further raised; the markets become still further depressed; still greater losses are sustained by the merchants; distrust is swelled into panic; and, in the midst of this commercial ruin, the Bank becomes helpless to serve any but itself. Then the Government comes to the rescue, by suspending the Act which has brought the country into this condition.

Such is the working of this "*most wanton, ill-advised, pedantic, rash piece of legislation,*" the principle of which is, in practice, openly disregarded by those who have to carry out the Act.

Why should solvent and respectable firms be sacrificed and their credit lost because the Government did not think fit to suspend the operation of the Act an hour or two sooner?

Why should the Government be empowered, or be allowed, to suspend the law of the land, at their pleasure? The very fact that it is necessary to suspend the law, is evidence conclusive that it is a bad law.

But temporary suspensions are only temporary and partial remedies; the evil is not cured, and great losses must always be incurred before even this partial remedy can be applied. It can be applied only to prevent further mischief,—never as a remedy for the mischief done,—and the same kind of mischief is sure to recur. As Mr. Patterson observes, it is a golden cord around the neck of trade, to be relaxed only before the strangling process is completed.*

But these temporary suspensions of the Act leave wholly untouched the serious evil of the withdrawal of nearly seven millions of gold from the Banking Department of the Bank, and the consequent high rates of discount.

This is neither profitable to the Bank nor to the community, though the Bank exacts and the community pays more than double the rates that used to prevail before the Act passed.

It cannot require further demonstration than the statement of the fact that, the virtual nullification of one-half of the Bank's average stock of gold, must, at certain times, occasion severe monetary pressure and great commercial dis-

* 'Economy of Capital,' p. 266.

asters, which the use of this large stock of gold might prevent.

On this mistaken ground alone the Bank justifies the exorbitant rates which it now charges. But the practice of the Bank is quite contrary to the principle and object of the Act.

According to the "Overstone theory" of variation, when the stock of gold in the Bank falls below sixteen millions, the amount of notes in circulation should be reduced to a corresponding extent. Thus, when the stock of gold falls from 16 to 13 millions, the note-circulation should be reduced from 21 to 18 millions; and when the stock of gold falls to 10 millions, the notes in circulation should be reduced to 15 millions. But, practically nothing of the kind follows, and very often the result is quite the reverse.

The practice is, to increase the note-circulation by lowering the rate of discount. This, though it endangers the stock of gold and often leads to a high rate of discount in the end, is the least objectionable practice, in the choice of evils. But, if the Bank of England were in possession of its own independent capital, and free to use it, with a large extension of its credit-capital, this course might be persisted in without raising the rate of discount, even through a run for gold, and thus great losses would be saved to the country.

Mr. Patterson seems to think that, a suspension of discounts by the Bank of England "would bring our whole fabric of commerce to the ground, and occasion a crisis unparalleled in severity." *

But, with the ordinary amount of notes in circulation, and an ample reserve in the Bank ready for all ordinary occasions, that must be an extraordinary occasion which could compel the Bank to suspend its discounts, or which could raise the rate of discount above 4 per cent., against the power which the Bank of England, with its independent capital of £14,553,000, in addition to its credit capital of £40,000,000, could bring to bear for arresting the efflux of gold; and the community would still have all the other banks of discount and financial companies open to discount at the market-price of money. But the Bank, if it pleased, could always continue to discount up to the *maximum*, and, probably, would continue to discount good bills, drawn in the legitimate transactions of trade, —especially in favor of depositors in the Bank.

But the answer to all these objections is that, the Bank of England would then be the regulator of discount, and the discount would seldom, if ever, exceed 4 per cent.

* "Economy of Capital"—page 202.

To reduce the paper-currency in proportion to the diminution of the metallic currency is, practically, impossible, and any theory founded on an impossibility must be an absurdity.

This theory, which would reduce the paper-currency in proportion to the diminution of the metallic currency, is in direct opposition to the true theory of a paper-currency, which is, to economise gold; and the Bank Directors have, by experience, found this to be the true theory, for they no longer attempt to observe that rule of proportion; but, on the contrary, they enlarge their discounts without regard to the amount of bullion in the Issue Department.

But, unfortunately, the reserve in the Banking Department, at all times inadequate, is unable to meet the demands upon it thereby increased, and the iron grasp of the Issue Department cannot be relaxed by the Banking Department. Thus, the practice is at variance with the principle, and, in the continual conflict, the evil principle often prevails over the good practice, sometimes even so far as to make this good practice ultimately an aggravation of the evil principle.

The Bank Directors, therefore, in their practice do not acknowledge the Overstone "variation" theory, declared by the Author himself to be the principle of the Act, and approved by the Committee of the House of Commons in 1858, nor the "over-issue" theory of Sir Robert Peel, nor have they yet accomplished Mr. Goulburn's "main object" to "prevent fluctuations in the currency;" and yet still, these Bank Directors, with singular inconsistency, advocate the principle of the Act, which, in their practice, they do not carry out.

On the 24th December, 1852, when the total amount of bullion in the Bank of England was £20,749,000, the Bank Directors might have increased the issue of bank-notes from £22,226,000 to £34,749,000, that being the amount of notes which the Bank of England was then authorised to issue, namely,—14 millions on Government Securities, and £20,749,000 on gold.

The Bank-rate of discount was then 2 per cent.

On the 24th December, 1853, when the total amount of bullion in the Bank of England was £15,819,000, and the amount of its notes issued was £20,810,000, that amount might have been increased to £29,819,000.

The Bank-rate of discount was then 5 per cent.

It will be said that, the Bank-rate of discount being 2 per cent., was evidence that more notes were not wanted, and could not have been got into circulation. That might have been so, but can it be said that, when the Bank-rate of discount was 5 per cent., it might not have been reduced to 2 per cent.?

But, what if more notes could not be got into circulation?

Is that any reason for having them in the Banking Department, ready for circulation when wanted?

On the 25th October, 1847, when the bullion in the Bank of England was only £7,865,445, the amount of Bank of England notes issued was a little above the ordinary average of 21 millions; but the Bank-rate of discount was then 8 per cent.

These facts seem to admit of no answer, and none has ever been attempted.

The present system of the Bank of England, therefore, if any system at all, appears to be, to disregard the amount of notes issued, and to take no measures for withdrawing any of its notes from circulation, for stopping the efflux of gold from the Issue Department, but to rely entirely on a high rate of discount, when the absolute necessity for it arises.

And so, with regard to the amount of its notes in circulation, there seems to be a limit beyond which the Bank will not go, even if it can, either for increase or reduction, whatever may be the amount of bullion in the Issue Department, though, as a general rule, the Bank Directors, when they have fourteen millions of gold, act as if they had only seven millions. They may be right, or may be wrong, but their experience is a safer guide than an untried theory, and they carefully observe the positive provisions of their Charter, though they act as they please within the limits there prescribed. That they have their own rules for their guidance is clear, though these do not appear to be formed on any principle, nor to deserve the name of a system. But that they would not disregard sound principles if they were permitted to carry them out, may be assumed. They have proved the existing Act to be unsound and that, while strictly following its provisions, they disregard its theory in practice as erroneous in every principle avowed by its authors and promoters.

Why, then, should the Act be any longer preserved, when the principle has been pronounced *erroneous* by those who ought to be the most competent judges?

What is the Government waiting for, or what further facts remain to be enquired into?

In every object, but the convertibility of the note, which was never in danger, the Act has been proved to be a signal failure.

Instead of obviating those " fluctuations which have at different times occasioned embarrassment to the country," those fluctuations have been multiplied to an extent never before known in the history of the Bank of England.

In the year 1847, the amount of discounts by the Bank of England was £38,394,587. For this sum the rate of discount was from 3 to 4 per cent. on £8,796,597, and from 4½ to 9½ per cent. for the remaining £29,597,990, the largest amounts discounted being £7,759,795, at 5 per cent.; £6,439,165, at 6 per cent.: £1,906,168, at 6½ per cent.; £1,133,059, at 7 per cent.; £1,680,296, at 8 per cent.; and £780,761, at 9 per cent.

In 1848, the fluctuations were chiefly between 4 and 6 per cent., the largest amounts discounted being £1,725,925, at 4½ per cent.; and £9,17,911, at 5 per cent.; the total discounts in that year being £8,835,577.

In the years, 1849, and 1850, the range was more equal between 2½ and 5 per cent.; the total discounts in 1849 being only £4,506,279, and in 1850 £7,479,563.

In 1851, the range was steady between 3 and 4 per cent.; the total discounts being £15,284,204.

In 1852, the range was steady between 2 and 3 per cent.; the total discounts being only £7,762,061.

In 1853, the rate was in continual variation between 2 and 6 per cent.; the total discounts being £25,924,981.

In 1854, the rate was in continual variation between 5 and 6 per cent.; 5 per cent. being the *minimum*, and 6½ the *maximum* rate of the whole year; the total discounts being £21,686,762.

In 1855, the rate was in continual variation between 3½ and 7½ per cent.; the total discounts being £22,136,590.

In 1856, the rate was in continual variation between 4½ and 8 per cent.; the largest amounts being £17,650,123 at 6 per cent.; £1,523,362 at 6½ per cent., and £2,466,667 at 7 per cent.; the total discounts being £30,924,699.

In the years 1857 and 1858, between October 1 and February 11, the Bank-rate of discount underwent eleven great changes, namely; from 5½ per cent. on the 1st of October, to 6, 7, and 8 per cent. on the 22nd of October; and from 9 per cent. on the 5th of November to 10 per cent. on the 9th of November; and from 8 per cent. on the 24th of December to 6, 5, 4, 3½, and 3 per cent. on the 11th February.

On the 7th November, 1860, the Bank of England raised its rate of discount from 4 to 4½ per cent.

On the 14th November, 1860, the Bank raised its rate of discount from 4½ to 5 per cent., in consequence of £300,000 in gold withdrawn on account of the Bank of France.

On the 15th November, 1860, the Bank raised its rate of discount from 5 to 6 per cent., in consequence of a further withdrawal of £335,000 in gold for the Bank of France, another withdrawal of £365,000 in gold being expected to follow.

Thus, by three separate advances in the space of a week, the Bank-rate of discount was increased 50 per cent. on the previous rate of discount.

This serious aggression against our trade was made simply by the withdrawal from the Bank of England by the Bank of France of £1,000,000 in gold, through the London bullion dealers, who drew upon their deposits in the Bank of England.

On that occasion the Bank of France raised its rate of discount from 3½ to 4½ per cent.

From this it seems that, however secure England may be against military or naval armaments, English Commerce may be at any time successfully invaded by France; and the Bank of France, whatever may have been its original constitution, is at present under the complete control of the French Emperor, so far as commanding its money and resources.

Thus, we are liable any day, at the will of the

Emperor of the French, to lose all control not only over our loanable capital, but also over our circulating medium, or legal money.

These fluctuations may be taken as samples for subsequent years, though the year, 1864, showed fewer fluctuations, these being confined chiefly between 7 and 9 per cent., and the average Bank-rate of discount for that year exceeding 7 per cent.

These facts go a long way to prove the necessity of some change for correcting the evil influence of the Bank of England over the whole money operations of the kingdom and seem to give some force to the observation of Lord Ashburton,—"That if these fluctuations were inseparable from the circulation of paper, we pay too dear for the accommodation, great and useful as it is."

As a paper currency is for *convenience* and *economy*, it is essential that we should not overestimate the advantages; but that we should keep in view these disadvantages, which inflict such extensive ruin, and are so seriously injurious to the commerce of the country.

The gain to the Bank of England from these fluctuations is more easily calculated than is the loss to the country; for the loss is not only in the reduced value of stocks from forced sales, but also in the diminished production of the country, from want of the means for paying the wages of labor, and in the diminished demand; not that the capital of the country is so much diminished, as that it is so little increased; not that the produce of the labor is lost, but that it has depreciated in value from the want of money, as the means of transfer, and has gone into the hands of the great capitalists at prices so reduced as to leave little or no profit to the producers, and has thus withdrawn capital from trade, thereby diminishing the labor fund, the capital so withdrawn being otherwise invested, and at a time when it was most wanted for the trade and industry of the country.

It is true that, the loss of one is the gain of another, but it is not true that, the gain is always equal to the loss, and least of all is it true when the loss is spread over the community, as it is on these occasions.

The gains of the capitalists, always ready with money in hand to seize their opportunities, are not always invested for the benefit of trade, but are often invested in the Government funds, or other permanent and safe securities, ready for like occasions and opportunities, and the time may be long or short before the capital so withdrawn is allowed to return, if ever, into the channels of trade. In the meantime the trade and industry of the country suffer, and there is no National Bank to which distressed, though perfectly solvent, traders can resort, when relief is most wanted.

On these occasions the Bank of England takes its own large share of the profits of that distress, which itself has caused, but which it is neither capable of relieving, nor anxious to relieve.

In this respect the practice of the Bank of France is preferable to that of the Bank of England. The Bank of France meets the demands upon it by obtaining a supply of specie. The Bank of France admits that, as it profits by the issue of notes and banking, it ought to bear the expenses incidental thereto. To provide a supply of gold or notes to meet the requirements of its customers is regarded by the Bank of France as a duty devolving on itself, even though it involve a loss to the Bank. The Bank of England makes no such admission, but takes the opposite course. It takes no step to obtain specie, but, by raising the rate of discount, deters its customers from demanding gold or notes, and thereby throws the loss upon its customers.

It is manifest that, the effect of this practice of the Bank of England is, to inflict serious injury upon the country. This fact does not of itself justify a condemnation of the system, if these losses be shown to be unavoidable. But even the practice of the Bank of France shows that, to a great extent, these losses upon the country are avoidable.

By augmenting the losses in trade by depression of prices, the high rate of discount, by diminishing profits, diminishes the trade of the country and the means for employment of the working-classes. An unusually long period of a high rate of discount is always followed by a period of mercantile depression. Manufacturers, merchants, and traders, strained and often exhausted in their resources by the exactions of the Bank of England, contract their business and liabilities, and discharge many of their hands. With diminished trade there are fewer bills to be discounted, and the Bank rate of discount lowers.

Thus, the evil works its own remedy, but at the cost of the community, and to the questionable profit of the Bank, for, by the depression of trade, the rate of discount is reduced, and often for a long time kept down, below its ordinary level.

Since the passing of the Bank Act in 1844, the *minimum* Bank rate of discount has varied from 2 up to 12 per cent. For a century and a half previously to 1844, with the exception of a few months in 1839, in anticipation of a coming change, the Bank rate of discount never varied more than 1 per cent., or from 4 to 5 per cent. For upwards of a century and a quarter, it was the invariable rule of the Bank of England to discount all commercial bills at 4 or 5 per cent. During that long period, this country went through more severe trials than it has ever undergone since, and yet, during the last twenty years, the Bank rate of discount has changed, on the average, every two or three months, sometimes every two or three weeks, ranging from 2 to 10 and even 12 per cent., thus making the trader yield up the profits of his trade to the capitalist; so true it is that the more we increase the value of money, the more we depress trade and the whole property of the kingdom.

The late Mr. Bonamy Dobree, Director of the Bank of England, has left on record his opinion of the effect of these fluctuations in the Bank rate of discount as follows:—"These violent and sudden ebbs and flows, of which there have been various recurrences during the past twelve years, evidenced, in my opinion, by forty variations in the rates of discount, from 2 per cent. the lowest, to 8 per cent. the highest; whilst in the previous ten years there were but two changes, between 2½ per cent. the lowest, and 6 per cent. the highest, could not, I think, have been foreseen by the promoters of the Act of 1844, a measure which has acted very prejudicially upon the trading community, for whose particular benefit and safeguard the Act would seem to have been specially framed."

This is a very strong expression of opinion, and is entitled to much attention, coming from one who had been for many years a Director, and who had filled the important office of Governor of the Bank of England.

This opinion is quoted by Mr. Lawson, in his small work, recently published, on the Bank of England;* and he adds some striking facts to show that, these repeated changes in the Bank rate of discount are by no means favourable to the proprietors of Bank Stock. For example, he says:—"The rate of interest charged by the Bank for 140 years never varied from 5 per cent., except on one or two occasions, yet we find the Bank made larger profits when the rate of discount never rose beyond 5 per cent. than she has ever done since it varied from 5 to 10 per cent.; for instance, in 1799, the stockholders, in addition to a dividend of 7 per cent. per annum, received a bonus of £1,164,240, being 10 per cent. on the then capital of £11,642,000. In May, 1801,

* "The Bank of England, As It Is, and As It Ought To Be." Page 27.

another bonus of £582,120, being 5 per cent. on the capital; in November, 1802, £291,060, being $2\frac{1}{2}$ per cent.; in October, 1804, £582,120, being 5 per cent. on the capital stock. In that year the salaries of the Directors were increased. In October, 1805, a bonus of £582,120, being 5 per cent.; in October, 1806, another 5 per cent.; and in June, 1816, a bonus of £2,910,600, being 25 per cent. on the capital of £11,642,400; this latter bonus was added to the stock, which then amounted to £14,553,000, its present capital. Previous to 1807, when the legal interest was 5 per cent., the annual dividend on bank stock was 7 per cent. It was in that year increased to 10 per cent., and continued at that rate till the year 1822; from the latter year to that of 1838 it was 8 per cent., and from that date to 1852 it was 7 per cent.; it is now 11 per cent. If, therefore, we add the additional 3 per cent. received during the 16 years, amounting to £5,588,352, and the interest on the above sum of £2,910,600 from 1816 to 1831, on which the proprietors of Bank stock received 10 per cent. for six years, and 8 per cent. for nine years, say, £3,987,522, it will be found that the stock-holders received in the shape of bonuses and additional dividends, during a period of thirty-four years, the enormous sum of £16,270,254, whilst their original capital of £14,553,000 remained undisturbed. It is a rare thing in the present day, for the Bank to declare a bonus; such an event has not occurred for many years."

A long continued and unusually high rate of interest is always followed by a period of mercantile depression. Merchants and manufacturers suffering under their losses and unable to bear the high discount exacted by the Bank, contract their business and reduce their establishments. With diminished trade there are fewer bills to be discounted, and the Bank then lowers its rate. But if the Bank had pursued the opposite policy of keeping a low and steady rate, thereby extending trade, instead of destroying it, the necessity for lowering the discount to the unusually low rate, which then always follows from want of business, would not arise.

But the profit or loss of the Bank is a very immaterial consideration in this question. The gist of the question is in the public service, and in the loss to the public from the present state of things. The loss sustained by the commercial community every time that the Bank raises its rate is a question not to be answered with any certainty. But, by a statement published by Mr. Newmarch, it appears that, the amount of bills of exchange circulating one year with another, may be averaged at £350,000,000 a year. If one third of this amount, or £116,666,666, be taken as circulating for 3 months, and if, of this sum, £100,000,000 be taken as under discount in town and country, an alteration of 3 per cent. in the Bank rate is a loss of £750,000—sustained in the 3 months, or £3,000,000 a year.

The loss to the country, consequent on the loss of trade, is not calculable, but, probably, it is more than ten times the amount of this actual annual loss from discounts, or upwards of £30,000,000 a year.

In the face of these facts, the greatest commercial country in the world, and, at least, equal in intelligence to any other country, has submitted through all these years, and submitted almost in silence, to an infliction by law amounting, absolutely, to a national calamity. But, it is said, this is a question too profound for the People. It is understood only by the Bankers and other great Capitalists—practical men—and they do not complain. The Act was framed by the most experienced banker and the greatest capitalist in the greatest commercial city in the world. Moreover, for this great public service, and being so great a capitalist, he was raised to the dignity of the peerage, and he is now a member of the Upper

House of the British Legislature, and, by almost universal acknowledgement, the highest authority in the country on all commercial questions. With this noble Lord, of such great wealth and commercial experience, no member of any Government could venture to differ on any commercial question, much less on a question about the Bank Act, which he, the greatest Capitalist and most experienced Banker, himself prepared. He gave his evidence, in 1857, as an authority not to be disputed, before the Committee of the House of Commons, appointed to inquire into the beneficial effects of this very Bank Act.

He was then a member of the Upper House. Nobody dared to dispute with such an authority. The few members of the Committee who on that occasion ventured to put a few simple questions to the authority seemed half ashamed of their own audacity, and, sometimes, the authority seemed more than half provoked; but, then, some of the questions were rather silly, and a member of the Upper House might be excused for telling members of the Lower House that, he did not come there to instruct them in the elements of political economy, by entering into definitions of *capital* and *currency*. But either the *snubbing* system had the effect of stopping questions, or nobody on the Committee knew how to put the questions which ought to have been put to this Witness. Nor did any other Witness seem able to expose, by his evidence, the manifest fallacies in the evidence of this Witness.

But, these remarks are by no means intended in disparagement of the Banker-Peer, for whom the Writer entertains high respect; yet, they are intended reproachfully to the Government, especially to the then Chancellor of the Exchequer, from whom better service than he rendered might have been expected on this question.

That Mr. Gladstone, as Chancellor of the Exchequer, should have brought into Parliament a Bill to prolong, for fifteen years, the evils of a spurious bank-note circulation, is a step which leaves little ground to hope that he will ever be prevailed on to make any material change for the better in the present Bank Act.

It is, therefore, the more important that the People of this country should be made to understand that, the present question of the Bank of England and the Organisation of Credit in England, is one of paramount importance, as affecting the prosperity of the trade and industry of the country.

All our trade is carried on by means of bills of exchange, and nearly all the holders are obliged to get their bills discounted to enable them to carry on their ordinary course of business, and the ordinary business of banking consists in discounting commercial bills, or purchasing the current debts of commerce.

A manufacturer supplies a merchant with a thousand pounds worth of goods, and receives from him, or draws on him, a bill for the same amount at three or six months, or such other time as may be agreed, to enable him to sell the goods so purchased, the merchant's capital being all, or nearly all, invested in his business. The manufacturer also has all his capital invested in his business, and not being able to wait till the three or six months have expired, he takes the bill to his banker, or bill-broker, and gets it cashed, receiving the £1000, *less* the interest for the two or three months, or other time, at the current market rate.

All commerce is carried on in this way, and thus a great economy of capital is effected.

What, then, is to become of the merchant, if money be so scarce that, he has been unable to sell his goods at the ordinary market price, when his bill has become due?

He must pay, or he may be declared a bankrupt, and bankruptcy has made many a solvent merchant an insolvent debtor. The better course than *that*, is to sell his goods for what he can get;

and, instead of making a profit, to put up with a loss.

Here the capitalist comes in and buys for £5000 what has cost the merchant £10,000.

The capitalist keeps the goods until he can realise his £5000 and a large profit, and then he invests the produce in the Government Funds, or Foreign Securities, or in the purchase of a house or land.

In these transactions there is no loss of capital to the country; but the country suffers the loss of the first unsuccessful speculation, and also the further loss of so much capital withdrawn from trade.

These losses, multiplied through the country in the time of a money-panic, may, in their effects, produce an aggregate loss to the country, greater in amount than the whole of the capital so unsuccessfully employed.

If the calculations may be relied upon, such were the effects of the money-panic in the year, 1847.

If those effects might have been prevented, as undoubtedly they might have been, if the Bank of England had been constituted with strength sufficient to resist the tide, which then swept away and overwhelmed so many engaged in trade in this country, and so nearly overwhelmed the Bank of England itself, this becomes a question second to none,—how to prevent the recurrence of such disastrous consequences.

It is no satisfactory answer to say that, such consequences were the unavoidable effects of a natural law, even if that be the true answer.

It may have been so, and yet that was a natural law acting on incongruous and incompatible human arrangements; and although we cannot alter the course of a natural law, yet, for many purposes, we can and do so frame our artificial arrangements as to adapt them to the natural law for our service, instead of injury.

It is the certainty of continuous and uniform action which constitutes the incomparable power of every natural law, and no one can ever wish that it were changeable. Human laws may be abused and violated; natural laws may be abused, but cannot be violated.

The human art consists in adapting our artificial contrivances to the natural laws for accomplishing the desired ends; as watchmakers combine brass and steel in the compensation balance, to counteract the natural contraction and expansion of the metals, for regulating the artificial movement of the works.

That we can do so to a certain extent we have already learnt from experience in our credit-issues ; but, not content with this, we have tried to make paper answer *all* the purposes of gold, and in this we shall never succeed, until we can convert the material paper itself into gold.

It will be asked—What is commerce to do when the Bank of England refuses to discount?

The answer is—Commerce must pay the penalty of high discount to those Banks which trade in discounts.

The Bank of England, as a National Institution for the benefit of the country, ought to be constituted and conducted only for that object.

For this purpose, the superior control over the money of the country must be vested in the Bank of England, and that control, to make it efficient, must be in conformity with the natural law, for regulating the supply of money, either by increasing the quantity when insufficient, or reducing it when in excess ; on the one hand, to encourage trade and industry at home, and on the other to discourage investments abroad, by making investments at home more safe, and in the end more profitable, and investments abroad less safe and less profitable.

It is as true of gold as of all other commodities, that it will, by the natural law, go to the best market, and our paper-money, as long as it represents gold, must always follow the gold, so that when gold becomes scarce, paper-money also must become scarce.

To alter this course of the natural law by means which are operated upon in the same direction, must always be an impossibility, and, if possible, nothing could be more fatal in the consequences.

But when, against this natural law operating in one direction, another law is brought to bear in an opposite direction, the one neutralises or modifies the other.

Thus, if the Bank of England be withdrawn from the influence of the natural law, which would drain the Bank of all its gold and stop the further issue of notes, by being brought under the influence of another law acting in a contrary direction, the one law, counteracting or neutralising the other, the drain of gold will cease. The bank notes will return with the gold, and the home demand, being more permanent and therefore more profitable than the foreign demand, as it must always be, will, under these circumstances, by force of the natural law, always prevail. Such must always be the result of this antagonism, if the power employed be sufficient to overcome, or, rather, to counteract and neutralise for a time, the tendency of the natural law.

The Bank of England, in possession of this power and free to exercise it as the occasion required, would then be in a position to compete successfully with any combination of capitals which could, practically, be brought to bear against it, for no such combination could long resist the commanding power of the Bank of England over the bank-notes, and the market for gold; thus throwing the whole burden and responsibility of supplying the demand for money upon the other banks, and at the same time cutting off their resources by refusing to discount at all.

In this state of things, the Capitalists, by force of the natural law of self-preservation, would be the first to look after their own affairs at home, and no temptation from abroad would be a sufficient inducement to them to continue to send out gold from this country, when the price here was rising to the level of the foreign country.

By this means the equilibrium between the value of the British Currency with that of other countries would be restored, and the cause of disturbance would be removed.

The Bank of England, instead of competing in discounts with other banks, would withdraw from the competition when the rate exceeded 4 per cent., or would confine its discounts to well known bills, not for the purposes of the money-changers and speculators in gold, but in the legitimate course of trade, and, instead of co-operating with other banks to keep up the rate of discount, would operate to counteract them, by arresting the efflux and hastening the influx of gold.

Whatever may be the evil of withdrawing the Bank of England from discounting when the rate of discount exceeds 4 per cent.,—and that is a question of degree which can be determined only by experience,—still it is clear that it must be much less than when the Bank of England co-operated with the other banks to maintain the higher rate with all its consequences.

But the effect of fixing the *maximum* at 4 per cent. and constituting the Bank with an ample real and credit capital, as proposed, would be, to secure at all times such an ample reserve or discount fund that, the rate of discount must be entirely under the control of the Bank of England, and never could exceed the *maximum* of 4 per cent. And, as a large floating capital must always be seeking temporary investment, the tendency and effect must be to keep down the discount below the *maximum* rate for bankers or even commercial paper, as it is inconceivable that this floating capital, so considerable, should find employment at a higher rate of interest than that of the Bank of England On the contrary, the floating capital must find employment at a rate lower than that of the Bank of England.

The effect must be, as so clearly shown in the evidence of the Messieurs Pereire, to keep down the rate of interest or discount and to maintain it, with very slight and occasional variations, between 2 and 3 per cent., and the consequence of this would be, to reduce the present inordinate profits of the great capitalists, for the benefit of the whole commercial community, and, the very reduced profit on this sort of money jobbing would, probably, close many of the present discount houses, or change their character by driving them into the more riskful speculation of money lending, unless they would be content to reduce their present dividends of 20 and 30 per cent. to 2 and 3 per cent. That idle capitalists should continue to divide their present amount of plunder, forced from the struggling merchants and traders in their necessities, would be impossible; not that it is wrong in the capitalists to take what they can get and the law allows, but that it is wrong to make a law which gives to one class at the expense of another; and that is just what the Bank Act does.

Instead of supporting credit, it weakens and often destroys credit.

On all occasions of money-panic, the chief cause is not so much the want of money as the want of credit. In ordinary times, when credit is good, the merchant can afford to wait a little before he gets his bills discounted, for then he is not so much pressed for payment. But, in times of monetary or commercial crisis he cannot wait.

This pressure, operating more or less on all engaged in trade, causes a great rush on the banks for discounts.

But the banks also have to look to their own safety, and as money becomes more scarce in proportion to the scarcity of gold, they lessen their liabilities by curtailing their discounts by prohibitory prices.

If the banks have been relying on deposits, and the deposits are being withdrawn, as may then be expected, a run upon those banks follows, and to many often ends in ruin.

When the commercial public find the rate of discount too high, or that it is difficult or impossible to get their bills discounted, they take up every shilling of their deposits; or, if they have no deposits, they sell their goods at any price, and, taking to the bank the cheque they receive in payment, they withdraw the amount in cash. In one way or another they collect all the money they can. The general public, when they begin to feel the pressure, partake of the alarm and join in the run on the banks, and the banks, in their anxiety, join in the rush, and scramble among themselves for the possession of the small stock of gold, by getting bank-notes and converting them into gold. Then comes the panic, and the crash of falling houses, with general distrust and total suspension of credit.

These results are commonly attributed to over-issues, over-trading, or over-speculation. But neither facts nor reasoning support any of these conclusions.

The issue of bank-notes for several years preceding the years 1847 and 1857, the years of the two great money panics, did not exceed the ordinary amount of issues, and in the years, 1847 and 1857, the issues were considerably under the ordinary amount. But in these two years the gold in the Bank of England very considerably diminished. The gold had been drawn off by foreign remittances, and the bank-notes had been reduced in such a proportion as to produce a sensible scarcity and a general alarm, which instigated precautionary measures. Bankers, merchants, manufacturers, and traders in general, began to look to themselves and to their reserves for the time of need. Bank-notes and sovereigns were hoarded in all the private chests and tills throughout the country. Deposits were drawn out, and Debts were called in. Money at any price was hardly to be had. The Banks which had relied on their deposits were ruined. The Bank of England, which had relied on its banking-reserve and deposits for its discount fund, was suddenly reduced to the necessity of looking after its own notes and gold. Utterly without capital, and in its banking department almost without notes and gold, and absolutely without the means of getting either, the Bank of England was helpless for others and itself. Based upon credit, the foundation is gone when credit is gone. The useless gold locked up in the Issue Department remains, but the Banking Department is empty. With £7,000,000 of gold in its possession, the Bank must stop, just as if it had no gold at all; and this is just what the Act intended. As a banking reserve these £7,000,000 were never intended to be used, though for this purpose most wanted. The stock of gold kept by the Bank under the Act of 1819, did not exceed the average of £8,000,000; and here are £7,000,000 of gold completely nullified, —just as much as if actually built up in brick and mortar.

During the months of December, 1864, and January, 1865, the amount of bullion in the Bank of France averaged exactly £7,000,000. At that time, the Bank of France, with equal liabilities to those of the Bank of England, had only half as much bullion; yet the rate of discount of the Bank of France was then only 7 per cent., when the rate of the Bank of England was 9 per cent., and more confidence then prevailed in the Bank of France than in the Bank of England. If the Bank of England had then been in the condition of the Bank of France, in liabilities and amount of bullion, the condition of this country would have been that of bankruptcy from one end to the other, and many thousands of our working-classes would have been thrown out of employment. Something very like that was the condition of this country in 1847 and 1857. And yet, in those months of December and January, confidence was unshaken in the Bank of France, and the distrust which then prevailed on the continent was in the Bank of England only.

The issue of 2½ millions in the form of Exchequer bills, bearing interest at 5 per cent., sufficed to stop the panic in 1793. An issue of two millions of *inconvertible* notes stopped the panic in 1797. An old bundle of £1 notes stopped the panic of 1826. The suspension of the Bank Act sufficed to stop the panics of 1847 and 1857,—although, even in the last and more severe of these crises, the additional issue of Bank of England notes amounted only to £928,000, and the exorbitant rate of 10 per cent. was exacted as the *minimum* of the Bank's advances. The same may be said of the authority for the suspension of the Act in 1866.

But the Government that takes upon itself to suspend the Act must obtain from the Legislature an Act of indemnity for such an arbitrary violation of the law, and for this purpose must summon Parliament, if not then assembled.

If the repeal of this leading provision of the Bank Act be a matter of course,—and it can hardly be otherwise when the circumstances of the case render it absolutely necessary,—there seems to be no good reason why this provision should not be altogether abolished.

But, to make a law which, it is known, must yield to a certain degree of pressure, is a great practical injustice to those for whom the relief comes too late. To them this is an intolerable hardship and a gross injustice, quite inconsistent with the principle of the British Constitution.

The Bank of England, therefore, as a national resource in the time of need, has failed, and if there had been no gold in the Bank the failure would not have been worse; for, in that case every creditor would have been paid in full.

As a National Bank, it fails when it is unable to fulfil what ought to be its only function,—the maintenance of the financial credit of the country; and, as such, the Bank of England, as long as it rests solely on credit, always must be shaken to its foundation when credit is withdrawn. As long as the Bank of England is without any independent and real capital, and is allowed to speculate with its deposits, it must be in the power of its depositors, and its fictitious strength must fail when credit fails and deposits diminish or disappear.

This is one of the fatal errors of the present constitution of the Bank of England, and this is one of the most active causes of aggravation to the mischief of those periodical panics to which this country is subject, and must always be subject, as long as the Bank of England continues to be so constituted, instead of being constituted, as it might so easily be, for the organisation and maintenance of the credit of the country.

Private and Joint-Stock Banks, however convenient for the community, exist for themselves, but the Bank of England ought to exist solely for the community.

Private and Joint-Stock Banks properly avail themselves of opportunities for their own good, without any regard to the good of the community. It is well for the community when those banks are stopped in their course. The run for deposits, which arises in such circumstances, is a natural consequence of the banks curtailing their discounts, and is also a natural means of retaliation against the banks. The depositors say to the bankers:--"As you will not lend us your money, or give us money for our bills, give us back our own money,—give us our deposits." This the banks are sometimes unable to do, and then they stop payment; whereas, if they had discounted freely the deposits might have remained with them undisturbed, and the crisis might have passed away with little more than temporary inconvenience.

The Bank of England, as the National Bank, ought to exist only for the good of the community; but the good of the community seems to be the last thing thought of by the Bank Directory, nor is this their fault. Recollecting their failures in 1847 and 1857, they are now resolved to "save themselves," at whatever sacrifice to the commercial community.

Mr. Hodgson, M.P., Governor of the Bank, at the quarterly meeting of the Proprietors, on the 22nd September, 1864, said:—"*The rate of* *discount is charged for one purpose only—the purpose of keeping the reserve fund at a proper and safe limit.*"

This is an admission so important that, it should never be forgotten. But what the Bank Court regards as a "proper and safe limit" for the reserve fund was not stated. The *minimum* bank-rate of discount was then 9 per cent., and they had then in the Bank thirteen and a quarter millions of gold. If this be the notion of the Bank Court of a "proper and safe limit," it were better to say so in plain terms. The country, it is to be hoped, will never confirm this notion.

In the case of the recent bank failure at Birmingham, it is perfectly clear that, if the bank had kept its secret of insolvency, and could have exercised a power of issue of its notes to the amount of the half, or even the third or the fourth of the deposits, the credit of that bank would have stood unshaken, and in the course of time, under prudent management, might have become solvent. But no further instance than this can be required to show the necessity for confining the issue of notes to the Bank of England.

If properly constituted, the Bank of England would be able to support credit for the benefit of the community, instead of being obliged, as it now is, for its own preservation, though at the same time, for its own profit, to operate against credit, to the loss of the community, thus co-operating with the other banks for high interest and large profits, by following their example, in using the deposits as if these were part of the real capital of the Bank, and thereby aggravating the evil, instead of providing the remedy.

To curtail discounts by a high rate in a time of monetary panic must aggravate the evil; but in the present powerless and otherwise helpless state of the Bank of England, there is no other alternative than the high rate of discount, or the stoppage of the Bank.

With ample capital for counteracting the course of the crisis, there would be no occasion for the remedy, because the evil would never arise.

The ordinary rate of discount, unless under very rare and exceptional circumstances, would be maintained.

When those circumstances occur, it will be better to bear the evil of high discounts for a short time, than to aggravate the evil by protracting its duration.

Now, in ordinary circumstances, the scarcity of money arises from the efflux of gold, but with a commanding power in the Bank of England, such a scarcity from such a cause could never arise.

The equilibrium in the value of British and

Foreign Currency restored, the gold would return before a scarcity of money could be perceptible.

Any loss to the Bank of England must be inconsiderable, in comparison with the loss saved to the trade and industry of the country.

The universal confidence in the power of the Bank of England would, of itself, operate like a charm throughout the country to bring relief by maintaining credit; as, on all like occasions, from 1793 to 1857, relief has always come with the restoration of credit, by confidence in the Government, when brought to the aid of the Bank in its distress. The relief was, in reality, in the credit restored by confidence, and confidence was always restored by increasing the issue of notes and discounting freely; but never by contracting the issue of notes, and raising the rate of discount. But the credit of the Bank of England should be dependent on its own resources, not on the resources of the Government.

The history of all the monetary panics teaches the same lesson of dearly bought experience; that enlarging the amount of discounts and bank-notes is the most prompt and effectual remedy; not that the bank-notes are so much wanted, as confidence that they are to be obtained when wanted.

In that momentous crisis of October, 1847, the Bank Directors told the Chancellor of the Exchequer that, "they could save themselves, but that they could not do so without pressing more stringently on the commercial world."

As truly observed by Mr. Patterson, in his useful work on "The Economy of Capital," * already frequently referred to, this crisis was in a great degree artificial, and was immensely aggravated by the restrictive policy imposed upon the Bank; and the better to show this he gives the following extracts from the speech of the Chancellor of the Exchequer (Sir Charles Wood) on the subject.

"Evidence was laid before the Government, which proved not only the existence of severe pressure, but also that it was aggravated in a very great degree by the hoarding of gold and bank-notes to a very large extent, in consequence of which an amount of circulation, which under ordinary circumstances would have been adequate, became insufficient for the wants of the community. . . . Parties of every description made application to us, with the observation, 'We do not want notes, but give us confidence.' They said, 'We have notes enough, but we have not confidence to use them: say, you will stand by us, and *we shall have all that we want:* do any-

* "The Economy of Capital," page 104.

thing, in short, that will give us confidence.' "*If we think that we can get bank-notes, we shall not want them.*' . . . Parties said to me; 'Let us have notes—charge 10, 12 per cent. for them—we don't care what the rate of interest is. We don't mean, indeed, to take the notes, because we shall not want them; only *tell us that we can get them*, and this will at once restore confidence.' . . . As soon as the letter of the 25th October appeared, and the panic ceased, thousands and tens of thousands of pounds were taken from the hoards; some from boxes deposited with bankers, although the parties would not leave the notes in their bankers' hands. Large parcels of notes were returned to the Bank of England cut into halves, as they had been sent down into the country. And so small was the real demand for an additional quantity of notes, that the whole amount taken from the Bank when the unlimited power of issue was given, was under £400,000. The restoration of confidence released notes from their hoards, and no more was wanted—for the trifling quantity of additional notes is hardly worth notice."

Mr. Patterson remarks: "Here, again, we see that the sufficiency of the Bank's notes was never questioned;—that the crisis was mainly due to the hoarding of notes and gold by the public, owing to the break-down of credit and confidence;—that the restrictive policy of the Bank of England was the chief cause of this collapse of credit, aggravating a season of commercial difficulty into one of most destructive panic;—and finally that, immediately after the reversal of that policy, the panic and hoarding were at an end, and confidence returned."

If it be true, "that the restrictive policy of the Bank of England was the chief cause of this collapse of credit," it does not seem to be quite consistent, "that the crisis was mainly due to the hoarding of notes and gold by the public, owing to the break-down of credit and confidence."

If it be true, "that the sufficiency of the Bank's notes was never questioned," why were the notes and gold hoarded by the public?

The true answer is, that a scarcity of Bank notes was foreseen as an inevitable consequence of the withdrawal of gold from the Bank, and through the insufficiency of the notes, a loss of credit from a want of confidence in the power of the Bank to bring back the gold and to supply the demand for notes.

The hoarding, as a precautionary measure on the part of the commercial community, no doubt, aggravated the mischief; but that was a consequence, and the cause was "the collapse of credit by the restrictive policy of the Bank of England;" or the insufficiency of the notes; but that restrictive policy was essential for the safety of the Bank itself. This the Bank Directors admitted when they told the Chancellor of the Exchequer that, "they could save themselves, but that they could *not* do so without pressing more stringently on the commercial world."

On the 25th of October, 1847, the total amount of bullion in the Bank of England was, £7,865,445, the lowest amount at any time since the year 1844.

The Bank of England, being without any real capital, could not restore the usual stock of gold, without diminishing the usual supply of notes, unless by curtailing its discounts, and, this being manifest, loss of confidence in the Bank, and loss of credit in the community, were the necessary consequences.

Under these circumstances, if the Bank had sold Government Securities only, the consequences must have been still more disastrous.

But, if the Bank of England had then been in possession of its own real capital, the sale of Government Securities by the Bank for the purchase of gold, and at the same time free discounting by the Bank at 4 per cent., would have confirmed confidence in the Bank, and thereby would have preserved credit. There would have been no hoarding, because there would have been no distrust, and the facts are the best evidence that there would have been no extraordinary demand for notes or discounts. There would have been no panic. There would have been no loss to the country, and the loss to the Bank of England could not have been great; but, great or small, that is another, and, comparatively, immaterial question. The object of the Bank of England would have been accomplished,—the purpose of its foundation would have been fulfilled.

But severe as was the crisis of 1847, it was surpassed in severity by that which followed ten years afterwards. In the year 1857, the convulsion of the American crisis was felt in this country, and, before the end of October, shook the Bank of England to its foundation.

The universal suspension of cash payments throughout the United States put so severe a strain upon the great mercantile firms in England, engaged in the American trade, that, the question with many of them was, whether to risk their existence by waiting for the money due to them from the American firms, or to realise at the sacrifice of half or other large portion of the whole.

It was well known that the embarrassment in

America was occasioned by the break-down of credit, through the great depreciation of railway and other securities in the United States, and the consequent suspension of nearly all the American Banks. The effect of these suspensions fell most heavily upon those engaged in trade with the United States, and their transactions were immense. But most of these American firms, which had suspended payment, were perfectly solvent, and it was known that they would be able to resume business as soon as the effects of the panic had subsided.

The embarrassment of our trade, therefore, was only temporary, being only until the monetary equilibrium should be restored by the usual remittances from America to this country.

If the Bank of England could have helped our mercantile interests to tide over that period of difficulty, the convulsion in America, though it must have been felt in this country, would not have come like a wave across the Atlantic to overwhelm so many of our merchants and traders in one common ruin, bringing into peril even our strongest firms.

But the Bank of England was powerless, and if the cast-iron machinery of the Bank Act had not been relaxed the whole must have come to a *dead stop.*

The Bank of England could have helped our mercantile interests to tide over that difficulty if it could have helped them to bank-notes until the monetary equilibrium should be restored by the usual remittances from America to this country. That course was adopted by the Bank of England *after* the Bank Act was suspended, but, as long as that Act remained in force, such a course was impracticable. The Bank of England then, for any practical purpose, had no notes and no means of obtaining any. Then, as on former occasions, the best Government securities could not to any extent beconverted into money, and other stock, of course, was then still more unsaleable. Those who were then so fortunate as to hold money, would not part with it on any terms, nor for any security. The prevailing distrust, by invalidating the ordinary forms of commercial credit, had rendered a greater supply of money absolutely indispensable for carrying on the ordinary business of the country, but, yet, by no means could any money be got at.

On Wednesday, the 11th of November, 1857, the Bank of England, for all the practical purposes of the country, *had stopped.* In the afternoon of the following day, Thursday, the Bank was again set a-going by the suspension of the Act. But for that relief the stoppage of the Bank of England must have been complete, and the stoppage of all other Banks in the kingdom must have followed. That relief was instantaneous and effectual all over the country, because it restored credit, which was all that was wanted.

It was not sovereigns or bank-notes that were really wanted, but faith in the fact that bank-notes could be had when wanted.

Nothing can be more clearly manifest than that, there would have been no crisis in 1857, if the Bank of England could have supplied bank-notes freely, instead of contracting them. If the Bank could have supplied them at 4 per cent., the demand would have been comparatively trifling. If it had been known that there was a large reserve of notes in the Bank, the large and strong firms, with the knowledge of that fact, and of the temporary nature of the difficulty, would have accommodated each other and their dependents by mutual forbearance, rather than pay even 4 per cent. for discounting their bills. But the case was quite different when the National Bank was known to be without any available money, and without the means of getting any. Depositors in the Bank to an amount, in the aggregate, of about twenty millions, might well be alarmed at such a state of things, the end of which no one could foresee. The holder of a £5 note might then be excused for running to the Bank to exchange his bit of paper for five golden sovereigns. But he would not take that trouble if he knew there were plenty of notes in the Bank to meet all demands. He has no want of confidence in the note. His want of confidence is in the Bank to meet the demand for notes, and, therefore, he wishes to be independent of the Bank.

It is not surprising if the depositor of Twenty Thousand Pounds feel that want of confidence in an exaggerated degree, and take measures calculated to extend his distrust to others. Distrust generally arises very suddenly, and spreads very rapidly.

The crisis of 1857 was the more disastrous because it was unexpected. The commercial community were wholly unprepared for it. Bankers and Merchants, of immense wealth and known solvency, were suddenly overwhelmed and stopped by the want of immediate relief, which none could afford to give.

The amount required to meet the liabilities was very great, but the amount required for the temporary relief was, comparatively, very small, and what was most required was the credit which confidence alone can give.

But these were just the wants which the Bank of England could not supply, and the ruin which followed was a stupendous loss to the country.

The Scotch banks joined with the English banks in their run upon the Bank of England for notes, and then exchanged them at the Bank for gold. The Bank of England, as before shown, had raised its rate of discount rapidly from 5 to 10 per cent., and, having given all the accommodation which, under the Act, could be given, was utterly inadequate to any further help. The more tight the money-market became, the faster were notes and gold withdrawn from the Bank. Every bank and firm sold its securities, and kept the notes and gold thus obtained. The English, Irish, and Scotch Banks all took the same precautions, and altogether the Banks kept by them about three millions of specie more than their ordinary amount.

The effects of this disastrous state of affairs were first felt in London, Liverpool, and Glasgow, and the panic commenced with the failure of the Borough Bank of Liverpool, quickly followed by the suspension of the great commercial house of Dennistoun and Co., whose outstanding acceptances amounted to about £2,000,000, all of which were subsequently paid, and the house resumed business. Shortly afterwards, in the same month of November, failed the three great northern Banks,—the Western Bank of Scotland, the City of Glasgow Bank, and the Northumberland and Durham Bank.

The effects of these great failures were felt like the successive shocks of an earthquake in the City of London, where the resources of the discount houses and bill-brokers were dried up, and discounts were obtained at the Bank of England with the greatest difficulty at 10 per cent.

The great discount house of Saunderson and Co. was obliged to suspend with liabilities exceeding £5,000,000. The great American firm of Peabody and Co. was also known to be on the point of suspending, though perfectly solvent, but, like so many other firms, kept out of their money, were unable to meet their engagements. It was of the utmost importance to support this firm, as its fall would bring down many other firms, and create a general panic in London. But the help required was to the extent of £800,000, sterling, and the Act prevented the Bank of England from advancing this sum. No sooner was the Act suspended and the Bank unfettered than it advanced the required sum to Peabody and Co., and to many other firms, as also to some of the English banks. The beneficial effect produced by the suspension of the Act, and the resolution of the Bank of England to extend its issues, was instantaneous.*

In four days after the suspension of the Act

* "Economy of Capital," page 109.

and the resolution of the Bank of England to extend its issues, the panic had ceased throughout the kingdom, though the effects of the public calamity remained long afterwards.

But for the suspension of the Act, which enlarged the power of the Bank of England and the other Banks, the trade of the whole country would have been suspended by a state of affairs approaching nearly to universal bankruptcy.

Many of the great firms, after sustaining enormous losses, paid in full, and resumed business. A large number of the other suspended firms proved to be in like manner perfectly solvent, and would, of course, have been saved if the relief had come in time.

A list of the great and wealthy firms, which suspended under that extraordinary pressure, and afterwards paid 20s. in the pound, with a large surplus, would be much too long for insertion here, nor would it be of any further use here than for showing what is so well exemplified in the child's trick, of the pack of cards so arranged as that the fall of one card brings down the whole pack. Thus, Messrs. Fernie Brothers and Co., whose suspension helped to bring down the Liverpool Borough Bank, were perfectly solvent, and paid all their liabilities, with 5 per cent. interest, amounting in all to £420,517. But solvency did not save them in the general loss of credit, and as they were thrown down by the fall of others, so others were thrown down by their fall, and amongst these, the Liverpool Borough Bank, which spread ruin through Liverpool, and that spread the ruin through every great commercial City of the kingdom. The magnitude and extent of the bankruptcies, and the bankruptcy expenses which swallowed up more than one-third of the assets, compose an item of charge against the Bank Act of such enormous amount that it ought never to be forgotten or forgiven by this country.

There is, to an unconcerned spectator, something whimsical in the fact that, the question of bankruptcy to solvent firms should be dependent on a change in the law of the land between half-past 2 o'clock and half-past 3 o'clock on the same day, for that was the simple fact which saved the firm of Peabody and Co. between those afternoon hours on the 12th of November, 1857; or, if not a change in the law, a suspension of the law, and that by the will of one man in Downing Street. It seems hard upon Saunderson and Co., Dennistoun and Co., Naylor and Co., and the many others in the same category that, the relief should not have come a few hours sooner to save them; and it seems not an unreasonable question to ask, why the fortunes of so many good and well-deserving men should be made dependent on the will of one man, in a country professing to be governed by laws administered equally to all. The firm of Peabody & Co. was so extremely wealthy that the property of the chief partner alone, was held by the Bank to furnish sufficient security for the enormous advance of nearly a million of money. The other great firms, equally solvent but less fortunate, were allowed to fall, victims sacrificed to the Bank Act.

Here was no want of capital, but only want of confidence—want of confidence in the means of the Bank of England to meet the requirements, those requirements being the bank-notes. There was plenty of loanable capital, but all the other banking establishments were dependent on the Bank of England for the money, and so the burden and profit of discounting was thrown upon that one Bank, and that was unequal to the occasion, by the restrictions imposed by the Bank Act, as was proved when those restrictions were relaxed. The Bank exacted 10 per cent. but its means were insufficient, being cut off from its available resources by the provisions of the Act. When the Act ceased to operate and the available resources were set free, these were hardly required, confidence being restored.

If those resources had been free from the first, the crisis might have been prevented, but certainly would have been prevented if the Bank had been provided with real and available capital equal to the requirements, nor would the requirements then have reached to the actual demands, for those were chiefly the demands of distrust, not of want. Distrust overspread the country. Traders then refused bills which, in ordinary times, they would have taken. More money was thus required, and a drain upon the Bank commenced. Many who saw the Bank's reserve declining, and who knew that the rate would soon be raised still higher, hastened to provide themselves with even more money than they required. The consequence was,—the Bank rate went up higher and prices fell down lower. The markets were so depressed that, merchants could sell their goods only at a sacrifice of 25 or 30 per cent., and in some cases 60 per cent. Failures multiplied. Falling firms brought down others, and with them their customers. Distrust became panic. Discount houses stopped discounting, and joint-stock banks stood still, waiting and watching the course of events.

The course of events was arrested by the suspension of the Act. But for that the Bank of England must have suspended payment, and nearly all the banking and commercial houses in the kingdom must have suspended payments inmoney.

For those consequences the Bank Act of 1844 would have been responsible, as it is responsible for all the losses which did occur, and those are estimated at 80 millions, besides lowering the prices of funded and other property 400 millions.

Here was no over-trading, nor unsuccessful trading, but large and prosperous trading with ample capitals. Here was no indiscretion, no want of ordinary foresight, no want of prudence, but simply the want of a law applicable to the circumstances. Now, a law to be efficient should be applicable to all the circumstances for which it was intended, and it could never have been intended that a law, affecting all the property in the kingdom, should continue in force only during the pleasure of one man, or set of men, called the Queen's Servants.

And yet this law, so often proved to be utterly inefficient for its intended purpose, is still maintained as a wise and good law, and the people are expected to be contented with it, and thankful for it! Verily, the British are a slow and patient and long-suffering people, whatever their rulers may be. And what are they? Emerson said:—"Chancellors and Boards of Trade, Pitt, Peel, and Robinson, and their Parliaments, and their whole generation adopted false principles, and went to their graves in the belief that they were enriching the country which they were impoverishing. They complimented each other on ruinous expedients. It is rare to find a merchant who knows when a crisis occurs in trade, why prices rise or fall, or who knows the mischief of paper-money. . . . What befals from the violence of financial crises, befals daily in the violence of artificial legislation."

The abundant evidence is conclusive of the fact that, on this occasion, as on former occasions, the public and private losses, to an amount so great as to be incalculable, are attributable to a deficiency of the circulating medium and to the insufficient capital of the Bank of England, which rendered it quite unequal to these emergencies, thereby paralysing trade, by destroying all confidence and credit in the country.

Experience has proved that capital put out on loan in the issue of bank-notes can never exceed the requirements of the community, for nobody would pay interest for money which he did not want, and no trader would pay for discounting his bill if he did not want the money before the bill became due.

The only object in the issue of bank-notes is to make the circulating medium, or legal tender money, equal to the requirements, thereby to preserve our measure of value from sinking below its true level.

Experience has demonstrated that the cause of all our money-panics is simply the fact of a temporary insufficiency in the amount of money for the requirements of the community, and that when the insufficiency is supplied the crisis is at an end. This has been fully shown by reference to facts now historical, and is exemplified by the commercial calamities of 1847 and 1857. In every crisis, when the Bank of England has reversed its policy and the principle of the Bank Act, by meeting the requirements of the community, the difficulty has ceased. It has not been found on these occasions that convertibility has been endangered by such temporary increase of issues. But it has been found that such issues of of notes actually stop the internal demand for gold.

This fact, as noticed by Mr. Patterson,* was exemplified in a remarkable manner in the American crisis of 1857, when the internal drain was owing to a contraction of discounts and note issues on the part of the banks. At the time of the crisis there was no external drain of gold,— on the contrary, specie was then flowing into the country. The drain of gold was internal only,

* "Economy of Capital," page 294.

and was chiefly, if not wholly, occasioned by the mistaken policy of the banks. The suspension of specie payments at New York occurred at a time "when the Exchanges throughout the world gave a profit on the transmission of specie to New York." As the New York Correspondent of the *Times* wrote, (November 2nd, 1857)—"The banks continued to contract, until a very considerable portion of the mercantile community in despair agreed among themselves to withdraw their deposits in specie if relief were not afforded. The relief was denied, and the withdrawal began. There could, of course, be but one end to this. The moment this game began, a suspension became inevitable."

The cause of the panic, as the *Times*, in its City Article, remarked (November 3rd, 1857), was that, "the banks, in their efforts to save themselves, had contracted their note-circulation far below the requirements of the country for its internal trade." The same journal, referring to the result, observed:—"The entire suspension of specie payments by the New York and Boston Banks is the most satisfactory announcement that could have been looked for. Had the step been taken a fortnight earlier, an immense amount of ruin might have been averted. The banks, after having by their mismanagement brought about the state of affairs which rendered the panic possible, sought to save themselves by the sacrifice of the whole mercantile community; but the public at last have taken the matter into their own hands, and forced them to a stoppage, which will place them in the same condition with their victims, and thus terminate the struggle. Its effect was instantaneous. Every one, it is said, seemed to feel that the ordinary channels of business would forthwith be restored, and from that moment the progress of recovery would commence. A postscript announces that everything was going on quietly, and that all excitement had passed away. This result was perfectly natural. The inconvertible paper of the banks would now circulate at a value in proportion to the discretion with which it might be issued; and supposing it to be kept within close limits, there is no reason that it should fall much, if at all, below par."*

Now, this is very valuable experience for showing that no *depreciation* of the currency follows from supplying the want of bank-notes when gold leaves the country, or is withdrawn from the bank.

But why should not the Bank of England act on this experience before the disastrous consequences have fallen upon the country and endangered the position of the Bank itself? No notes

* *Times*. City Article, October 27, 1857.

will go out unless there be a demand for them, and the extra demand fully maintains the value of the extra issue. When no longer wanted they will be returned, and to keep them longer in circulation will be impossible. The notes will always preserve their full value as long as the supply does not exceed the wants of the community. An extra issue of bank-notes, when there is an extra demand for them, only preserves the measure of value unchanged. It simply prevents prices from being lowered, and serves to maintain the ordinary value of money, upon which all contracts are made, nor does such an extension of discounts, to meet the requirements of the country, entail any difficulty or hardship on the Bank of England. On the contrary, it is a source of profit to the Bank. Every additional bill discounted is so much additional profit to the Bank.

But a natural expansion of the currency, regulated by the requirements of the community, is now forbidden by the Bank Act. The great extension of banking in these times, with the increased use of cheques and the "clearing-house" system, have happily enabled us to economise our currency, so that the real evil of our currency system is less felt than it otherwise would be, and the cause is less clearly seen. But the consequences are still most disastrous when an exceptional increase of the public requirements takes place, and the crisis occurs. The consequences are even the more disastrous from being unforeseen, and the exceptional increase of monetary requirements is always very sudden, as well as very brief. Yet brief as it is in time, it is fearfully extensive in its disastrous consequences to the country. When, from increase of trade and population 24 millions of Bank of England notes are permanently required for the wants of the community, as they soon must be, instead of 21 millions as at present, the ordinary rate of discount must be 9 and 10 per cent., rising to 15 and 20 per cent. whenever any little embarrassment occurs. The present state of things will then be no longer endurable. In the mean time our trade is suffering under the oppressive system, and it is endured, not because it is unfelt, but because it is not understood, and the remedy is unknown.

The limit of the excess of paper over bullion was fixed twenty years ago, in accordance with the supposed commercial necessities of the time. If the limit were correctly fixed at that time, the wants of a largely expanded trade and greatly increased population must be subjecting the community to a needless pressure at the present time.

This conclusion is denied by the advocates of the Bank Act, and it is not easy to *prove* that they are wrong in such denial. But the very argument which they use, if it prove anything, proves too much; for it goes to show that the limit of the excess of paper over bullion was fixed too high twenty years ago, and proves still further, that any excess of paper over bullion is unnecessary and inexpedient. Their argument is that, by the working of the Bank Act, whatever additional amount of bullion may at any time be required for an enlarged currency, to meet the increasing wants of an enlarged population and expanded trade, is brought into the country.

If that be so, it seems to be conclusive in favor of a metallic currency only.

But Mr. Ricardo expressed a contrary opinion when he said that:—"The advantage of a paper circulation, when established on correct principles, is, that this additional quantity can be supplied without occasioning any variation in the value of the whole currency, either as compared with bullion or any other commodity; whereas, with a system of metallic currency, the quantity cannot be so readily supplied."

Our friend, "of Westmeath," refers to this opinion of Mr. Ricardo, but, "after due consideration of the whole of this part of the question, comes to the conclusion that, the subjecting the country to the process described, under the Act, to procure bullion for an enlarged circulation, really is essential for the constant preservation of the currency in a sound state ; and that in no other way can the public maintain an effectual check against the depreciation that might otherwise be caused by a multiplicity of bubble speculations. It does not seem possible that the managers of any bank, even one so admirably conducted as the Bank of England, should know at once whether the advances that may at any time be demanded from them, are for mere bubble speculations, or for such a *boná fide* permanent extension of commerce as would justify any increase of the notes unrepresented by bullion. A real augmentation of *sound* trade, in other words, an increased production of *commodities saleable in the markets of the world*, will, of itself, draw an additional quantity of bullion into the country, without subjecting it to any inconvenient pressure. Its capability of bringing gold into the country, is the only test by which its soundness can be proved. The real effect of the Act of 1844 in these circumstances is, that the first increase of exports is paid for in bullion instead of commodities, but that no extension of paper circulation is allowed on the credit of such articles as *will not draw gold into the country*, or, in other words, *have no exchangeable value in the markets* *of the world.* Thus it is that the currency is prevented from being unduly efflated by bubble speculations."*

This somewhat lengthy extract is given in full, from the concluding part of our friend's pamphlet, as containing the pith of the whole. This may serve as a specimen of the sort of reasoning used by the advocates of the Act in its support; and this is one of the best specimens, being from a First Class Man of his day at Cambridge.

Now, the meaning of all this is, that nothing can justify any increase of the notes unrepresented by bullion, unless for a bonâ fide extension of commerce; and that the Bank of England,—admirably conducted as it is,—cannot possibly know beforehand whether the advances, that may at any time be demanded from it, are for mere bubble speculations, or for such a bonâ fide permanent extension of commerce, as would justify any increase of the notes unrepresented by bullion; therefore, any increase of such notes is inexpedient and unjustifiable.

Everything that is inexpedient is unjustifiable, and everything that is unjustifiable is inexpedient. But, in this case, the inexpedency is not in the increase of such notes, but in the use of them

* "The Currency Question, and The Bank Charter Committees." By an M.P. Page 54.

"for mere bubble speculations," and as the use which will be made of such notes cannot be foreknown, *therefore*, to issue any such notes is inexpedient and unjustifiable.

To follow out this curious reasoning, let this strange conclusion be for a moment assumed. The question of balance between the good and the evil still remains to be determined. If the balance turn in favor of the good, that is just the amount of the loss. And this seems to be the question with everything in this world. There is nothing in this world which may not be used for evil; *therefore*, every good thing in this world must be rejected, and we must be content to put up with the evil only.

In this case, of course, it is assumed that the balance would be in favor of the evil, and against the good.

But that is the whole question, and that is too much to assume on mere assertion, without proof, for none has been attempted. Nor is this a question open to proof. When a man has got a bottle of brandy before him, it is admitted that, if he drink off the whole at once he will be *dead drunk*. But it is too much to assume that he will drink off the whole at once, or even enough to make him drunk. He may take only just enough to do him good. Now, it seems hard on those who would take only just enough to do them good, to tell them that they shall have none, because there are some who would take enough to make themselves *dead drunk*. If the *majority* were likely to do so, there might be some show of reason for prohibiting the use of brandy altogether. But, at least, that should be first shown to be likely.

But what is the loss to the country from "bubble speculations," in comparison with the loss from "money-panics"?

Let those who will assume the "bubble speculation" theory, or the "over trading" theory,—let them assume it to any extent they please, and what do they gain by the assumption?

If the money be expended in the country, what is the loss to the country, but the loss of the profit on a successful speculation?

The loss is just *that* and no other.

If the money be sent out of the country, the loss may be *that*, and the whole capital. Nothing more.

But if the money be expended in the country or out of the country on a successful speculation, resting partly on the sound foundation of capital and partly on the credit of good bills, and if that credit cannot be redeemed by discounting those bills, for want of the bank-notes, the speculation then becomes unsuccessful; the trader thereby becomes a bankrupt, and others, whose credit was dependent on his, and who, like him, were engaged in equally good speculations, thereby also become bankrupts, and they in like manner make others bankrupts, and so bankruptcy spreads over the country from one end to the other, as in 1847 and 1857, and at many other times;—then the loss to the country is not only on those successful speculations so made unsuccessful, but the trade of the country, inland and foreign, is sensibly diminished, if not, as it often is, for a time suspended, and the whole property of the kingdom is reduced in value. The loss to the country is then in millions.

This is not reasoning from theory, but from experience, and these are the facts.

The Member for Westmeath, and all those who support the present Bank Act, must meet these facts with something more than theories resting on their own unsupported opinions.

The truth must be told, and the truth is that, the Capitalists and the Bank of England are very well satisfied with things as they are. They desire no change, and they will allow no change to be made, if they can help it. They look to their own profit only, and are utterly regardless on whom the loss falls, if not on them. The

Bank of England will take upon itself no loss at all. It will not even provide itself with the gold necessary for carrying on its own business. The loss which itself should bear it throws wholly upon the community.

Instead of selling its stock and curtailing its business, it makes the mercantile community sell not only *their* stock but *their* goods also, and curtail *their* business. Instead of buying gold at the fair market-price, it lowers the market-price of bills, and then buys them at the depreciated price, *i.e.* below their fair value. The Bank throws the cost of replenishing its stock of gold upon the community, and makes this losing transaction to the community a source of additional profit to itself. By charging very high rates of discount, it not only causes gold to be brought into the country at the expense of the mercantile community, in purchases of their artificially depreciated goods, for the benefit of the capitalists, but, by the same process, makes an addition to its ordinary profits, by wringing an extra profit out of the traders in the form of discounts.

So, the Bank of England, though it works under and keeps strictly within the Act of 1844, does not carry out the principle of the Act. The Bank of England does not take upon itself, as it was intended and expected to do, the cost of its own business, but shifts the cost on to the shoulders of the community, and besides shirking the loss, makes an actual profit out of the loss.

Such being the facts of the case, it is not surprising that the Bank Directors are unanimously in favor of the Bank Act of 1844. It shields them from personal responsibility, and yet leaves them wide limits for the exercise of their arbitrary discretion. It makes no regulations as to the rate of discount, but directs a contraction of the currency under certain circumstances, and that direction they disregard by pursuing a directly opposite course, thereby doubling the charge to the community, and the profit to the Bank.

It enables them to charge 8 per cent. when formerly, under the same circumstances, they used to charge only 4 per cent. They say, —'The Bank Act of 1844 compels us to keep on hand this large stock of gold for the protection of the commercial community, and, therefore, the commercial community must pay for it.' And so they answer all complaints by an appeal to the Bank Act. In this they are quite right, but they are not the party to appeal to for the reform of the Bank Act.*

The Bank Directors are excellent witnesses for facts on the trial of the Bank Act when the

* "Economy of Capital," page 305.

criminal charges are brought against it; but they are not exactly the right persons to sit in judgment on the trial, or to pronounce the verdict of guilty or not guilty. That question can be properly answered only by the People, and on that question the People may very properly be the Judges and the Jury.

The real question in this case is one of *credit*, and commerce can no more go on without credit than banking can.

But in times of crisis commerce is the first to suffer, and the pressure upon the Bank of England is rapidly communicated to all the other banks.

If, at the commencement of such times, the Bank of England were in a situation to afford the required relief, confidence and credit might remain unshaken, and then the amount of relief required would be comparatively small.

All experience has shown how very small is the relief required if rendered in due time, and how disastrous are the consequences when the want of that relief begets distrust and loss of credit. Then, any amount of gold, if uncoined, would not avert the disastrous consequences.

With the power of free action in the Bank of England, the possession of a strong reserve of notes and real capital to command the gold, distrust and loss of credit never could arise.

It is not more gold that the Bank of England is in need of, but more notes and real capital. These will bring more credit, and by credit only can capital be economised. A large stock of gold now lies useless in the Bank vaults, withdrawn from all banking purposes, and useless for all other purposes. As already shown, this is a loss of seven millions of specie to the Banking Department, and, instead of constituting the strength of the Bank, is its weakness.

This is the fatal error of the Bank Charter Act of 1844. How easily this Act may be amended and made available for all the desired objects, as far as these can be attained by human means, has also been here shown, or, at least, attempted to be shown.

But, as long as human folly finds place in this world, no human arrangements can be so made as to keep out all evil consequences,—these being, fortunately for mankind, always and inevitably in some proportion to the folly.

It is not pretended that the changes here proposed will prevent or relieve all the consequences of human folly, and more, it is not desired. The most that is proposed is, to prevent, as far as possible,—and, at best, that cannot be very far,—the rash and reckless gamblers from involving in their ruin the prudent and industrious traders; and to reduce, as far as possible, the risks of legitimate commerce, by the establishment of a National Bank, which shall be open and accessible at all times to the legitimate traders on known and easy terms, and be a safe and sure resource for them in their time of need from unforeseen and extraordinary circumstances, on terms known to them beforehand, and on which, therefore, they may safely calculate. That rash and dishonest speculators will often intrude and force their way in to the detriment of the honest traders is equally certain. But that is an unavoidable evil, and all human arrangements being subject to unavoidable evils, that cannot be brought forward as a special objection in this case. The whole question depends on the turn of the balance to good or evil, and if the good preponderate the question is answered.

It may be true that, there is "an innate principle of humanity, which prompts men to ascribe to any but the true cause misfortunes arising either from their own improvidence or from the unavoidable vicissitudes of their calling."

It may be,—as the Member for Westmeath says,—"this accounts for more than the due share of abuse which the Bank Act of 1844 has come in for." *

* "The Currency Question, And The Bank Charter Committees." By An M.P., page 51.

But, whether so or not, it is by no means pretended that the proposed reform will prevent misfortunes arising from improvidence, or from the unavoidable vicissitudes to which traders are subject.

Sydney Smith, speaking of the Reform Bill, said:—"All young ladies will imagine, as soon as the Bill is carried, they will instantly be married; school-boys think that gerunds and supines will instantly be abolished, and that currant tarts must instantly come down in price; the corporal and sergeant are sure of double-pay. . . . Fools will be disappointed, as they always are."

It is submitted that, a case is shown for bringing the Bank Charter Acts of 1844–45 under the revision of the Government with a view to their amendment, and that, as well for impressing the Government with the urgent necessity of the case, as for imparting strength and confidence to the Government in such proceeding, the best course to be pursued by the country would be, for the members of the leading firms in all the great manufacturing and commercial cities and towns in the kingdom to form themselves into associations in their several localities, for the purpose of petitioning Parliament to amend the existing Bank Charter Acts on the principles here laid down, thereby enlarging the issue of credit notes and confining the issue to the Bank of England, at the same time fixing the *maximum* of the bank-rate of discount at 4 per cent.

There is in the commercial community of this country a feeling of indifference, arising from a sense of hopelessness of any useful result from further inquiry. This feeling cannot be a matter of surprise to those who know how past inquiries by Select Committees of the Lords and Commons have been conducted, and how they have ended. It is, indeed, almost hopeless to expect that, any useful result will ever be arrived at by such means.

The personal influence of the great Bankers and Capitalists will always prevail over the greater numbers of the manufacturers, merchants, and commercial community in general in this country, so long as the present inequality of representation in Parliament continues, and the Government is unable or unwilling to take upon itself the responsibility of determining this question on the ground of public interests.

It must be assumed that, all parties are sincere in the opinions they express for and against the existing system. Some think that it works very much for them; others are equally certain that it works very much against them. Neither party has taken much trouble to study the subject, and both parties are equally ill-informed about it; the fact being that, the present system is altogether wrong in principle, and is really working to the very great injury of the country at large, but the injury is more evident to the traders with small capitals than to the traders with large capitals, because the former more frequently than the latter, and both of them not unfrequently, but often unexpectedly, find themselves bankrupts. Very often they do not exactly know how this has been brought about, and, therefore, they do not know how to guard against it. The small capitalists know that they have been carrying on their trade in their customary way, and the large capitalists know that they have been speculating on their usual calculations. They all know that they possessed property which, in ordinary times, would have enabled them to meet all their liabilities.

They know that they are ruined.

They do not know how or why.

They do not know that they are ruined by the Bank of England.

But that is the question.

Now, it must be quite useless to put this question to the Directors of the Bank of England, or to the Proprietors of Bank of England stock, or to the great capitalists, or to the money-jobbers who are making their strokes of fortune out of the general distress.

But who, after the experience of the years 1847, 1857, and 1866, will deny that this is the truth?

And who are the competent parties to answer this question?

In all the great commercial cities and towns of the kingdom, how many commercial men are to be found who can honestly say, they have read, from beginning to end, the Act 7 and 8 Vict. cap. 32, commonly called the Bank Charter Act of 1844?

Even in Liverpool, next to the metropolis, the largest and wealthiest, and, without exception, the dirtiest, unhealthiest, and, judging from its destitute and depraved lower population, the most neglected of all the cities and towns of the kingdom,—are there a dozen commercial men who have taken the trouble to read the Bank Act, or those voluminous folio Blue Books, which give the result of the various Parliamentary Inquiries into the effect of that Act upon the Currency and Trade and Industry of the country?*

* "Liverpool is the most unhealthy town in England, losing 33 per 1000 of its population annually, while London loses only 23. In the first week of Nov. 1865, the mortality of Liverpool was 40 in 1000, and the deaths exceeded the births by 85.—The *Lancet*, 18th November, 1865."

"The Liverpool magistrates were discussing the relative sobriety of Manchester and Liverpool yesterday, and from

Are there a dozen commercial men in any city or town of the kingdom who can truly say, they have taken even this preliminary trouble for qualifying themselves to form an opinion, worth anything, on this most important question?

Is there one member of the present, the late, or any past Government of this country, who really believes he understands this question?

They may not, as a Government, like to make the admission, but, probably, each individual member will candidly admit that, *he does not.*

In this way only can the attempt of the late Chancellor of the Exchequer be accounted for, when he brought in a Bill to prolong the evil of private banks of issue, and declared his intention to repeat that attempt in the present session.

The great number of irrelevant questions which Mr. Gladstone, as a member of the last Select Committee of Inquiry, put to the witnesses, and the important questions which he omitted to put, furnish strong ground for the inference that he has not given much consideration to this question.

No one who understands this question, can

the statistics laid before them it would appear that Manchester is a paradise of morality compared to its western competitor. The figures showed that Manchester, in 1864, with 1,884 beer-houses, had 3,587 convictions for drunkenness, whilst in Liverpool, with 1,001 beer-houses, the convictions amounted to 14,002."—*Pall Mall Gazette,* 28th Dec. 1865.

look with confidence to a Government which supports the "*Overstone theory*," upon which the present Bank Act is founded.

This is a question of principle, to be determined by experience.

One person's opinion may be as good as another's on an abstract question, but the opinion which is confirmed by experience is entitled to the most attention, and he who finds his opinion confirmed by universal experience, without a single exceptional or inconsistent fact, is entitled to say that, he is right, and that all who differ with him are wrong. In this there is no presumption, for on this foundation alone the whole Newtonian system stands, and will continue to stand, until the exceptional or inconsistent fact be found.

If the members of the Government, the manufacturers, Merchants, Bankers, and Shop-keepers, have not taken the trouble necessary for understanding this question, is it likely that the Lawyers and Country Gentlemen in the House of Commons are better qualified?

What, then, can be the use of any more Select Committees to inquire into this question?

What has been the result of all these Committees of the Lords and Commons, but voluminous folio Blue Books, which very few persons have even looked into, and, perhaps, not a dozen persons in the whole kingdom have read through from beginning to end? These last, if there be any such, can alone be qualified to say how wearisome is the waste of time and trouble.

Without meaning anything in disparagement of the witnesses who have given their evidence on this question, but, on the contrary, admitting that their evidence has been, to a certain extent, useful, yet, the result of all these Parliamentary Inquiries has, certainly, been anything but satisfactory.

As already shown, (page 95) of the seventeen witnesses examined before the Committee of the House of Commons in 1848, thirteen condemned the Act, and four supported it. Among its four supporters were three Directors of the Bank of England, and Mr. Samuel Jones Loyd, the Banker. Among those who condemned it were the late Mr. Samuel Gurney, the largest money-dealer in Europe; Mr. George Carr Glyn, the eminent London Banker; Mr. Bates, of the House of Baring, Brothers, and Co.; and Mr. Birbeck, the recognized representative of the Country Bankers of England. At that time Lord Ashburton, (formerly Mr. Alexander Baring) a distinguished financial authority, gave it as his opinion that, the Bank Charter Act of 1844 "*was a great experiment which had signally failed.*"

Of the eleven witnesses examined before the Committee of the House of Commons in 1857, six condemned the Act, four partially approved of it, and one wholly supported it, that one being Mr. Samuel Jones Loyd, the Banker, then Lord Overstone. The four partial approvers were Bank Directors. The one whole supporter was the framer of the Bill, or, at least, its recognized chief advocate. Those who condemned it were, —1. Mr. David Barclay Chapman, (Partner of the Mr. Samuel Gurney, the largest money-dealer in Europe,) who had been in the house of Overend, Gurney, and Co., "altogether rather more than forty years." 2. Mr. William Newmarch, who had been 'associated with Mr. Tooke in the preparation of the latest volumes of his work on Prices,' who had also 'turned his attention to the principles and theory of currency and banking, and had particularly considered the effect of the Bank Act of 1844,' which his great master and teacher had declared to be "*the most wanton, ill-advised, pedantic, rash pieces of legislation,*" which he had ever known, and in its consequences, had proved a most lamentable failure. 3. Mr. John Stuart Mill, now M.P. for Westminster, who "had considered the provisions and operations of the Bank Act of 1844, as much as any person can do who has no practical acquaintance with commercial business, and knows only at second hand facts which are known at first hand by those concerned in business":—4. Mr. Nathaniel Alexander, the head of the firm of Alexander and Co., India merchants, who had "narrowly watched the operation of the Bank of England upon trade, as all merchants ought to do:" —5. Mr. John Twells, a partner in the house of Spooner, Attwoods and Co., and who had been a banker upwards of 50 years, the substance of whose evidence may be given in the following question and answer:—"4488. How do you think that the Act of 1844 has operated?—If I were to answer you as a banker, I should say that, it has operated exceedingly well, for it has afforded a rich harvest to bankers and capitalists of all kinds. But it has operated very badly to the honest industrious tradesman who requires steadiness in the rate of discount, that he may be enabled to make his arrangements with confidence; it must distress that class very much indeed. For large capitalists and bankers it is evident (there is no occasion to disguise the thing), that, it has operated extremely well; it has made money lending a most profitable pursuit for them:"—6. And lastly, Mr. Edward Capps, ('engaged extensively in the building trade for 30 years past') whose evidence goes to prove that the existing Bank Act operates very injuriously to credit.

After all these Parliamentary Inquiries, with picked witnesses, and the great weight of their evidence against the existing Bank Acts, these Acts still continue to regulate the money and commercial credit of the country!

Can it surprise any one, acquainted with these facts, that, the commercial community in general now takes little interest in these Parliamentary Inquiries?

Why should not the members of the Government take upon themselves the trouble of making up their own minds, and then take upon themselve the responsibility of bringing into Parliament a Bill for the settlement of this question; or, take upon themselves the responsibility of openly declaring that, they are satisfied with the law as it stands?

This was the course taken by the Government, when Sir Robert Peel brought into Parliament in 1819, his Bill for resuming cash payments, and in 1844 his Bank Bill.

On both these occasions the Government took upon itself the whole responsibility.

If the Government want further information, why not seek it from those who are willing to give it, and who, from their position and pursuits, may be supposed qualified to give it, instead of throwing the responsibility upon a Parliamentary Committee, a course of proceeding, in every case, an admission of ignorance and weakness, and if in some cases excusable, in this case no longer excusable, being only an idle repetition of a useless and evasive form.

No inquiry into the operation of the Bank Charter Act would add anything material to our knowledge of the facts of the case. Experience is useful for facts, but we have now had the experience of twenty-two years, and we have had all the benefit we ever shall have from special inquiry by Select Committees of the Lords and Commons, but the experience of Bankers, Merchants, and Shop-keepers, will no more qualify them for discovering the principles of Banking and Currency, than gazing up into the heavens all their lives will fit them for calculating eclipses.

It is the exact reasoning and the correct conclusion which make the facts of any use, and, on a question of this extensive nature, individual experience must be very narrow, and open to the influence of many prejudices. Facts, carefully ascertained, are of great value in this inquiry, but it by no means follows that, the most experienced are, therefore, the most competent to draw correct conclusions. The unpractical, with all the facts before them, may be more competent, being less liable to be influenced by the narrow views of individual experience.

These remarks are not intended to disparage the wisdom of experience, but to guard against the common error of confining wisdom to individual experience.

The Writer of these remarks has had, personally, no experience in Banking or Bills, and though occasionally drawing bills on others, he has never in his life accepted a bill. But he has endeavoured to avail himself of the experience of others in regard to facts, and on facts carefully ascertained, to exercise his own unprejudiced judgment.

It will not be out of place here to make a few further remarks on Mr. Göschen's Essay on "Foreign Exchanges," a work which appears to have attracted much attention, being in the Fifth Edition.

But, though professing to explain the causes of the fluctuations in the price of money in different countries in relation to each other, he does not pretend to draw consequences, and the consequences constitute the whole value of the inquiry.

What possible use can there be in explaining the causes of these fluctuations but with a view to preventing them?

If that were really Mr. Göschen's object, certainly he has done little or nothing towards it. But, more probably, his object was indirectly to support the Bank Charter Act of 1844.

In Mr. Göschen's explanation of Foreign Exchanges there is nothing new. The explanation was given many years ago by M. Isaac Pereire, and, in his recently published work, already referred to, entitled, "Principes de la Constitution Des Banques, et de l'Organisation Du Crédit," the substance of all Mr. Göschen's explanation is given in Chapter VI. "Théorie du Change et du commerce des métaux précieux." The only difference between M. Isaac Pereire and Mr. Göschen is that, the one draws the consequences and the other does not.

These consequences are so important to the Bank Question that an English translation of Chapter VI from M. Isaac Pereire's book is given in the Appendix. In no other book in any language is the subject to be found treated in this clear and comprehensive manner, and the reader who follows the explanation cannot fail to see that the only value of the explanation is in correctly deducing and applying the consequences.

And, after all that can be said, what are Foreign Exchanges, but necessarily imperfect contrivances for correcting the inequalities and preserving something like an equilibrium in the value of money between the different countries, rendered necessary by the want of a systematic and uniform principle of action between England and France, the two countries in Europe whence the chief supplies of capital are drawn?

It is undoubtedly true, as Mr. Göschen says, that, the Foreign Exchanges are an index to the fluctuations in the price of money, but it is equally true, as he also shows, that, this is no index to the state of indebtedness between one country and another, and this is *the* important fact to be known for future guidance.

Mr. Göschen must know, and indeed, he admits that, to explain all the causes which influence Foreign Exchanges is impossible.

Many will continue to think, after reading his Essay that, to explain some of the causes and to leave others unexplained, can hardly be attended with much practical benefit. But this is all that Mr. Göschen purports to do by his Essay on Foreign Exchanges. He does not pretend that, he has thrown any new light on the subject, or that any new light was wanting.

The only conclusion is that, he wrote his Essay for another object, and that was as a Director of the Bank of England, and an advocate for the existing system.

If such were Mr. Göschen's design it is well executed, and his disguise is well preserved to the last page but two of his book.

On page 145 [5th Edition] the disguise is thrown off, and the true design is exposed in the following paragraph :—

"The rapid rise of the price of bills on any country as soon as any advance in the general rate of interest obtainable there takes place, is caused by the competition for the most ready and most convenient vehicle for the transmission of capital, the competition itself being the result of a high rate of interest. A fall of the rate will cause a corresponding fall in the prices of bills, and, acting as it does with invariable force, and being succeeded by invariable results, it is clear that there is no corrective of a drain of gold, and all its attendant consequences, more powerful and effectual than a rapid advance in the rates of discount. It is the only mode by which that which is on the point of being lost may be retained, or that which is actually gone may be replaced; and its natural effect is, not to produce a scarcity of money, of which it can never be the cause, though often the consequence, but to remedy and correct this scarcity by offering a premium to the rest of the world to send their capital or money to the dearest markets."

This is the reasoning of the Bank Director,—the reasoning on which the Bank Directors act; and this is quite consistent with what the same writer had said before in another place. That saying, already given, (page 312) it may be convenient here to reproduce :—

"Notwithstanding the events of the past year (1864) and the *temporary* pressure which England has suffered under the new competition for loanable capital, we are disposed to believe that no country will in the end reap greater advantages from it than England herself, who of all countries has the greatest capital at command."

That was the opinion of Mr. Göschen as a a Bank Director, when writing in the Edinburgh Review, in January, 1865, in reference to the Bank rate of discount, which was upwards of "Seven Per Cent," on the average of the whole of the year 1864.

Without discussing with Mr. Göschen in regard to his belief that, "no country will in the end reap greater advantages from it [the pressure] than England herself,"—still, he will admit that, it would have been better for England, if not for the Bank of England, (to say nothing of the long list of names in the London Gazette through that pressure) if the advantages could have been reaped at the average pressure of between 3 and 4 per cent., instead of between 7 and 8 per cent. for the year.

Now, with all respect for the ability and experience of Mr. Göschen, the real and only practical question in this controversy is, whether or not the lower average might have been maintained, if the Bank of England had been constituted as proposed in these pages.

To prove the affirmative is the present object, and Mr. Göschen would render a real service if he would use his ability and "ten years' experience" to show, if he can, that, the reasoning here advanced is unsound and the conclusion arrived at is erroneous, or his good sense and candor by the admission that, the reasoning is sound and the conclusion correct.

Mr. Göschen can hardly come to any other than this last conclusion if he will give his careful attention to Chapter VI. in the work of M. Isaac Pereire before referred to and to the evidence of MM. Isaac and Émile Pereire before the French Commission of Inquiry into the Bank of France both given in English in the Appendix.

As the experience of these two distinguished French Financiers and Political Economists exceeds, in number of years, four times the experience of Mr. Göschen, it will be no disparagement to him if he yield to their reasoning and concur in their conviction, and then his present eminent position may enable him to confer a service on his country, which will connect his name in history with one of the most beneficial changes ever made for the trade and industry not only of this country, but of the whole civilised world.*

Nor is it said with the smallest intention to disparage Mr. Göschen's book on "Foreign Exchanges," that Chapter VI. in M. Isaac Pereire's work referred to, together with the Evidence of himself and his Brother, M. Émile Pereire, give in a few pages, not only all the information on Foreign Exchanges to be found in Mr. Göschen's book and much more, but give also the conclusions and the application, which are the only practical utility, and which are wholly wanting in Mr. Göschen's book.

But, after all that can be said about Foreign Exchanges, what are they, but complicated and imperfect attempts for the settlement of accounts between nations, which have different monies of different values, and no uniformity of principle or practice in their dealings with each other.

The Foreign Exchanges are for correcting these differences and sustaining Credit. And

* Mr. Göschen was then a Cabinet Minister, under Earl Russell's Government.

what does the whole resolve itself into, but a question of Credit, or carrying on, by artificial means, a universal system for the convenient interchange of mutual services among the different nations of the world; and who can doubt that, this beneficent design is intended to be, and must, ultimately be accomplished?

It is not within the scope of this work to enter into the great question of human government; but, in so far as it touches upon the question of the Organisation of Credit, it may not be out of place here to give a faint outline of what appears to be some of the few and certain natural laws for carrying out the beneficent design of Providence for the universal welfare of mankind.

This cannot be called a new or startling theory, being nothing more that the practical application of a few of the simple truths declared by Adam Smith, in his 'Wealth of Nations,' a hundred years ago.

These simple truths, in practice, would constitute a uniform and self-regulating system, applicable to all nations, for the benefit of all people, under all circumstances, and for all time.

On the differences in the denomination and value of the monies of different nations, it is useless to dwell, as it is already well understood that this difficulty can be easily removed by the adoption of a decimal coinage by all the nations, and to that they are slowly coming.

For the more difficult part of the subject, connected with the Organisation of Credit, the following are a few of the principal truths in Political Economy, which must be here shortly noticed, as the foundation of the Wealth of Nations:—

1. That Industry and Commerce constitute the wealth of nations.

2. That all Taxes, however collected, come ultimately out of the Land.

3. That to tax the laborer in his own labor, before he has realised the profit of his labor, is as impolitic as it is unjust.

4. That the whole of the present revenue of the United Kingdom might be easily raised by a single tax of 10 per cent. on the *annual value* of all the realised property of the kingdom, as defined.

5. That with this single Tax, all Customs and Excise duties, Probate, Legacy and Succession duties and all other Stamp duties (except Postage-Stamps), Income tax, Land and Assessed taxes, and all other State taxes and duties might be safely abolished.

6. That the increase of *realised* property would be so great, from the increase of trade and ge-

neral prosperity, and the annual savings would be so immense from the diminished cost of collection and the diminished loss from fraud and waste, that within, probably, five years, the whole revenue might be raised by the single Property tax of 5 per cent., and any larger revenue which could be reasonably required would be easily raised by a small additional per centage.

7. That the expenses of the State would thus be paid *directly* out of the realised property of the kingdom by one single Property tax, instead of being paid *indirectly* by a multitude of costly and vexatious impositions.

8. That, in addition to this tax on property, a small rateable tax would be paid by all Householders in proportion to the annual value of the Houses, with a rateable proportion on all Lodgers, for the protection afforded by the State to the persons. The protection being to all, this tax should be payable by all, in rateable proportion.

This would be in the nature of a Capitation tax, but fixed upon the House for the convenience of collection.

Vagrants, who lived in no houses and possessed no taxable property, would escape all taxes.

Workers of all classes, who lived on their wages or gains and saved nothing, or who invested their savings in nothing coming within the definition of *realised* property, would pay no tax on property. They would pay only the House tax for the protection of their persons. But that would be no loss to the State, or to the other tax-payers in the end; for, in those exceptional cases, the payments would be only postponed.*

These principles, if true, must be equally applicable to France as to England, and in practice the results must be equally beneficial to all countries.

But these principles, carried out by the willing co-operation of England and France, must effect the same change in all the civilised nations of the world.

The example of England and France, acting together in harmonious concert, with the Ports of the two kingdoms open and free to all the world, would operate with a force that would be irresistible.

Human Governments, under whatever form, would then be brought down much nearer to the level of the interests of the governed. With the freedom of trade, the freedom of the People

* See these views fully set forth in the 'People's Blue Book' (3rd Edition), with all the necessary facts and figures, taken from the Government accounts, for proof of the conclusions here only shortly referred to.

would be in a much fairer proportion, and every man who contributed in proportion to his means, his equal share of services to the State, would soon find his claim to an equal voice in the election of the Representatives of the People in the Council of the State, universally acknowledged. It will then soon be seen and universally acknowledged that, on no other foundation than this can human government, under whatever form, be a permanent and peaceable institution. The time must come when all human governments must be conducted on just principles for the equal benefit of all.

In the history of the world there is no example of any nation governed on these principles. But the time, if not actually arrived, is not distant when this experiment must be tried, and it will be best tried in calm deliberation by England and France, the two most enlightened and most powerful nations of the world. The friendly co-operation of these two great nations is all that is required for the complete success of the experiment. All other civilised nations must follow their example, and the freedom of the People will then be the test of civilisation throughout the world.

If all the works of private enterprise in England and France were free from the intrusion of the tax-gatherer, if all the obstacles of trade and industry were removed, and these sources of wealth were undisturbed and undiminished, if the wages of labor, the profits of agriculture and trade, the gains of professions and private enterprises of all descriptions were untouched, until invested in *realised* and tangible property under the special cognizance and protection of the State, and if, in addition to all this, the monopoly of the Bank of England and the Bank of France were limited, and money were made cheap by fixing the *maximum* Bank rate of discount at 4 per cent., the results would be the best evidence of the success of the experiment, and Governments would find their best security in the gratitude of a free, happy, and contented people. This is no "vain theory presented in a seductive garb," but it is a grand truth, which Governments have yet to learn.

Capital would then increase at a greatly accelerated rate, and with the increase of commerce the demand for labour would increase, and wages would rise, in addition to the rise in the money value or purchaseable power of the money, which could not be less than 30 per cent. All property would increase in value. Those who would pay the property-tax would pay much less than they do now, and the People, prosperous, contented, and happy, would then be the strength, as they are the wealth of the nation.

In the midst of this general prosperity, the freedom of the People, by the concession of Manhood Suffrage and the division of the country into Electoral Districts would then appear but as a very small fact, and would be so little thought of, that the demand of the small fee of sixpence from each Voter, for registering his vote and defraying the necessary expenses, would, probably, reduce the number of votes below the present amount.

The Electoral Districts might be easily arranged so as to give the largest number of Constituents to the largest manufacturing and commercial Cities and Towns, and the largest number of Representatives to the Counties, with the trifling addition of two members, by increasing the present number of 658 members to 660,—thus:—

PRESENT NUMBER OF MEMBERS.

England.—	County Members . . .	146	
	Isle of Wight	1	
	Universities	4	
	Cities, Boroughs, and Cinque Ports	320	
		——	471

England—Brought Forward		471
Wales.—County Members . . .	15	
Borough	14	
		29
Scotland.—County Members . . .	30	
Cities and Boroughs . .	23	
		53
Ireland.—County Members . . .	64	
University	2	
Cities and Boroughs . .	39	
		105
Total Members .		658

PROPOSED NUMBER OF MEMBERS.

England.—County Members . . .	225	
Wales ,, ,, . . .	20	
Scotland ,, ,, . . .	40	
Ireland ,, ,, . . .	65	
County Members .		350
England.—Cities, Boroughs, and Cinque Ports	230	
Wales.—Boroughs	10	
Scotland ,, ...	25	
Ireland ,, ...	35	
Cities, Boroughs, and Cinque Ports		300
England.—Universities	5	
Wales.—University	1	
Scotland.—Universities	2	
Ireland.—Universities	2	
Universities .		10
Total Members .		660

Neither justice nor policy requires that the number of the Representatives should be adjusted to the number of the represented. With Manhood Suffrage, the adjustment should be rather the other way. The majority of the Representatives should be with the permanent interests of the Land, thereby preserving the preponderating influence in the Counties, rather than in the Cities, Towns and Boroughs.

In this way the rights and interests of all classes would be recognised and respected. The right of the People to a voice in the great Council of the State would be acknowledged, but the preponderating influence would be preserved in the higher classes, who are the most highly educated, and who have the largest stake in the permanent property of the country.

It could hardly be thought unsafe to give the right of voting to the Artisans and Laborers in the Cities and Boroughs, supposed to be under the Commercial influence, if the majority of the Representatives were returned by the Counties, supposed to be under the Landed influence.

According to the proposed distribution, there would be a majority of sixty members of the most highly educated class, out of the whole number of 660.

Now, assuming, as it is asserted, that a popular member has to perform the double function of advocate and judge, and assuming the inconsistent and monstrous hypothesis that, as the deputy of the People, instead of the representative of their true interests, he sacrifices the higher duty of the judge for the lower duty of the advocate, still there is a sure and safe majority of SIXTY for the Land-owners.

The great mistake in considering the Franchise question is, in supposing that representation should be in proportion to population. Numbers have really very little to do with this question, in comparison with the interests at stake, and the classes to which those interests are confided.

Numbers dispersed in small masses have the same claim to representation as numbers congregated in large masses. Many small towns, in the aggregate, such as Arundel, Honiton, Thetford, Calne, and others, are equal to one large town, such as Liverpool, Manchester, Birmingham, or Leeds, and others; and many small rural districts, in the aggregate, are equal to Yorkshire. There is no reason why dense masses should monopolise representation, nor why dispersed masses should not be represented. There is no reason why the right of voting should be refused to a class which pays, as Mr. Gladstone lately said at Liverpool, and afterwards repeated in the House of Commons, "not less than one-third, and probably a great deal more than one-third of the whole revenue," though individually their only property be the wages of their daily labour, nor to an individual, of any class, of full age, out of prison, and not out of his senses.

It is a monstrous doctrine that, a population *concentrated* ought to have members, but a population *scattered* ought not.

If the numerical basis of representation be the sound one, how are the adjustments to be made?

If this is to be the principle of representation, how many members are to be appropriated to the large counties, and to those towns which have from 20,000 to 50,000 inhabitants?

What then is to become of the small counties and towns?

Are they to be unrepresented?

Is the whole number of members to be tripled or quadrupled; or will the great counties and towns consent to make up the proportionate allotment to the smaller ones?

Is any one prepared to recommend that the representation of the great Metropolitan Boroughs should be trebled, and that fifty per cent. be added to the county representation?

If not, we must seek some sounder basis for readjustment than that of mere numbers.

And as to property qualification for the right of voting.

Is it not a singular anomaly to require it from the *cestui-que-trust*, and not from the *trustee*, to exact it as a guarantee for the due exercise of the constitutional right, and to dispense with it as a guarantee for the due performance of the trust reposed?

Is the one who confides his interest to another not to be trusted, and is the other, who is trusted to protect those interests, beyond the reach of undue influence?

If votes be bought and sold, who buys them?

And as to the educational qualification for the right of voting.

What has Education to do with the Franchise?

If the right of voting be a constitutional right, and unquestionably it is the constitutional right of every tax-payer, there can be no more reason for depriving him of that right because he has no property or because he cannot read or write, than for depriving him of his life or liberty for either of the same reasons. The only difference would be in the degree of injustice; both would be equally unwise.

The absurdity is in the assumption that, men of full age and in possession of their common senses, but without property or education, are *therefore* bad citizens, and not to be trusted. It would be scarcely more absurd, though certainly more unjust, to say, *therefore* they are not fit to live or to live at large, and ought to be put to death or shut up. That would be a very likely way to make them bad citizens.

It would be much nearer the truth and much wiser to assume that, they are all good citizens, and that would be the most likely way to make them so.

But, no real reformer wishes to see the working classes the predominant power in this country, nor do they themselves wish it. They have too little confidence in themselves for that, or even to trust each other in their own affairs. On the contrary, they distrust each other, and it is notorious that, they look up to their employers as the higher classes, and more safely to be trusted for guidance and support.

The English working people are the most loyal, most industrious, most enduring people in the whole world. By admitting them to the right of free citizens, worth and wealth would exercise their just influence in this country, and bribery and corruption would be unknown, but as the degrading evils of the past. With the physical, the moral condition of the People would be raised; the spread of education would then be rapid and the effects sensible. There would still be much evil mingled with the good, but then the evil would be more clearly distinguished, more generally condemned, and more effectually suppressed.

The costly game of aggressive war would be much more difficult to play, and the Sovereign who played that hazardous game would then stake his crown.

But, if the opponents of manhood suffrage must be met on their own ground, what are the facts?

What are the numbers and incomes of the working class?

Taking the statistics of the Chancellor of the Exchequer, the sum assessed to the income tax is between £300,000,000 and £350,000,000 a year. This includes a portion of the earnings of the working class, but assume, as he does, that this belongs wholly to those who are not of the working class.

What, then, is the income of the working class?

The Chancellor of the Exchequer takes it, on the moderate estimate for the three kingdoms at, from £200,000,000 to £250,000,000.

Both these estimates are clearly below the fact; but assuming the fact on the authority of the

Chancellor of the Exchequer, the income of the working class is three-sevenths, or nearly one half, of the whole income of the country. It is unquestionably much nearer two-thirds.

According to the Chancellor of the Exchequer, out of every £7 of income £3 are received by the working man. It would be nearer the truth to say £4. But assume that three-sevenths of the whole income of the country belongs to the working classes.

Now, what is the proportion of their representation?

It appears that, 128,000 of the working class now enjoy the borough franchise, besides the comparatively few who enjoy the county franchise by virtue of the 40*s*. freehold.

Thus, avoiding the definition and number of working men, and stating the case as much in favour of the opponents as possible, there may be 150,000 working men who enjoy the county and borough franchise in England and Wales.

The whole number of voters in the constituencies is, in round numbers, 1,050,000, so that, while the working people pay three-sevenths of the income, they have one-seventh of the constituency.

Again, if we look to the taxation paid by the working community of this country, the case would come out very nearly in the same form.

According to the Chancellor of the Exchequer, "not less than one-third, probably a great deal more than one-third, of the £68,000,000, at which our revenue now stands, is contributed by the working population."* Two-thirds is much nearer the truth.†

Now, the question is, and this is the question which the Chancellor of the Exchequer asks the People of this country to answer;—"With what justice can we ask the working population to pay this proportion of taxes and put them off in return with the miserable fraction of one-seventh of the representation?"

There seems to be only one reasonable answer to this question, and that is, by admitting the working part of the population into an equal share of the representation with the other or *non*-working part of the population.

It is obvious that, the most fair and simple course would be to confer the right of voting for Representatives in Parliament on every man on his attaining his age of 21 years, provided he be free from any legal disability.

But if that would be too sudden and too great a shock to the nervous system of large Land-

* See the speech of The Right Honorable W. E. Gladstone, at Liverpool, 6th April, 1866.

† See the "People's Blue Book," 3rd Edition.

owners and Capitalists, an intermediate resting-place might be found.

Suppose the 40*s*. freehold retained and the Franchise fixed at £5 for Counties, Cities, and Boroughs; and suppose the number of members increased by the addition of 2 members, making the total number for the United Kingdom 660; and of these suppose 350 distributed among the Counties and 10 among the Universities, making together for Counties and Universities 360, and 300 among the Cities and Boroughs.

By this simple arrangement might be deferred for an indefinite and very long time Manhood Suffrage, which must be the ultimate end because the safest and most just.

But here all classes might rest and be thankful for some generations yet to come.

The Counties, supposed to comprise the permanent property and highest intelligence, would then have a majority of 60 members over the Cities and Boroughs, supposed to comprise the lower grade of intelligence and the dangerous part of the community.

All fanciful franchises would then be done away with, and the unwise and unjust distinction between Counties, Cities, and Boroughs, with all the difficulties which such a distinction involves, would be at once removed.

The fight would then be simply for the £5 Franchise.

For that there would be a fight, moral not physical; a great effort would then be made, such as was made for the repeal of the Corn Laws; the People would then know for what they were making the effort, and millions, who now look on indifferent, would then start up into activity, and the House of Commons, which would be returned for the support of such a Bill, would answer all the subtle and sophistical speeches of false friends by a large majority of silent votes.

The redistribution of seats would then be a comparatively easy work. All the details would then be very simple, and might be easily comprised in one Bill.

Fancy Franchises might well be surrendered on these terms. The fewer the details the fewer the difficulties.

Such a Reform Bill would meet the justice of the case and would be accepted, by an immense majority of the People of this country, as a safe and satisfactory settlement of the Question for, probably, many generations.

These few remarks on the principles of Government may be thought by some not to have much bearing on the Bank Question, but these, which are the true conservative principles, have a very direct bearing on the credit of the country, and that is the foundation on which the Bank of England stands.

When the position of this country is considered as dependent for the subsistence of its population on its trade with foreign nations, it must strike even a casual observer as an astonishing and alarming fact that, the whole monetary system of this country is regulated by a law, which restricts, and often to absolute scarcity, the very means by which that trade is carried on, thereby increasing the risk and diminishing the profit of the traders for the benefit of the shareholders in the legalised monopoly of the Bank of England and the large capitalists, who together regulate the price of money and control the credit of the country, under the sanction of this unjust and most unwise law.

That such a law, described by Mr. Thomas Tooke, one of our most distinguished authorities, as "*the most wanton, ill-advised, pedantic, rash pieces of legislation,*" which he had ever known, should have been inflicted on this country for upwards of twenty years, and that, after such long experience of the baneful consequences, this should be still an existing infliction on the the country, is an astonishing and alarming fact, and the most striking instance which can be given (not excepting even the instance of the Corn Laws) of the injustice and impolicy of the system of Government in this country.

No further evidence than this can be wanting to prove that the laws in this country are made not by or for the People, but by the great Land-owners and Capitalists for themselves, and it is impossible to come to any other conclusion than that, this country is suffering, as are all other countries in like circumstances, under that providential retribution which ever follows injustice and folly, but is ever working out the righteous and wise end.

In this, as in all such cases, the remedy for the evil is sure to come. It comes either through the mild means of the reasoning sense, or through the terrible means of unreasoning madness. But it surely comes, and it is only a question of time. We have seen memorable instances of both. Of the reasoning sense, in our own reforms of latter times. Of the unreasoning madness in the chapter of the history of France near the close of the last century, and in the chapter just concluded in the history of the United States. All history shows that, the longer the remedy is delayed, the more severe it is sure to be when it comes. In ancient Rome and in modern Poland the remedy was so long delayed that, it came at last to annihilation.

The history of the past is written for our learning, and it has no other use for us but as a record of eternal truths.

Many will think that there is much exaggeration in these views, and that, to refer to the Bank Act as a serious infliction upon the country is a wild absurdity. But those who think so have, probably, reflected very little on the subject, and, as Coleridge has said, "those only *think* who reflect." Most of the Land-owners and great Capitalists thought the same, or said the same of the Corn Laws. But serious as was the evil of the Corn Laws, by diminishing the bread of the People, in actual amount of cost and loss to the country the Bank Acts are a more serious evil.

The Corn Laws enhanced the price of the first necessary of life, and to many put the price beyond their reach. The consequence of this was, the enhancement of the price not only of Corn, but also of all other commodities, the diminution of our Home and Foreign trade, the depreciation of all the property of the kingdom, and the increase of pauperism throughout the land.

The Bank Acts enhance the price of money, thereby diminishing the means of production and interchange of commodities with foreign nations; and by limiting the supply of the raw materials, thereby lowering the industry of the whole country and the means of subsistence to all the industrious classes.

The results are, dear money and low wages; high prices and small profits; loss of trade and diminished credit. But to the Bank of England and the Capitalists large profits. To the Working Classes small gains, and to many of them destitution.

But in this country, destitution does not mean starvation. The meaning is, a barely sufficient supply of the necessaries of life, and that is the condition of the laborers,—especially agricultural,—in this country, to a much greater extent than is generally known. Those who know it, and the causes of it, are apt to carry about with them feelings of indignation against the Government, whether Whig or Tory, difficult to suppress, and as difficult to express in terms which, by the comfortably situated, may be considered quite decorous.

But the end of it all will probably be, the loss of the confidence of the country by both these political parties, and then the only alternative will be, to look to the leader of the third party, or the People's party, for conducting the affairs of this country.

The object of this book is to bring together, in a concise and convenient form, all the essential facts, derived from the experience of the past, on the Bank Question, and to apply the reasoning necessary for arriving at a correct conclusion.

This is unavoidably a tedious process for the reader to follow; but the conclusion, if correct, is worth the trouble; and then it is only a question of time when the Bank of England will be reconstituted on the true principles for the ORGANISATION OF CREDIT IN ENGLAND.

CHAPTER XII.

SUMMARY: CONCLUSION.

From the foregoing Chapters may be deduced the following principles for the Organisation Of Credit In England:

That, Capital, in its true meaning, denotes the accumulated savings of labor, and its symbol is, Money.

That, among civilised nations, the weight of bullion is the measure of value.

That, capital is the purchasing or moving power of commerce, the power that causes the goods to move from the producer to the merchant, or to circulate.

That, capital, in its primary and general meaning, does not mean the commodities themselves, but the power which transfers the property in them from one person to another.

That, all goods being circulated by capital or credit, capital and credit constitute the circulating medium.

That, capital without credit must always be unequal to the requirements.

That, credit without capital can have no safe foundation.

That, for a safe foundation, credit must always be in a certain proportion to capital, but that proportion, being dependent on circumstances, can never be exactly defined.

That, with capital in due proportion, credit operates to the same results as capital, but that capital and credit are essentially different.

That, capital and credit, or money and promises to pay money, form the only true circulating medium, or currency, and they are its limits.

That, capital and credit must always increase and decrease together.

That, money of gold and silver is a generally acknowledged measure of value, but there is no value in gold or silver, or in any other natural production, nor any *intrinsic* value in any created thing.

That, value exists only in human services mutually rendered and received, or for which an equivalent is given.

That, the gifts of Nature are utilities, but, being gratuitous and given equally to all, are of no value, as nothing can be given for them in return.

That, to render utilities useful, it is essential that they should be used, and to render services of value, it is essential that they should be mutual, or that an equivalent should be given in return.

That, all utilities, being the gifts of Nature, for which no equivalent can be given in return, are, therefore, of no value.

That, the word '*value*,' therefore, when applied to *things*, though convenient in its conventional sense, is without any real meaning.

That, money is so much capital withdrawn from the common stock, and measures services performed, but for which no equivalent services have been rendered, the money being the measure of the debt or service due, and thereby transferred.

That, the money paid discharges the debt to the party receiving, and transfers the debt to the party paying.

That, credit, duly supported by capital, serves to distribute capital and to make it productive.

That, it is, therefore, the policy of every country so to apply its capital as to enlarge the limits of credit to the utmost possible extent, consistently with safety.

That, the opposite course is pursued by England and France and all other countries, by attempting to make credit equal to capital, without the employment of capital in the due proportion.

That, such an attempt is as absurd as an attempt to make a railway in the air.

That, the Organisation of Credit is dependent on confining the limits of credit within the due proportions with capital.

That, in England and France where capital, under a properly organised system of credit, is equal to the requirements, the limits of credit cannot be defined.

That, all restrictions upon credit, which destroy the due proportion between capital and credit, must be restrictions upon productive industry and capital.

That, a high rate of interest and discount, being a restriction upon credit, must be a restriction upon productive industry and capital most injurious to the best interests of every country.

That money, the great instrument of commerce, makes a part, and a very valuable part, of the capital, but makes no part of the revenue; the money distributes the revenue, but makes no part of that revenue.

That, whatsoever part of the national property goes to provide the medium of, or substitution for, exchange, is wholly inoperative with regard to production. Nothing produces but human labor or efforts, brought into action by the immediate instruments of production ; the tools or machinery with which the workman labors, and the raw material with which he fabricates. If, therefore, the whole of that portion of the national property, so employed, could be taken from that employment and converted into food, tools, and the materials of production, the productive powers of the country would receive a corresponding increase.

That, it is the total quantity of the money in any country, which determines what portion of that quantity shall exchange for a certain portion of the goods or commodities of that country.

That, the portion of the annual produce, which is not exchanged at all, as what is consumed by the producer ; or, which is not exchanged for money ; is, with respect to the money, as if such portion of the annual produce had never existed.

That, a vast accession is, therefore, made to the means of production, by providing a substitute for the precious metals, as a medium of, or substitute for, exchange.

That, paper is far more convenient, as a medium of, or substitute for, exchange, than the precious metals. A large sum in gold or silver is a cumbrous commodity. In transferring property of considerable value the very counting of gold and silver is a tedious operation. By means of a bank-note, the largest sum is as quickly paid as the smallest.

That, the inconveniences to which paper money is liable are consequent only on defective arrangements.

That, these inconveniences may be comprehended under three heads:

1.—The failure of the parties, by whom the notes are issued, to fulfil their engagements.

2.—Forgery.

3.—The alteration of the value of the currency.

That, the effects of an increase of the quantity, and consequent diminution of the value of the currency, are two:—

1. A rise of prices, or an increase in the quantity of money given in exchange.

2. A loss to all those persons who had a right to receive a certain sum of money of the old and undiminished value.

That, an alteration in the value of money, it is obvious, alters the relative value of nothing else. All things rise in value as compared with money; but not one of them rises in value as compared with another.

That, difference in price is, in itself, of no consequence to anybody. The man who has goods to sell gets more money for them; but this money will purchase just the same quantity of commodities as he was enabled to purchase with the price he obtained before. The man who has goods to purchase has more money to give for them, but he is enabled to do so, by getting just as much more for the commodities he has to sell.

That, the effect of a degradation in the value of money is obviously a loss to creditors and a gain to debtors. It is equally obvious that, this effect is reversed, when the alteration, which has taken place, is an increase in the value of money.

That, these losses are evils of great magnitude to the individuals concerned, and imply a gross violation of the rules of justice; but here is no destruction, and consequently no loss, of property.* But every act of injustice is injurious, and all the consequences of altering the value of money, whether by raising or depressing it, are injurious.

That, fluctuations in the value of money are temporary alterations of the value, and are, therefore, extremely injurious, producing effects of the grossest injustice.

That, paper money, properly regulated, would

* "Elements of Political Economy," by James Mill, page 125

be less liable to fluctuations in value than a currency wholly metallic.

That, when the whole responsibility of paying the notes in gold is borne by the people, any interference on the part of the Government, to prevent the issue of notes to meet the requirements of the people, is an act of the grossest impolicy and injustice.

That, the Government, which persists in such interference in the light of the present day, after twenty years' experience of the injurious consequences to the country, declares its own incompetency or dishonesty, and, in either case, forfeits the confidence of the country by an act of gross injustice to the whole people.

That, the progress of mankind coincides with the rapid creation of capital. Therefore, the paramount interest of all is to favor the rapid creation of capital, and capital increases of its own accord under the triple influence of activity, frugality, and security.

That, capital, when formed, necessarily leaves disposable both labor and the remuneration of that labor. It carries in itself a power of progression. The *vires acquirit eundo* may be applied with rigorous exactitude to capital and its beneficial influence. In proportion as its action is extended, it sets free and renders disposable a certain amount of human efforts, only by setting free and rendering disposable a corresponding fund of remuneration, so that these two elements meet and compensate one another.

That, every increase of capital is followed by a necessary increase of general prosperity. Therefore, in proportion to the increase of capital, the *absolute* share of the total product falling to the capitalist is augmented, and his *relative* share is diminished; while, on the contrary, the laborer's share is increased both absolutely and relatively.*

That, the *relative* share of the product falling to the capitalist goes on continually diminishing, only amounts to saying that, *the more abundant capital becomes, the more interest falls.*

That, the *absolute* share falling to the capitalist goes on continually increasing, only amounts to saying that, a man has a larger income with £10,000 at 4 per cent., than with £5,000 at 5 per cent., although, in the first case, he charges less for the use of his capital. The same holds of a nation, and of the world at large. The *per centage,* in its tendency to fall, neither does nor can follow a progression so rapid that the *sum total* of interest should be smaller when capital is abundant than when it is scarce.

That, all capital is divided into fixed and circulating capital.

* Bastiat, "Harmonies of Political Economy," page 183.

That, every saving in the fixed capital, such as machinery, instruments of trade, etc., which does not diminish the productive powers of labor, is an improvement of the net revenue; so every saving, in that part of the circulating capital which consists in money, is an improvement of the same kind.

That, the circulating capital furnishes the materials and wages of labor, and puts industry into motion. Therefore, every saving in the expense of maintaining the fixed capital, which does not diminish the productive powers of labor, must increase the fund which puts industry into motion, and, consequently, the annual produce of land and labor, the real revenue of every society.

That, the substitution of paper money for gold money, replaces a very expensive instrument of commerce with one much less costly, and within certain limits, under certain regulations, equally or more convenient.

That, within proper limits and regulations, the paper money has the same currency as the gold money, from the confidence that the gold money can at any time be had for the paper money.

That, the Bank of England issues, of its own paper notes, say, to the amount of £20,000,000. As those notes serve all the purposes of money, the holders pay the same for them as if so much money. What they pay is the gain of the Bank. Though some of these notes are continually coming back to the Bank for payment, some of them continue to circulate for months and years together. Though the Bank has generally in circulation notes to the amount of £20,000,000, an amount in gold of two or three millions may, generally, be a sufficient provision for meeting occasional demands for gold, as money. By this operation, therefore, two or three millions in gold perform all the functions, which twenty millions could otherwise have performed. The same exchanges may be made, the same quantity of consumable goods may be circulated and distributed to their proper customers, by means of these paper notes, to the value of £20,000,000, as by an equal value of gold money. Eighteen millions of gold, therefore, can in this manner, be spared from the circulating capital of the country.

That, if the annual produce of the land and the labor of the country require only £20,000,000 to circulate and distribute it to its proper consumers, and that annual produce cannot be immediately augmented by those operations of banking, the eighteen millions saved will be over and above what can be employed in the circulation of the country. But, though this sum cannot be employed at home, it is too valuable to be allowed to lie idle. It will, therefore, be sent abroad, in order to seek that profitable employment which it cannot find at home. But the paper cannot go abroad; because, at a distance from the Bank which issued it, and from the country in which payment of it in gold can be exacted by law, it will not be received in common payments. Gold, therefore, to the amount of £18,000,000, will be sent abroad, and the channel of home circulation will remain filled with £20,000,000 of paper money, instead of £20,000,000 of gold money, which filled it before.

That, the quantity of gold thus sent abroad will be exchanged for foreign goods of some kind or another, in order to supply the consumption either of some other foreign country, or of our own, or for a higher rate of interest than can be obtained in our own. If employed in purchasing goods in one foreign country, in order to supply the consumption of another, or in what is called the carrying trade, whatever profit is made will be an addition to the net revenue of our own country. It is like a new fund, created for carrying on a new trade; domestic business being now transacted by paper, and the gold, thus saved, being converted into a fund for this new trade. If employed in purchasing from foreign countries, for home use, an additional stock of materials, tools and provisions, in order to maintain and employ an additional number of industrious people, who re-produce, with a profit, the value of their annual consumption, it promotes industry; and though it increase the consumption of the society, it provides a permanent fund for supporting that consumption, the people who consume re-producing, with a profit, the whole value of their annual consumption. The gross revenue of the society, the annual produce of their land and labor, is increased by the whole value which the labor of those workmen adds to the materials upon which they are employed, and the net revenue by what remains of this value, after deducting what is necessary for supporting the tools and instruments of their trade.

That, the greater part of the gold forced abroad by those operations of banking, must be employed in purchasing foreign goods for home consumption; and another part in the less profitable employment of foreign loans, or other foreign investments.

That, gold and silver are nothing more than commodities, which are the most generally bought and sold, whether by individuals or nations.

That, those commodities alone can be exported, which are cheaper in the country from which they go, than in the country to which they are sent; and those commodities alone can be imported, which are dearer in the country to which they come, than in the country from which they are sent.

That, if gold be cheaper in any one country, as in England for example, it will be exported from England. If dearer in England than in any other country, it will be imported into England.

That, in any country where gold is cheap, other commodities are dear.

That, gold is cheap, when a greater quantity of it is required to purchase commodities; and commodities are dear for the same reason; *i.e.* when a greater quantity of gold is required to purchase them.

That, when the value of gold, in England, is low, gold will be exported from England, on the principle that all commodities which are free to seek a market, go from the place where they are cheap, to the place where they are dear.

That, the fact that gold is cheap, implies the inseparable fact that, other commodities, at the same time, are dear.

That, therefore, when gold is exported, less of other commodities can be exported; and no commodities can be exported if the price of gold be so low as to raise the price of all of them above the price in other countries. A diminished quantity alone can be exported, if the price of gold be only reduced so far as to raise the price of some of them above the price in other countries.

That, a country, therefore, will export commodities, other than the precious metals, only when the price of the precious metals is high; and will import, only when the price of the precious metals is low.

That, price, with reference to the precious metals, means the quantity or value of other things for which the precious metals will exchange.

That, price, with reference to money, means the same.

That, credit-money, constantly convertible into gold, is an exact representation of the real money, and, therefore, can never diminish the value of the metallic money, or affect the measure of value, and, consequently, can never have the smallest influence on prices.

That, prices can rise with paper money only when paper money has not the control of real money, or by a reduction in the cost of producing the precious metals.

That, as long as there is no reduction in the cost of procuring the precious metals, the variations in their value will be very light, and will be subject only to the variations of supply and demand, which are very trifling, the wants being pretty constant and regular.

That, the variations of prices depend either on the fact of the merchandise, other than money, or on the fact of the money. Those which arise from the fact of the money are extremely weak, even insensible; they do not arise from the fact of the notes, unless in the point of view that, the notes contribute in a certain degree to diminish the demand for gold or silver; but this last consideration is so very weak as to be unnoticeable.

That, if the notes, which represent the gold, be at all times convertible into gold, the market price of gold is quite immaterial, as the notes will always represent it.

That, credit-money, constantly convertible into real money, only supplies the place of gold and silver, of which no country holds more than is necessary for the wants of the exchanges.

That, the only difference between gold money and paper money is that, the former is of acknowledged value, and the latter is of no value, but wholly dependent on credit.

That, if the credit be universally acknowledged as unexceptionable, paper money, being less liable to change in value than other things, will exchange more readily than other things for gold.

That, when one nation exchanges a part of its commodities for a part of the commodities of another nation, the nation can gain nothing by parting with its commodities; all the gain must consist in what it receives.

That, a nation which parts with its commodities for gold and silver, derives no gain, but the contrary, from possessing more than its due proportion of the precious metals.

That, gold and silver may be profitable commodities to export, but must always be the least profitable to import.

That, for every nation, the most profitable commodities to export must always be the products of its own industry.

That, therefore, the most profitable application of that part of the nation's annual produce which is destined for industry, must be in providing at all times the provisions and materials necessary for maintaining and enlarging that annual produce.

That, for this purpose, it is for the best interests of every nation to provide cheap money for the convenient transfer of the circulating capital.

That, for this purpose, the cheapest and most convenient money is paper money, representing an equal amount of gold, and convertible into gold on demand.

That, for this purpose, no gold will be required, unless for the convenience of change, if it be known that gold, equal to the amount of notes, will be forthcoming when required.

That, for this purpose, it must be known that, under ordinary circumstances, paper money, to any amount required, may be had at a price not exceeding the *maximum* price fixed.

That, at the present time, the *maximum* price should be fixed at 4 per cent.; and if the rate of interest on the National Debt should be reduced to 2 per cent., then the *maximum* price should be fixed at 3 per cent.

That, the *maximum* may be lowered, but not raised, without the authority of Parliament.

That, in computing the quantity of industry which the circulating capital of any society can employ, regard must always be had to those parts of it only, which consist in provisions, materials, and finished work; the other part, which consists in money and serves only to circulate those three, must always be deducted. In order to put industry in motion, three things are requisite; materials to work upon, tools to work with, and the wages or recompense for the work done. Money is neither a material to work upon, nor a tool to work with; and though the wages of the workman be commonly paid to him in money, his real revenue, like that of all other men, consists, not in the money, but in the money's worth, or what can be got for it.

That, the quantity of industry which any capital can employ, must, evidently, be equal to the number of workmen whom it can supply with materials, tools, and a maintenance suitable to the nature of the work. Money may be requisite for purchasing the materials and tools of the work, as well as the maintenance of the workman. But the quantity of industry which the whole capital can employ, is certainly not equal both to the money which purchases, and to the materials, tools, and maintenance, which are purchased with it; but only to one or other of those two values, and to the latter more properly than to the former.

That, it is impossible to determine the proportion which the circulating money of any country bears to the whole value of the annual produce circulated by means of it. But how small soever the proportion which the circulating money may bear to the whole value of the annual produce, as but a part, and generally but a small part, of that produce, is ever destined for the maintenance of industry, it must always bear a very considerable proportion to that part. When, therefore, by the substitution of paper, the gold necessary for circulation is reduced to a fifth part of the former quantity, if the value of only the greater part of the other four-fifths be added to the funds which are destined for the maintenance of industry, it must make a very considerable addition to the quantity of that industry, and, consequently, to the value of the annual produce of land and labor.

That, if, instead of such addition, the funds which are destined for the maintenance of industry be diminished, by the withdrawal of the greater part of the other four-fifths of the gold necessary for circulation, and at the same time by the withdrawal of a like amount of paper-money, substituted for the gold money, it must very considerably diminish the quantity of that industry, and, consequently, must very greatly reduce the value of the annual produce of land and labor.

That, as it is impossible to determine the proportion, which the circulating money bears to the whole value of the annual produce circulated by means of it, so it is impossible to determine the proportion of loss to the country from such a diminution of the funds destined for the maintenance of industry, and from the consequently reduced value of the annual produce of the land and labor of the country.

That, it is manifest, if only a small part of that produce be ever destined for the maintenance of industry, the value of the annual produce of the whole of the land and labor of the country so reduced, must be a loss to the country much greater than the whole of the small part of that produce destined for the maintenance of industry.

That, if such be an inevitable consequence, or, if such be the liability necessarily involved, it is self-evident that, the substitution of paper for gold, for the purpose of economising the gold, is no gain, but a great loss to the country.

That, the only way to secure the gain to the country, under such circumstances is, to prevent the diminution of the funds destined for the maintenance of industry, and thereby to maintain the value of the annual produce of the land and labor of the country, by increasing the amount of the paper circulation in proportion to the diminished amount of the gold circulation.

That, the whole paper money of every kind, which can easily circulate, or continue long in circulation, in any country can never exceed the value of the gold, of which the paper, or other substitute, supplies the place, or of the gold, which would circulate there, if there were no paper money, or other substitute. Should the circulating paper exceed that sum, as the excess could neither be sent abroad nor be employed in the circulation of the country, it must immediately return upon the Bank to be exchanged for gold. When this superfluous paper was converted into gold, the owners could easily make use of it by sending it abroad; but they could make no use of it while it remained in the shape of paper. There would immediately be a run upon the Bank to the whole extent of this superfluous paper, and if the Bank showed any difficulty or backwardness in payment, that would increase the run and create a panic.

That, over and above the expenses, which are common to every branch of trade, such as house rent, wages, &c., the expenses peculiar to a Bank consist chiefly in two articles: Firstly, in the expense of keeping at all times in its coffers, a sum of money sufficient for answering the ordinary demands of the holders of its notes: Secondly, in the expense of replenishing those coffers as fast as they are emptied by answering such occasional demands.

That, when the Bank discounts a real bill of exchange, or a bill which, as soon as it becomes due, is really paid, the Bank only advances a part of the value which the debtor would otherwise be obliged to keep by him unemployed and in ready money for answering occasional demands. The payment of the bill, when it becomes due, replaces to the Bank the value of what it had advanced, together with the interest. The coffers of the Bank, so far as its dealings are confined to such customers, resemble a pond, from which, though a stream of water be continually running, yet another is continually running in, fully equal to or greater than that which runs out; so that, without any further care or attention, the pond keeps equally, or very near equally full. Little or no expense can ever be necessary for replenishing the coffers of such a Bank.

That, bills not real may be brought to the Bank for discount, and thus bank paper may be put into circulation, which may come to exceed the whole quantity of gold, which would have circulated in the country if there had been no paper money, supposing the commerce the same; and the excess of this paper money would immediately be returned upon the Bank, to be exchanged for gold.

That, such operations would be neither detrimental to the Bank nor to the country, if the Bank possessed the means for purchasing gold in the open market to meet these *extra-ordinary* demands, without curtailing the bank discounts; but such operations would cease to be profitable to the operators as soon as the equilibrium in the value of gold between this country and foreign countries was restored ; and any loss to the Bank on such purchases would, in ordinary cases, be fully compensated by 4 per cent. on the additional bank-notes thus brought into circulation; nor would the loss to the Bank be considerable in *extra-ordinary* cases, under any circumstances, which can be reasonably supposed. But any such loss, being consequent on the substitution of paper for gold, ought to be borne by the Bank.

That, it is not by augmenting the capital of the country, but by rendering a greater part of that capital active and productive than would otherwise be so, that the most judicious operations of banking can increase the industry of the country. That part of his capital, which a dealer is obliged to keep by him unemployed and in ready money for answering occasional demands, is so much dead stock, which, so long as it remains in this situation, produces nothing either to him or to his country. The judicious operations of banking enable him to convert this dead stock into active and productive stock ; into materials to work upon, into tools to work with, and into provisions and subsistence to work for ; into stock, which produces something both to himself and to his country. The gold and silver money, which circulates in any country, and by means of which the produce of its land and labor is annually circulated and distributed to the proper consumers, is, in the same manner as the ready money of the dealer, all dead stock. It is a very valuable part of the capital of the country, which produces nothing to the country. The judicious operations of banking, by substituting paper for a great part of this gold and silver, enable the country to convert a great part of this dead stock into active and productive stock; into stock which produces something to the country. The gold and silver money, which circulates in any country, may very properly be compared to a highway, which, while it circulates and carries to market all the grass and corn of the country, produces itself nothing of either. The judicious operations of banking, by providing a sort of roadway through the air, enable the country to convert, as it were, a great part of its highways into good pastures and cornfields, and thereby to increase very considerably the annual produce of its land and labor.*

* "Wealth of Nations," vol. 1, page 484. 9th Ed. Adam Smith refers here to the Dædalian wings of paper money, as being less secure for sustaining the commerce and industry of the country, than when they travel upon the solid ground of gold and silver.

In that he is quite right. But here commerce and industry would travel on the solid ground of gold and silver.

This is in answer to M. Wolowski, about the wings of Icarus.

That, the circulation of every country is divided into two different branches; the circulation of the dealers with one another, and the circulation between the dealers and the consumers. Though the same pieces of money, whether paper or metal, may be employed sometimes in the one circulation and sometimes in the other; yet as both are constantly going on at the same time, each requires a certain stock of money of one kind or another to carry it on. The value of the goods circulated between the different dealers, never can exceed the value of those circulated between the dealers and the consumers; whatever is bought by the dealers being ultimately destined to be sold to the consumers. The circulation between the dealers, as it is carried on by wholesale, requires generally a much larger sum for every particular transaction. That between the dealers and consumers, on the contrary, as it is generally carried on by retail, frequently requires but very small ones, a shilling, or even a penny being often sufficient. But small sums circulate much faster than large ones. A shilling changes hands more frequently than a sovereign, and a penny more frequently than a shilling. Though the annual purchases of all the consumers, therefore, are at least equal in value to those of all the dealers, they can generally be transacted with a much smaller quantity of money; the same pieces, by a more rapid circulation, serving as the instrument of many more purchases of the one kind than of the other.*

That, paper money may be so regulated, as either to confine itself very much to the circulation between the different dealers, or to extend itself likewise to a great part of that between the dealers and the consumers. When no bank-notes are circulated under five pounds value, paper money confines itself very much to the circulation between the dealers.

When a five-pound bank-note comes into the hands of a consumer, he is generally obliged to change it at the first shop where he has occasion to purchase five shillings worth of goods; so that, it often returns into the hands of a dealer, before the consumer has spent the fortieth part of the money. Where bank notes are issued for so small sums as twenty shillings, as in Scotland, paper money extends itself to a considerable part of the circulation between dealers and consumers. Before the Act of Parliament, which put a stop to the circulation of ten and five shilling notes, it filled a still greater part of that circulation. It were, therefore, better that no bank-notes were issued in any part of the kingdom, for a smaller

* Ibid., vol. i., page 486.

sum than five pounds; paper money would then confine itself, in every part of the kingdom, to the circulation between the different dealers. Where paper money is pretty much confined to the circulation between dealers and dealers, as in England, there is always plenty of gold and silver. Where paper money extends itself to a considerable part of the circulation between dealers and consumers, as in Scotland, it banishes gold and silver almost entirely from the country; almost all the ordinary transactions of its interior commerce being thus carried on by paper. Though paper money should be pretty much confined to the circulation between dealers and dealers, yet banks and bankers might still be able to give nearly the same assistance to the industry and commerce of the country, as they had done when paper money filled almost the whole circulation. The ready money, which a dealer is obliged to keep by him, for answering occasional demands, is destined altogether for the circulation between himself and other dealers, of whom he buys goods. He has no occasion to keep any by him for the circulation between himself and the consumers, who are his customers, and who bring ready money to him instead of taking any from him. Though no paper money, therefore, were allowed to be issued, but for such sums as would confine it pretty much to the circulation between dealers and dealers; yet, partly by discounting real bills of exchange, and partly by lending upon cash accounts, banks and bankers might still be able to relieve the greater part of those dealers from the necessity of keeping any considerable part of their stock by them, unemployed and in ready money, for answering occasional demands. They might still be able to give the utmost assistance which banks and bankers can, with propriety, give to traders of every kind.*

That, as the quantity of gold and silver, which is taken from the currency, is always equal to the quantity of paper, which is added to it, paper money does not necessarily increase the quantity nor diminish the value of the whole currency, and does not necessarily augment the money price of commodities.†

That, a paper currency, which falls below the value of gold and silver coin, does not thereby sink the value of those metals, or occasion equal quantities of them to exchange for a smaller quantity of goods of any other kind. The proportion between the value of gold and silver and that of goods of any other kind, depends in all cases not upon the nature or quantity of any particular paper money, which may be current

* Ibid., vol. i., page 489. † Ibid., vol. i., page 490.

in any particular country, but upon the richness or poverty of the mines, which happen at any particular time to supply the great market of the commercial world with those metals. It depends upon the proportion between the quantity of labor, which is necessary in order to bring a certain quantity of gold and silver to market, and that which is necessary in order to bring thither a certain quantity of any other sort of goods.

That, the same quantity of money cannot long remain in any country in which the value of the annual produce diminishes. The sole use of money is to circulate consumable goods. By means of it, provisions, materials, and finished works, are bought and sold, and distributed to their proper customers. The quantity of money, therefore, which can be annually employed in any country, must be determined by the value of the consumable goods annually circulated within it. These must consist either in the immediate produce of the land and labor of the country itself, or in something which had been purchased with some part of that produce. Their value, therefore, must diminish as the value of that produce diminishes, and along with it the quantity of money which can be employed in circulating them. But the money, which by this annual diminution of produce is annually thrown out of domestic calculation, will not be allowed to be idle. Whoever possesses it will, for his own sake, require that it should be employed. But having no employment at home, it will, in spite of all laws and prohibitions, be sent abroad, and employed in purchasing consumable goods, which may be of some use at home; or it will be employed in purchasing gold and silver to be sent abroad as merchandise. This will for some time add something to the annual consumption of the country beyond the value of its own annual produce. But, in this case, of the annual diminution of produce, the exportation of gold and silver is not the cause, but the effect of the declension of national prosperity, and may even, for some little time, alleviate the misery of that declension.

That, the quantity of money, on the contrary, must in every country naturally increase as the value of the annual produce increases. The value of the consumable goods annually circulated within the society being greater, will require a greater quantity of money to circulate them. A part of the increased produce, therefore, will naturally be employed in purchasing, wherever it is to be had, the additional quantity of gold and silver necessary for circulating the remainder. The increase of those metals will, in this case, be the effect, not the cause, of the national prosperity. Gold and silver are purchased everywhere in the same manner. The food, clothing, and lodging, the revenue and maintenance of all those whose labor or stock is employed in bringing them from the mine to the market, is the price paid for them at the mine as well as in England.

The country, which has this price to pay, will never be long without the quantity of those metals which it has occasion for; and no country will ever long retain a quantity which it has no occasion for.*

That, the real wealth and revenue of every country consists in the value of the annual produce of its land and labor, and, therefore, whatever tends to increase that annual produce, tends to increase the national prosperity.

That, it is, therefore, of the first importance for the prosperity of every country that, it should at all times be fully supplied with money to meet all the requirements of trade and industry. If the materials of manufacture be wanted, industry must stop. If provisions be wanted, the people must starve. If gold and silver be wanted, these are more easily supplied than almost any other commodities, if there be wherewithal to purchase

* Ibid., vol. ii., page 18.

them. Partly owing to the easy transportation of gold and silver from the places where they abound to those where they are wanted, and partly to the steady supply,—of late years greatly increasing,—the price of these metals does not fluctuate continually like that of the greater part of other commodities, which are hindered by their bulk from shifting their situation, when the market happens to be either over or under-stocked with them. The price of those metals is not altogether exempted from variation, but the changes to which the price is liable are generally slow, gradual, and uniform. To make any sudden change in the price of gold and silver, so as to raise or lower at once, sensibly and remarkably, the money price of all other commodities, requires a greater revolution in commerce than has been occasioned by the discovery of the extensive gold and silver fields of Mexico, California, Australia, and New Zealand. A well regulated paper money will at all times supply all the gold and silver that can be wanted in this country, not only without any difficulty or inconveniency, but, in some cases, with considerable advantages. Nothing, therefore, can be more unnecessary than the attention of Government to the preservation or increase of the quantity of money in any country; provided there be always a sufficiency of paper money to meet the requirements of the country, and a sufficiency of credit for the purchase of gold and silver, in the open market, when wanted.

That, currency, when let alone, is self regulating, and, therefore, laws cannot improve its arrangements, but may, and continually do, derange them.

That, limiting paper in circulation to an amount smaller than it would otherwise reach, inevitably necessitates a corresponding increase of coin ; and as coin is locked up capital, on which the nation gets no interest, a needless increase of it is equivalent to an additional tax equal to the additional interest lost.

That, even under such restrictions, men must still depend mainly upon each others' good faith and enlightened self interest ; seeing that only by requiring the banker to keep sufficient specie in his coffers to cash all the notes he has issued, can *complete* security be given to the holders of them ; and to require as much is to destroy the motive for issuing notes.

That, even now the greater part of our paper currency is wholly unguaranteed.

That, over the bills of exchange in circulation, which represent liabilities five times as great as are represented by notes, no control is exercised.

For the honoring of these there exists no special security, and the multiplication of them is without any limit, save that natural one—the credit men find it safe to give each other.

That, this point is completely established by experience in Scotland.

That, therefore, when we find *à priori* reason for concluding that, the due balance between paper and coin will be spontaneously maintained—when we also find that so large a proportion of our paper circulation is self-regulated—that the restrictions in force, besides the useless sinking of capital, produce such disastrous consequences,—and further, that facts prove a self-regulated system to be both safer and cheaper, it may be fairly inferred that legislative interference is not only needless, but injurious.*

That, to restrict the issue of notes on credit to a certain amount, is only a precautionary measure, which further experience will, probably, show to be unnecessary.

That, the limit beyond which it would not be safe to issue notes on credit must always depend upon circumstances, and that limit can be determined only by experience.

That, paper money may be safely issued to any required amount, if the convertibility of the notes into gold, on demand, be secured.

* Herbert Spencer,—" Social Statics," page 399.

That, it is manifestly, for the security of the notes that there should be only one bank of issue.

That, to meet the requirements of trade and industry, the power over the issue of notes, for England and Wales, ought not to be less than £40,000,000, and for the United Kingdom, not less than £50,000,000.

That, notes to these amounts, payable in gold, on demand, may be safely issued by the Bank of England on the credit of the nation.

That, the amount of gold and silver coin, to be kept in the Bank of England, need not exceed the amount required to meet the ordinary demands.

That, the ordinary demands for gold and silver, as money, in this country, are only for foreign payments and the convenience of change.

That, the extraordinary demands for gold and silver are not as money, but as commodities, and are not for use in this country, but for export.

That, the demands for gold and silver for export cannot affect the notes issued on credit, if the amount so issued do not exceed £50,000,000.

That, the issue of notes exceeding £40,000,000 for England and Wales, or £50,000,000 for the United Kingdom, ought to be against gold and silver, without regard to proportion.

That, gold and silver will always be purchaseable in the open market, at the market price.

That, the Bank of England may always obtain gold and silver by purchase, and may always reduce the amount of notes in circulation by sale of Government Securities, without raising the bank rate of discount.

That, increasing the amount of bank-notes in circulation, and purchasing gold in the open market, will be a more effectual and less injurious means for checking the export of gold, than curtailing the amount of bank-notes in circulation, by raising the bank rate of discount.

That, by increasing the amount of notes in circulation when gold is being exported, the distress occasioned by the demand for money in this country will be mitigated in extent, and shortened in duration.

That, the true policy of the Bank of England is to increase the issue of notes when the gold is being withdrawn, instead of attempting to stop the gold by curtailing the notes.

That, restricting the issue of notes, when gold is being withdrawn, produces a run for notes, which ends in panic.

That, discounting freely at 4 per cent. will stop the run for notes and prevent the panic.

That, as long as the balance of trade is in favor of this country, the supply of capital will be greater in this country than in any other.

That, the evidence of this fact is in the tendency of the rate of interest in this country to fall.

That, the supply of loanable capital always increases or diminishes in proportion to the demand.

That, the surplus or unemployed capital only leaves the country.

That, the Bank of England ought always to operate to counteract the rise of the rate of interest in this country, instead of co-operating with the other Banks to raise the rate of interest.

That, the effect of such counteracting influence would be to preserve a lower and steadier rate of interest in this country, by confining the fund for the supply of foreign demands to the surplus or unemployed capital.

That, the employment of capital in this country at a low rate of interest, must always be more beneficial to this country than the employment of capital at a high rate of interest in a foreign country.

That, the employment of capital in this country at a high rate of interest must tend to turn the balance of trade in favor of foreign countries.

That, as long as the balance of trade is in favor of this country, the rate of interest ought always be lower in this country than in foreign countries.

That, it is, therefore, of the utmost importance for the prosperity of the trade and industry of this country, that its credit should not be liable to serious disturbance through the monetary operations of foreign countries.

That, if the foundation of credit be firm, every measure, which tends to enlarge credit, tends to increase capital.

That, enlarging the credit-capital of the country on a safe basis is the gain of so much new capital without the cost of production.

That, the capital so gained ought to be held and employed, as far as possible, for the benefit of the country.

That, for this purpose, legislative control may be properly exercised, to a certain extent, over a National Bank, properly constituted, without interfering with freedom of trade, or private rights, if exercised for the general trade and industry of the country.

That, the saving, so effected, is as much a saving to the country, as would be the saving of land, if roads and railways were made in the air.

That, locking up in gold the saving so effected, and depositing the gold where it cannot be used, is like prohibiting the use of the land saved by making roads and railways in the air.

That, the precious metals are marketable commodities, and, therefore, the more credit is enlarged on a safe basis, the greater is the saving of the precious metals, and the nearer is this, in effect, to the saving of land by making roads and railways in the air.

That, silver, in its market price, bears a sufficiently near proportion to that of gold to make silver a commodity always exchangeable for gold.

That, for money, silver is more extensively used than gold throughout the world, and the balance between gold and silver may be one day restored.

That, silver ought, therefore, to be used to an unlimited extent, for assisting to secure the convertibility of the bank-note into gold.

That, gold, as the most precious of the precious metals, obtainable in sufficient quantity, is the most suitable for the standard measure of value; but that, silver, as the next most precious of the precious metals, obtainable in sufficient quantity, is the most convenient of all commodities for exchanging for gold.

That, silver is, therefore, as useful as gold, in proportion to its acknowledged value, compared with gold.

That, it is, therefore, inconsistent with the principle on which the bank-note is issued, as the representative of gold, to limit the proportion of silver to be used for securing the convertibility of the bank-note into gold on demand.

That, the bank-note, as representing the gold coin of the realm, is as much the money of the country as is the gold coin represented.

That, the supply of Capital and the demand for it, determines the rate of interest.

That, the supply does not create, but does affect, the demand.

That, an over-supply of bank-notes, as money, for the transfer of capital, can never be kept in circulation.

That, the bank-notes ought to be brought up to meet the requirements of trade, not the requirements of trade brought down to meet the notes.

That, bank-notes being the principal money of the country, an insufficient supply tends to bring down the requirements of trade and to destroy credit, to the great loss and injury of the trade and industry of the country.

That, "over issues" and "over trading" are fanciful and absurd theories, when applied to a paper currency, payable in gold on demand.

That, the requirements of trade cannot be determined by the success or non-success of the trading operations, but only by the fact of the requirements, and the success or non-success is immaterial to the question, though not to the result.

That, bank-notes being payable in gold on demand, the issue of notes beyond the requirements of the country tends to the outflow of gold.

That, withdrawing bank-notes from circulation tends to stop the drain of gold, by making its export unprofitable; but tends also to stop credit, by raising the rate of discount.

That, the power of issuing notes and withdrawing them from circulation to any required amount is, practically, a power over the currency, which must *directly* affect the credit of the country, and *indirectly* the rate of interest in the country.

That, the power of contracting and enlarging the circulation of its notes to any required amount will be effectually and safely conferred upon the Bank of England, by placing it in possession of its own independent capital and enlarging its credit-capital for England and Wales to £40,000,000, or for the United Kingdom to £50,000,000, provided the Bank be restricted from discounting at a higher rate than 4 per cent.

That, the effect of these measures will be, to lower and steady the rate of discount in this country, by enabling the Bank of England to enlarge the issue of bank-notes when too contracted, and to contract the issue when in excess; thus lowering the rate of discount, when it is rising from the want of notes, by increasing the amount of notes in circulation; and raising the rate of discount, when it is rising from the want of gold, by reducing the amount of notes in circulation; but confining the increase in the rate of discount to the *maximum* of 4 per cent.; and, at the same time, if necessary, purchasing gold in the open market to the required amount.

That, these operations and the means of effecting them will be perfectly consistent with the natural law and the freedom of trade, the protection given being not to trade but to traders, and not to one class exclusively, but to all classes equally; not for any class interests but for the benefit of the trade and industry of the country at large, against the monopoly of the capitalists acting in combination for their own benefit only.

That, the Bank of England, as now constituted, is too weak to provide an effectual remedy in these emergencies, without aggravating the inconvenient and, to many, ruinous consequences.

That, the Bank of England now uses its exclusive privilege in the issue of its notes to the injury of the trade and industry of the country, under the useless pretence of keeping a reserve of gold coin and bullion for the benefit of the country.

That, the country thereby loses the whole benefit of economising gold by the use of paper, for the sole benefit of the Bank of England, if the Bank derive any benefit therefrom, which is doubtful.

That, the measures which the Bank of England now takes for increasing its banking reserve, by curtailing its discounts, might be avoided, if the Bank had the power to enlarge its issue of notes, by extending its discounts.

That, the Bank of England, in possession of its own proper capital, might be safely entrusted with this power, as the Bank of England would then, by its own independent means, possess the power of operating on the open market of gold, and of regulating the issue of notes according to the requirements of the country, without resorting to a high rate of discount and deranging the money market.

That, the rate of interest or discount is independent of the abundance or scarcity of money, and is by no means the price of money; the price of money being dependent on the cost of production of gold and silver and their relative quantity in the market with other commodities, and gold and silver being capable of being represented only by an equivalent value in merchandise of any kind.

That, the Bank of England, properly constituted, would not be under the necessity, as it now is, of raising the rate of interest or discount for maintaining its reserve of notes or gold.

That, the *maximum* rate of discount for the Bank of England ought not to exceed 4 per cent., and that this benefit to the public would be only a proper compensation for the privilege conferred on the Bank of England of issuing £40,000,000 of notes without interest.

That, no embarrassment to commerce could arise from the *maximum* rate of discount being so fixed.

That, the embarrassment in that case would not be to the Bank of England, but to the capitalists, who might not be able to find other employment for their capitals.

That, private banks and capitalists could not find employment for their capitals in this country at a higher rate of interest than the Bank of England in ordinary transactions.

That, a necessary consequence to private banks and capitalists would be that, they must be content with a lower rate of interest than the Bank of England.

That, the paper inadmissible at the Bank of England has such a character of solidity that, the rate of interest at which it would be negociated would not be subject to considerable variations.

That, outside the Bank this paper serves to employ the floating capital of bankers and great merchants, and is considered as money in hand, being always convertible in an instant into bank-notes.

That, such employment of the floating capital of the bankers and great merchants can never cease, because they have always the same wants, and there are no great affairs without great funds.

That, floating capital and its employment, in some sort obligatory, in paper at short date negociable at the Bank, instead of diminishing, would constantly augment in proportion as the affairs and the number of traders and bankers would increase.

That, the proof of this fact is in the accounts current open at the various joint-stock establishments of credit, which dispose of many millions sterling, for which the depositors are content to receive interest at from 2 to 3 per cent. at the time when the Bank of England raises its rate of discount to 5, 6, and 7 per cent.

That, the mass of the negociations of that which is called Bank paper operates principally in the world of finance and high commerce, and rarely, unless the paper is very secondary, is it placed above the rate of discount at the Bank of England.

That, the best paper is never negociated above the Bank rate. It is only the inferior paper which is subject to the higher rate.

That, it would be unnecessary for the Bank of England, when its reserve diminishes, to raise the rate of discount, if the Bank were compelled to use the means, which ought to be always at its disposal, for procuring the gold and silver necessary for the requirements.

That, those means consist in the purchase of gold and silver by the Bank of England with its own proper capital, with the real capital coming from time to time from the sale of its Government Securities, or from its augmented capital.

That, the imports of specie into England always exceed the exports, and the country pays with its products the supplement received of the precious metals.

That, if the Bank of England take no part in these imports of specie, it is because the Bank has nothing to give in exchange.

That, the rate of interest or discount is independent of the abundance or scarcity of specie, and is by no means the price of money, the price, which depends on the cost of producing the gold and silver and their relative quantity in the market, being able to be represented only by an equivalent value in merchandise or commodities of any nature whatsoever.

That, the Bank of England is by no means under the necessity of raising its rate of interest or discount, as is generally believed, when the rate of interest or discount is raised in other countries, and particularly in France.

That, there are such material differences between the constitution of the Bank of England and the Bank of France, as to render quite illusory the pretended danger of France drawing away gold from England, when the rate of interest or discount is higher in France than in England.

That, in England the rate of interest or discount is raised only when the amount of notes, which the Bank is authorised to issue, is too restricted.

That, in France the interest or discount is raised only when the Bank has not sufficient money relative to the wants, which the Bank ought to satisfy.

That, the mission of the Bank is to co-operate in facilitating the circulation of capital, and in making it pass into the best possible conditions, from the hands which possess it, into the hands which employ it.

That, it is the abundance of capital which animates all enterprises; and the low interest of money is at once the effect and the index of the abundance of capital.

That, the Bank of England and the Bank of France are the two establishments which regulate credit commercial and public in Europe.

That, these two establishments, properly constituted, would maintain a uniform rate of discount for all first-class paper throughout Europe, at about 3 per cent.

That, the Bank of France, with unrestricted power of issues, is deficient in capital.

That, the Bank of England, with too restricted power of issues, is deficient in capital.

That, both these establishments, being unequal to the requirements, operate against each other, instead of co-operating with each other.

That, the want of uniformity of action, between the two regulating Banking Establishments of Europe, leaves the money market open to continual disturbance by the large capitalists and money jobbers.

That, the Bank of France is too much under the control of the Government, and, as at present constituted, is a practical instance of an unjust monopoly.

That, the effect of the Bank Charter Act of 1844 is, to give to one class at the expense of another, and instead of supporting credit, to weaken and often to destroy credit.

That, the Bank of England has completely lost sight of its mission, and considers its privilege of credit issues as conferred upon it for its own private benefit, without regard to the interests of the country.

That, the Bank of England thus realises a profit for its own benefit, but very inadequately meets the requirements of the country.

That, it is impossible to meet these requirements, and to prevent the money-panics, which are periodically reproduced, without the complete reorganisation of the Bank of England, and restoring to it its own independent capital, in harmony with new institutions and the altered circumstances of the times.

Such are the principles, such is the situation.

For this situation there is no other remedy than to reconstitute the Bank of England with a large independent capital and the power to issue a much larger amount of bank-notes.

In this way only can the Bank of England meet the requirements, by organising credit on a broad and substantial basis, and lowering the ordinary rate of interest for money in this country.

The resources of the country would thus be kept constantly utilised, and the Banks of Discount and other Financial Associations would derive great advantages from this organisation, and from fixing the *maximum* rate of discount for the Bank of England at 4 per cent.

The Bank of England would be placed in a more commanding position, and, with less responsibility, would be less exposed to censure and invidious remarks.

It would then be more clearly seen that, a low and steady rate of interest for money is essential for the encouragement of trade and industry; and that for this, the supply of money, as a means for the transfer of capital, must be at all times equal to the requirements.

The belief that, the rate of interest is dependent on the abundance or scarcity of money, was the gross error on which was founded the system of John Law, upwards of 150 years ago; but, after all the fatal experience, that error is still prevalent.

The abundance of real or specie money is the effect of a multiplicity of transactions and the increase of real capital.

The abundance of credit or paper-money is the effect of a multiplicity of transactions and the increase of credit.

But credit-money cannot be increased beyond a certain limit, nor be made to produce all the effects of real money.

Inconvertible paper money always depreciates in direct proportion to its quantity, admitting even that public confidence is not entirely wanting. If issues of this nature exceed the requirements in the proportion of the double, the depreciation will be one half, but the rate of interest will not vary.

Through all this reasoning are derived the following short results.

That, the power of the Bank of England must be greatly augmented to enable it to meet, at all times and under all circumstances, the requirements of the country:

That, a certain relative proportion must be maintained between the Bank reserve and the issue of notes:

That, the *maximum* rate of interest or discount, for the Bank of England, must be fixed, subject to periodical revision:

That, on these principles only can the Bank of England be established for the Organisation of Credit in England.

Speaking generally, human conduct, which is subject to the Divine commands, must inevitably be guided by *rules*, or by *principles* or *maxims*. These *principles* or *maxims* are nothing more than the inferences suggested by repeated experience and observation, and are the handy abridgments of numerous and intricate considerations, reduced to rules for the guidance of human conduct in human affairs.

This is the main use of *theory*, which ignorant and weak people are in a habit of *opposing* to practice, but which is essential to practice guided by experience and observation.

They say it is true in *theory*; but, then, it is false in practice.

But, *that* which is true in *theory* is *also* true in practice.

A true theory is a *compendium* particular of truths, and must necessarily be true as applied to particular cases. The terms of the theory are general and abstract, or the particular truths which the theory implies, would not be abbreviated or condensed. But, unless it be true of particulars, and, therefore, true in practice, it has no *truth* at all. *Truth* is always particular, though language is commonly general. Unless the terms of a theory can be resolved into particular truths, the theory is mere nonsense.

Therefore, they who talk of a thing being true in *theory* but not in *practice*, mean (if they mean anyhting) that the theory in question is false: that the particular truths which it concerns are treated imperfectly or incorrectly; and that, if it were applied in practice, it might, therefore, mislead. They *say* that, truth in theory is not truth in practice. They *mean* that, a false theory is not a true one, and might lead to practical errors.*

For none of that class of persons has this book been written; but only for those who think distinctly, and speak with a meaning.

If, after due examination, they find the theory here propounded to be true, they will know that it must fit perfectly in practice; and further that, the Bank Charter Act of 1844 is an infliction, from which this country ought to be relieved.

* Austin "On Jurisprudence," page 44.

APPENDIX.

APPENDIX.

The Preface to the Evidence of the MM. Pereire before the French Commission of Inquiry into the Bank of France, as an expression of the opinion of these two distinguished men on the importance of this subject, is too valuable to be here omitted, and, therefore, an English translation of the whole is given, though at the risk of extending this volume beyond what, by some, may be considered its reasonable limits.

This part of the Appendix has been revised and approved of by the MM. Pereire.

PREFACE

TO THE EVIDENCE OF

MM. ÉMILE & ISAAC PEREIRE

BEFORE THE SUPERIOR COUNCIL

OF COMMERCE, AGRICULTURE, & INDUSTRY,

ON THE INQUIRY

INTO THE

BANK OF FRANCE.

November & December, 1865.

THE pamphlet published by one of us, in 1864, on the question of the Banks, pointed to the necessity of an inquiry.

The trades of Paris, and Lyons especially, were not slow in manifesting the same desire in respectful but pressing memorials, and before a like manifestation, before the adhesion of the Bank of France, herself yielding to an irresistible movement of opinion the Government judged that the moment had arrived for opening this important inquiry.

It was ordered in consequenceof a report addressed to the Emperor by their Excellencies, the Ministers of Finance and Public Works, and the charge was confided to the Superior Council of Commerce, under the presidency of his Excellency, the Minister of State.

This inquiry has been solemn; numerous witnesses have been heard, and it is not yet completely terminated; but already, under the pressure of public opinion, it has produced good fruits.

Recent facts have brought their incontestable authority to the debate and have confirmed fully the principles of which we are the self-constituted defenders.

When it seemed impossible to face the slightest difference of interest between France and England, under pain of seeing immediately the metallic reserve of one country flow away into the neighbouring country, it has been proved that a difference of 3 and even 3½ per cent. could subsist in our favor without deranging the ordinary current of the precious metals, without the drainage, so dreaded, of our gold manifesting itself to the profit of England. We have seen discount at London at 8 per cent. whilst the Bank of France maintained its own at 4½ per cent. Further, instead of diminishing in the presence of such a difference, the treasury of the Bank of France, under these circumstances, has not ceased to increase in considerable proportions.

We have been able to see by this that the movements of the precious metals, that their displacement, obeyed, in certain cases, other laws than those of the rate of interest.

A like experience was decisive; the infallibility of the partisans of the absolute joint responsibility of the Banks of France and England had received a heavy blow, and the rivalry of the two establishments, instead of displaying itself in an indefinite rise of discount, had to take an entirely opposite direction.

Therefore, the discount has been lowered both in France and England, and the other places of Europe have not been slow in following that example.

We shall not stop on so good a road, it is to be hoped, and we shall then appreciate the favorable and certain effects of the lowering of interest on the renewal of labor, on the amelioration of the condition of agriculture, as on the rise in the value of all property real and personal.

By the fact of this experience, France finds itself released from the dependence that it had imposed on itself towards England, and henceforth, free in its movements, our first establishment of credit will be able to realise with security the reforms which shall have been recognised as necessary.

Ideas govern nations: according as the ideas are just or false, true or erroneous, they bring prosperity or misfortune.

Theoretical discussions are not, then, so idle, so vain as those persons believe who, by habit, cannot pass over the horizon of a narrow practice.

The old theory of the *mercantile system* or the *balance of trade* still prevails in the world of affairs; driven from the domain of the exchanges of people to people, by the triumph of the principle of commercial liberty, it has taken refuge in that of the banks: it is from this last asylum that it must to-day be made to disappear.

It is useless for the banks to defend themselves, these ideas break out without their knowledge in all their acts, in all their manifestations.

It is thus that in the memorial presented to the

Emperor by the representatives of the Bank of France, we remark that strange aphorism, that old and false maxim which, under their pen, is set up as an axiom.

When the Bank raises or lowers the rate of discount, it creates nothing, it invents nothing, but it reflects exactly the consequences of the supply and demand of the precious metals.

Now, we believe we have proved that the interest depends not on the scarcity or abundance of the precious metals in a country, but on the general state of its capital, of its riches of every nature, and that the abundance more or less great of the precious metals depends only on the means which each nation has to procure them with the produce of its industry or of its soil.

Let us imagine the whole of Europe as a vast confederation subject to the same economical laws, making due allowance for foreign relations.

In this situation, could the rise of interest to any rate whatever create a single farthing, add a single atom to the quantity of gold or silver which it would possess?

The only means of augmenting this quantity, would it not be to buy it in California, in Australia, Mexico, or in such other producing country, and to send there products, in exchange, in a proportion equivalent to the wants which would meet it?

There exists no other means; it is only by labor and by the riches which it creates that gold and silver can be obtained.

It is thus that industrious nations truly bring into their domain the production of the mines, which are situated far off, in the new world.

The law by which the precious metals spread themselves among nations is, consequently, only that of their respective means of acquiring them.

The displacements that we seek to work out, by the aid of artificial means, are durable only when they result from the real state of the exchanges; and when we would counteract this natural movement by factitious raisings of the interest, we always call forth on the part of other nations reprisals which annul the effect; it was thus with the Customs duties by which we lately sought to oppose the introduction of foreign produce; we immediately called for the same prohibitive measures.

The Banks of France and England have in vain had recourse to successive elevations of interest, to prevent the departure of gold and silver; after as before, the same digression subsisted in the respective rates of their discounts; to what, then, have these measures served, but to carry trouble into industrial and commercial relations and to augment the charges of labor?

Who can believe, besides, that England wants the control of the capital of France, and especially of its metallic capital, since it is England which, for ages, has supplied us with the materials of gold and silver?

In a time not distant, we shall have difficulty in comprehending how such ideas have been able to govern the commercial world, how, instead of availing themselves of their capital to fill their treasuries, instead of employing this means at once the most simple and most rational, the banks have had recourse to proceedings, which had no other result than to enrich one class of citizens at the expense of the others, to stop the spring of labor and to cause the ruin of all industries, to depress the value of all capital.

In our evidence before the Superior Council of Commerce, we were forced to elucidate over again this great question of the relations of capital and labor, to the amelioration of which the banks will be able to contribute in a manner so powerful, when they are recalled to the object of their institution, when they understand that they can only be, as regards the industrious populations, the instruments of protection and freedom.

In this, we have only followed the great traditions and continued those memorable discussions which, commenced under the Restoration, on the occasion of the reduction of the interest of the *rentes,* continued under Louis-Philippe, to receive their solution under the present reign.

Was it only for the simple benefit of an economical budget that this great question of the lowering of the interest was then agitated?

It is sufficient, to be convinced of the contrary, to carry ourselves back to the times of which we speak, to interrogate the tribune and the press, to read again the discourses of the great orators, the publications of the economists of the highest authority. These documents attest that, the point of view was more elevated, and that at the bottom, the debate bore, on the one side, upon the maintenance of the privileges which were felt to be menaced and, on the other, upon the prosperity of industry, upon the amelioration of the condition of the laborers.

This is so true that, it produced then a deeply-founded opinion in virtue of which the State ought to have solemnly renounced its right of repayment of the *rentes* at par, and, consequently, to every programme for the reduction of the debt then constituted, in order not to put a spoke into the movement of the public funds by this permanent menace, to let them, on the contrary, rise without impediments, and thus to promote the lowering of interest in all the transactions, which would have produced an economy far more important than that which was sought after, to the profit of the State, by the conversion of the *rentes*.

Let us not forget that, under the ministry of M. de Villèle, in 1824, as under that of M. Bineau, in 1852, the lowering of the rate of interest has not only permitted the realising of great economies in the budget, but that it has coincided with a great development of labor, and with a prodigious spring of general prosperity.

Such will always be the consequence of a lowering of interest; but, for the last ten years, all the notions relative to the constitution of banks have been obscured; and, whilst the great principles of political economy were misunderstood, whilst the balance of trade was restored to honor, usury justified as a fatal consequence,—an inevitable consequence of the movement of the precious metals,—facts the most authentic, but contrary to these false ideas, were neglected, denied or brought into doubt.

It was necessary to dissipate these clouds, to do justice to all the sophisms and to re-establish the true notions of the mechanism of banks.

Many important points seem to us henceforth acquired:

The banks ought, in these times, to strive to augment their power to enable them to place themselves at the height of the new wants, if they do not wish to see new institutions of credit springing up to dispute the empire of which they believe themselves to be in exclusive possession.

Their actual capital, hardly sufficient, cannot remain fixed.

All their capital ought to be exclusively devoted either to the loans or to the advances which the wants of industry and commerce demand, or as the guarantee for their issue of notes, for that moving capital which they hold by public confidence, and to which, by this title, they have given the qualification of *fiduciaire.*

The banks ought not to speculate, and cannot, consequently, buy public funds for their own account.

And Governments which can contract loans with such great facility, ought to renounce addressing themselves to the banks for services of this nature, for all that which is lent to them by these establishments is taken away from the labour fund, from the development of that reproductive power which constitutes the force of modern societies.

The repayment of the sums advanced to the State or placed in the public funds would form, for the Banks of France and England alone, a supplement of strength of nearly 600 millions.

What might we not hope from the addition of such a capital to the resources possessed to-day by these establishments, and, by this simple measure, what a spring might be given to all affairs?

Without doubt the banks cannot suffice for all the wants of discount and advances upon public funds; the co-operation of private capital is indispensable for the regular accomplishment of this service, and it will never fail, of that we may be certain; this capital offers itself and always will offer itself in greater quantity than that which the banks will ever have at their disposal; but we cannot fail to recognise that, the more considerable the capital in the banks, the more the competition will be felt in the market and the more effectually will this competition be exercised for reducing the conditions of loans and ameliorating the situation of industry considered under its triple aspect, agricultural, manufactural, and commercial.

It is equally, in short, by the disposability of their resources that the banks will succeed in setting themselves free from the variations of their reserve, from those variations by which they seek to explain those of the discount.

The fixity of the interest is a chimera of which no one dreams, and no one has ever sought to pursue; but the extreme variableness to which the banks have wished to accustom us cannot be justified in any respect; nobody can understand that the public fortune, of which the rate of interest is the expression, can vary in the proportions which the oscillations of discount seem to indicate; the necessity of these fluctuations can the less be understood, when history shows us that, during a century and a half from 1694 to 1844, the Bank of England has varied its rate of discount only fourteen times, less than takes place at the present time in one single year: that, during this long period, these variations have been contained in the limits from 4 to 5 per cent., equal to an average of $4\frac{1}{2}$, whilst, since 1844, the difference presents itself between 2 and 10 per cent.; when we see again that, with almost one single exception, the Bank of France has been able to maintain its discount at 4 per cent. during nearly 40 years, the same Bank which, since 1857, has delivered itself up to oscillations, the amplitude and frequency of which differ but slightly from those of the Bank of England.

False in principle, this variableness is fraught with the greatest danger; everything, in trade, is become contingent by the fact of the uncertainty of the conditions of credit, and the most sagacious merchant, he who engages in the most ordinary operations, is not sheltered from the unforeseen reverses, which a sudden and extreme rise of the interest may impose upon him.

The banks which repel all limitation of interest do not fear however to limit the field of industry, to submit it to a true law of *maximum*, and it is after the single inspection of their reserve that they judge if this maximum be reached or exceeded, if the moment be come for pronouncing their sentences, for giving *salutary warnings* and then for obliging commerce to forced liquidations, to an inopportune export of the objects of its production for sale, with the single purpose of bringing back the specie which they themselves want but do not want to procure directly by the most simple and most vulgar means, by the realising of their own capital.

The measures which the banks take are completely inefficacious; not only they do not hit the bad speculation, but they discourage the good, even when they do not destroy it.

These precipitate and incessant elevations of the interest have not hindered the foolish speculations in cotton; but they have stopped others of high public interest; as, for example, those which might have usefully taken place in corn, if the interest had been more moderate: a lowering of the rate of discount would have facilitated, in effect, like operations, and would, long since, have permitted the farmers to sell their crops advantageously, whilst they have been left to struggle with their wants and to yield up their products to a low price, in the absence of all competition of purchases.

Withdraw credit from those who might be tempted to abuse it, but do not punish the whole community for the faults of some.

Happily, public opinion is now fixed upon the value of the principles which have given birth to measures which we may with good right qualify as barbarous.

The time for these heresies is past.

All minds are enlightened upon the danger there would be in attributing to monopoly the advantages which are the essence of liberty, and that alone can be possessed, without public inconvenience, by the establishments placed under the great law of competition.

If the rate of legal interest ought to be suppressed in virtue of the principle of the freedom of transactions, and we are of this opinion, a limit of interest ought to be imposed on the privileged banks, by reason of the power with which they are invested, and of the immunities which they enjoy.

But this limit ought to have nothing arbitrary, as happens at present; it ought not to be below the average of the interest observed in each country.

The rate of 4 per cent. that we have advised as the proper *maximum* to be imposed on the Bank of France, is even that which has been so long practised by itself, and it is really higher than the rate in general usage for investments of the nature of those which the Bank makes. Nobody acquainted with the affairs will contest it.

The reforms which we have sought to realise were indispensable; we have acted and spoken without troubling ourselves with the clamors which our efforts would naturally call forth, happy if it be permitted to us to contribute thus to the development of public prosperity.

To those who accuse us of pushing to exaggeration the means of credit, without regard to the consequences which may result from it, and who affect to see a forced circulation as the result of our opinions, we shall observe that our principles are more vigorous than theirs, as regards the reprobation of credit issues which would not have metallic money for criterion, for control and for basis. Our convictions do not date from yesterday, as may be seen by any one taking the trouble to read over the articles that, as far back as 1834, we published upon the system of Law, and reprinted at the end of our Evidence.

Thus will vanish these bad recollections of another age, those false principles which have always been evoked to strengthen a bad cause; they will disappear for ever before the solemn inquiry just now about to terminate, conducted with as much talent as impartiality.

APPENDIX.

INQUIRY INTO THE BANK OF FRANCE.

Evidence of Monsieur Émile Pereire.

7th November, 1865.

President. His Excellency M. Rouher, Minister of State.

EXTRACTS.

The Author, having been favoured with copies, from Paris, of the Evidence of MM. Isaac and Émile Pereire before the French Commission of Inquiry, still pending, (January, 1866,) into the Bank of France, considers the evidence of these distinguished Financiers and Bankers so valuable and so perfectly applicable to the Bank of England that, he has (with permission) given the following Extracts therefrom in an English translation for the benefit of English readers.

The first part of this Evidence is given by Monsieur Émile Pereire, and, as Monsieur Le Président says:—" C'est là le point capital."

The following Extracts are given in the strictest literal translation which the idiom of the two languages will admit of, and these Extracts are confined to those parts of the Evidence which are applicable as well to the Bank of England as to the Bank of France. The constitution of these two Banks being in some respects essentially different, it has not been thought necessary to embarrass the English Question with any of the details applicable only to the French Question.

M Émile Pereire, with his accustomed accuracy when speaking of the English Bank Act, says:— The Act of 1844 has no effect for preventing the arrival or departure of specie: it is a limitation of notes and not of specie.

So long as the Bank of England is constituted in such a manner that the issue of notes, without any counter-value in specie, cannot exceed 14 millions, sterling, in Government Securities, which form its social capital, and that then, for want of notes, if in that case it be obliged to raise its discount and to carry it to 5, 6, & 7 per cent., the interest here [in France] being at 3 or 4 per cent., it does not follow that that should be a reason why our specie should go to England, if there be no occasion for it to go there and there be no want of it there, that is, if we be not debtors to England.

M. Le Président.—That is the capital point. [C'est là le point capital.]

M. Émile Pereire.—I take the example in all its strictness. The Bank of England has raised its discount to 7 per cent.; we have it at 3 per cent.

It is said: since our discount is at 3 per cent. we are going to send all our money to England, to invest it at 7 per cent.

But, for that there is no occasion to send the money to England. At Paris they buy bills on London, and keep them in hand. They thus take the benefit of the discount at 7 per cent., without any displacement of specie, for the gold cannot go from France unless the exchange upon London be raised to 25.37½, in which case the banker, who should have taken London bills to obtain an investment at 7 per cent., would have a further benefit from the rise in the exchange. But in the like circumstances the rise in the exchange is not to be feared; the bills of all Europe, for the most part, centralise at Paris, and, from there, each takes its direction. We find then at Paris as much paper as we wish for on London, especially when France, for the balance of its own exchanges, is not indebted to England.

Does this state of things go on at this moment?

There is at this moment a difference of 2 per cent. between the rate of discount of the Bank of France and that of the Bank of England, [December, 1865] so that there would be the opportunity, according to the current prejudice, for the speculation, to profit by this difference of 2 per cent. by emptying the treasury of the Bank of France and filling that of the Bank of England.

Well, that has not happened. It does not go—it cannot go—not one pound, sterling, of gold to England, because the exchange is at 25.22½. It is impossible to send gold from Paris to London, notwithstanding the difference of 2 per cent. in the rate of discount.

If I insist on the exchange, it is because that is a very important question and with which I am very familiar.

Ask of the first money-brokers in Paris; they will tell you that at this moment the pound sterling, in *short* paper on London, is bought at Paris 25.22½ per cent. and in paper at three months 25.27½, less the discount at 7 per cent. They make then a little benefit upon this difference of discount; they take paper at a higher price when it is *long* for the benefit of a higher discount.

That which is true for 2 per cent. is true for 3 per cent. is true for 4 per cent.

If it were 10 or 20 per cent., I do not say. But it is not necessary to push things to the extreme: they never proceed by these extremes. If to exaggerate the formula which I am giving you, I speak of the maintenance of the discount at 3 per cent. at the Bank of France and of the elevation to 7 per cent. of that of the Bank of England, it is a difference of 4 per cent., a difference extraordinary and which could not long continue.

How will it be corrected? Will it be modified by the departure of gold from the Bank of France, or by the entry of gold to the Bank of England by other channels? You are going to see it.

If, pending two or three months, this state of things existed, that money was very abundant in France and that the Bank of England continued to discount at 7 per cent. it would result that there would be such an advantage in taking at Paris paper on London, that they would not present it, or that they would present much less of it at the Bank of England, which would enable that Bank to reconstitute its stock of notes by the maturity of its stock of bills, and it is thus that the equilibrium, which is prescribed for it by the Act of 1844, would be promptly re-established without necessitating reference to the treasury of the Bank of France,—the least in the world, that which is called a *drainage*, a magical word which acts upon the spirit of literary financiers as noise upon the spirit of infants in the dark. It is the same law as that of the siphon for liquids: the level will be restored without the displacement of capital by the single fact of the momentary retention at Paris of the bills of exchange of the continent.

M. d'Eichthal.—I do not wish to take any other argument than that which M. Pereire presents to establish the perfect joint responsibility [*solidarité*] of the rate of discount between the two countries.

What is he telling us? If the rate of discount be 3 per cent. at Paris, and if it be 7 per cent. at London, they hasten at Paris, which is the great market of exchange, to take the paper upon London; they realise its value, they sell its obligations and they receive in exchange paper upon Paris with which they buy paper on London.

Let us suppose the contrary case: all the paper that I have on London, I send to London and I realise my capital to buy paper on Paris.

The effect of this difference of the rate of interest, when it is higher at London than at Paris, is then to keep out of England by the attraction of the high interest the bills, which, without that, would go to be negociated at London. . . . M. Émile Pereire.—At the Bank of England?

M. d'Eichthal.—At the Bank of England . . . which would induce the necessity for it to increase its issue.

What does the Bank of England do in raising its rate of discount?

It keeps on the Continent all the bills which would have come to the Bank to be discounted, which renders money less scarce with it, dearer with us. You are conjointly responsible and, in that state of things, the exchange necessarily rises.

This is the inevitable result of the situation which M. Pereire has so well defined to you.

No, it is not necessary to send specie out of the country; but notwithstanding, when capital becomes rare and dear with your neighbors, if you do not retain it with you, they come to take it, or, if you will, the debt that England has contracted remains in your hands, and it is your capital which pays for the merchandise that England has bought.

You have not to buy cotton in Egypt, say you. Agreed; but the debt of England comes to France, and it is you who give credit to England. M. Émile Pereire.—We lend to England. We give it credit for the amount of our products, but we do not lend it money. There is not, consequently, any risk for our metallic reserve.

M. d'Eichthal.—You lend to England. This is the clearest explanation which has ever been given. The adversaries of M. Pereire's opinion have never said anything more clear, more decisive that M. Pereire now says.

No, it is not possible that interest should remain high in England and low in France; the assimilation is of necessity, and if you have the imprudence not to submit yourself to that law, at the time when the transport of capital is so easy, you render your position dangerous, because the deficit of money will manifest itself, not little by little, but all at once, because in failure of warning, those who do not occupy themselves with what is going on, those who are absorbed in their own affairs and are shut up in their shops or manufactories, will believe that the situation continues to be the same as it was before, whilst capital will not have ceased to rarefy, and, instead of seeing it produce a successive rise of discount, which would permit them to reduce their operations, they will be exposed to these sudden and considerable differences, to these starts in the rate of interest of which commerce makes such lively complaints.

It was said, but a few days ago, that they blamed the Bank of England, because it had gone too fast.

Well, I can declare that all the men who are acquainted with English affairs, make only one reproach against the Bank of England, and that is that, it does not act fast enough, that it does not mark quickly enough the rise of the thermometer, but resists too much the movement which is going on. That is the only reproach which is addressed to it.

I repeat, M. Pereire has caused the situation to be appreciated in the clearest and most convincing terms for those who would reflect upon it.

M. Émile Pereire.—You have too much experience in banking affairs to maintain that, when English commerce is indebted to the stranger in very large sums, there can be any fear at Paris of the rise of the exchange upon London. It is the contrary which should happen ; if England owe much for the cotton, the wood the corn, the cattle which she imports, that ought to augment the quantity of the bills drawn upon her ; those bills arriving at Paris in much greater quantity ought to lower the exchange instead of raising it. Now, the lowering of the exchange hinders the departure of the gold.

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M. d'Eichthal.—What I wish to remark is this :—

There is nothing which less indicates the real position of the exchanges than the difference between the value of the goods exported and the value of the goods imported.

I go further : I say that, if you suppose all paid and all really exchanged, if you do not admit the intervention of credit, the country which is in prosperity will always have a sum of importations superior to that of its exportations, and that this difference will be in the proportion of the benefit itself.

I suppose all commerce represented by one merchant : that merchant sends 100,000 francs worth of cloth to New York ; there it is sold with a profit of 50,000 francs. . . .

M. Émile Pereire.—Such profits as those are not made !

M. d'Eichthal.—That is of no consequence, it is an hypothesis : say 5 per cent., 10 per cent.

This merchant sells his cloth at 10 per cent. profit. He buys merchandise in return, and he gains another 10 per cent. The French Custom House proves then the departure of the 100,000 francs, and the entrance of the 120,000 francs. The balance between the import and the export is then 20,000 francs in favor of the importation.

M. Émile Pereire.—You make an error of calculation.

M. d'Eichthal.—No, indeed!

If you make no intervention of credit . . .

M. Émile Pereire.—It is at least an error of reasoning. I am going, I hope, to prove it to you. I may deceive myself, but I am going to tell you how I understand it.

The Custom House estimates the things at their value.

When I send 100,000 francs worth of cloth to America, and the Custom House has valued my cloth at 100,000 francs, it is really 100,000 francs that I export, since they take the market price for the base of the estimate. But when once the ship has left the Port, these 100,000 francs no longer concern France or the French Custom House: they traverse the ocean: they find at New York a market good or bad; never mind, it is the risk of the merchants and commerce. They sell them as they can; they give you in their place what you wish, cotton, for example. If they have given you 120,000 francs, so much the better for you, but it is 100,000 francs, which are really gone, and 120,000 francs which are returned. The profit of the merchant . . .

M. Le Président.—You have not let M. d'Eichthal deduce the consequences which he would wish to draw from his observation.

M. d'Eichthal.—M. Pereire would consider the excess of importations notified by the Custom House upon the export as a loss. I say it is just the contrary; it is a profit.

M. Émile Pereire.—It is neither the one nor the other absolutely; but that is of no consequence. In the particular case cited by you, it is the affair of the merchant.

M. d'Eichthal.—That which is true for the merchant is true for the whole of France.

M. Émile Pereire.—If France gain, whether the profit be in money or in cotton, it is always a profit.

M. d'Eichthal.—You avail yourself of this argument, that in exporting more than you import, so far from making specie go out, you make specie come in.

I am going to show you that it is the contrary.

If you export merchandise for 100,000 francs and if you sell it at a loss of 10,000 francs, you have only 90,000 francs for return; you have then an export of 100,000 francs and an import of 90,000 francs. Evidently, if France be in a parallel position, it is a loss. Suppose, instead of sending merchandise to the United States to be paid in cotton, I have sent it to California, which has no other merchandise than gold; California will send me back gold; but I shall always be at a loss of 10,000 francs.

M. Émile Pereire.—That is not a parallel case with imports and exports.

There is besides one thing certain: it is that if we export more products than we import, they ought to pay us the difference in money, unless we consent to lend the amount of this difference.

M. d'Eichthal.—All that I would say is that, I believe you are not correct when you avail yourself of that argument, drawn from the difference between the imports and the exports, to maintain that the Bank has been wrong in acting as it has done, whilst our exports exceed our imports. The proof is that if you examine the state of the Custom House in England, you will see that, for many years, it shows imports much more considerable than exports, for fifteen years that has been so. England, notwithstanding, is in a state of increasing prosperity, and these returns of the Custom House show a state of continual impoverishment!

That is not possible. It is the country which imports the largest amount which is in prosperity.

M. Émile Pereire.—It is a great error to seek to appreciate the loss or profit of a country by the excess of its imports or exports.

The same phenomenon has not the same signification for the various nations; thus, Austria and Spain import more produce than they export and are not however, in the same situation as England.

I do not wish, however, to rest the discussion upon that. You seek to show that the balance of commerce, which all the great economists have combated, is a truth; I am convinced that you are wrong, but that is not the question; it is absolutely foreign to that which I have proposed to prove, namely, that it is an act which I shall take leave, without wishing to wound any one, to call barbarous, stupid, to wish, by such vigorous measures, to give warnings that, by a strange confusion of words, they call salutary, to restrict the import of cotton, of woollens, of silks, etc. It is the contrary which is necessary to be done: for it is, I repeat it, with these raw materials that the wants of a country are provided for, that give work to our working population, that sustain our manufacturer, our commerce, and that increase, at the same time, the riches of the country and the mass of our exports.

What I say here for three principal articles of our imports of raw materials applies, but in a different sense, to the products of our agriculture. In raising the discount, they stop all speculation in corn, wine, oil, sugar, and they increase the sufferings of our agricultural population by the depression of prices.

M. Le Président.—It is proved that, for fourteen years, the balance of commerce is, in England, to the profit of imports to a considerable amount, and I am convinced, with M. d'Eichthal, that that goes for nothing as a proof of impoverishment, but would rather be, on the contrary, a proof of wealth.

The movement of imports represents the amount of consumption which the accumulated wealth of a country permits it to make, and that of the exports, the amount or excess of interior production which spreads over the exterior. That would be two parallel currents, two distinct currents, which are not absolutely responsible the one to the other.

But the argument of M. Pereire was foreign to this question. He would say, I believe, that between the merchandise exported and the merchandise imported, there was a level such as the compensation made itself by reciprocal obligations, without the necessity of a violent displacement of money. He acknowledged, without doubt, that there had been necessity for the purchasers of cotton and silk; but, according to him, these necessities had not involved an export of money in proportion to their importance, because these purchases are settled by means of sales made out of the country.

I believed that the observation which M. d'Eichthal wished to present was less general and less extensive than that which he has presented; I believed that he wished to speak of *the passage of time* which may exist between the import and export, between the purchase and the resale, passage of time which may admit of the use of credit and the necessity of an export of money.

M. d'Eichthal.—In this point of view, M. Pereire was wrong in saying that credit did not intervene. The United States at this moment buy of us enormous amounts of merchandise, but they do not pay for them all at once.

M. Émile Pereire.—I have not said a word of that; M. d'Eichthal ought to be well aware that I could not say that merchandise bought in France by America itself balanced the account, for he knows very well that there are passed by my hands many hundreds of millions of bills of exchange at two or three months date or at sight, which have served to balance these operations; I have said the contrary, that these operations do not necessitate an export of money from France.

M. Le Président.—I would return to what was, as I understand it, the capital point of the observation of M. d'Eichthal to M. Pereire.

He made the objection following:

When the rate of discount rises in England, the consequence of it is this: the French capitalist employs the bills, which he has or may cause to be disposable, to buy paper on London, because he thus acquires a claim which produces to him 7 per cent. of revenue. It results from that that the capital, which ought to be paid by England, is retained in France; there is there a postponement of three months in these maturities, a postponement which is determined by the rise in the rate of discount and by the profit which results from it.

Upon this first point, MM. Pereire and d'Eichthal are agreed, and I believe there is no dispute.

M. Pereire, developing his thought, has gone further and has said:—"When they are in face of an operation which presents itself thus, and of paper which produces 7 per cent., they sell their obligations, they utilise their bank-notes, they create for themselves resources by the aid of which they may procure for themselves this advantageous paper."

It is then that M. d'Eichthal comes in and says:—"It is thus that is produced the rarefaction of the resources which are found in a country. You have utilised your money to buy paper on London, you have discounted your bills, sold your obligations; you have asked for renewals: in what does it result? As you have taken all these resources to the Bank of France, which is the definitive reservoir, the result of it is that the Bank of France finds itself, at a given moment, the bank, which has co-operated materially and by way of advances to this movement for the acquisition of paper on London, finds itself, I say, in a state of disproportion between its reserve and its issues: and if it had not raised its discount progressively, it would have been obliged to do it suddenly, and by this abruptness, it would disturb the quiet and derange the normal combinations of commerce."

What have you to reply, M. Pereire, to this objection?

M. Emile Pereire.—If England had enormous wants, and if she had not sufficient money for circulation, there would be some truth in this objection, because, in the definite, credit cannot be given on an indefinite and unlimited scale. If it concerned 200 or 300 millions, that is nothing for France; 500 or 600 millions, that would be another thing. In reality, the extraordinary investments of this nature hardly exceed 60 to 80 millions. The available resources are not all exhausted at the Bank, and lastly, as to that which concerns England, France exports gold only very exceptionally.

The Bank of England raises its discount, I repeat, not because it has not money, but because it is not permitted to issue a sufficiency of notes. The whole question is there.

The void is filled by delays of payment (*des atermoiements*), by credit. So it is at Paris, at Brussels, at Lyons; so it is everywhere, because there is always everywhere disposable capital. There is no occasion to send away the money from the Bank of France to take bills of exchange. There is in France, and at Paris especially, a movement of capital of which no one has an idea. They reason too much about the treasury (*l'encaisse*) of the Bank of France; this treasury is only the hundredth part of the disposable capital of the country.

See the last loan to the City of Paris, it was entirely subscribed in one day; they were even obliged to reduce one-third of all the subscriptions.

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The abundance of capital is so great, that the shares fully paid up are worth 10 francs more than the others.

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Thus they have found in one day 270 millions for the City of Paris, and they knock in vain at the door to give the money in advance. The City of Paris will not receive it. The financial resources of France are immense.

I spoke to you just now of the sums which have been borrowed in the several states during the last five years; the figure is from 10 to 15 *milliards,* 20 milliards even, including the loans to the United States.

I have made a table of the railroad bonds (*obligations de chemin de fer*) which have been issued at the rate of 300 millions of francs per annum,—and they have negociated even more,—it reaches the figure of 6 milliards, at the interest of 5½ per cent.

See how rich France ought to be, since she has comprised the reproductive value of capitals!

I believe that, sometimes, we do not take this sufficiently into account, and that this mirage of gold and silver so troubles the spirits that that causes sometimes gross mistakes.

I say, then, to return to the question, that this situation of a different rate of interest between France and England has only the effect, on the Continent, at Paris, Amsterdam, Berlin, Antwerp, Brussels, and in Switzerland, of making them hold their English bills which carry 7 per cent., which they prefer to paper on Paris at 4 or 5 per cent. But, as the demand for the paper on London at 7 per cent. increases the demand for paper at long date, the price is raised and the difference disappears; the level is restored.

For that it is not necessary to suppose that England is going to demand our gold, she cannot do that, since she is our debtor. I do not believe in the effects attributed to the balance of commerce, but I must acknowledge that it is we who sell to England corn, eggs, poultry, cattle, Parisian articles, articles of taste, that they do not know how to make in London as at Paris, so that England is indebted for the merchandise that is sent to it from France, and from the whole universe. She buys our products, our stuffs, and pays us with the amount of her exports to other countries, with the dividends of the loans that she has made to Turkey, to Russia, etc., the balance at last is paid to us in gold.

Why does Holland, who has served as banker to

Europe and America these last thirty or forty years, why does Holland continue to have considerable capital? Because she has the savings and the reproduction of the capital which she has lent to all the countries, and she lives upon her acquired riches.

The people who are thrown on their industry and commerce, as England, and as France, receive the price of their savings, of their economies, and it is thus that the balance of the exchanges, this movement of the capitals, movement which troubles so much the imagination, is found in our favour, because, if we have borrowed, we have also lent much to the foreigner.

M. Le Président.—Thus, according to you, the purchasers of bills on London, which can be solicited (*sollicités*) by a high interest, such as 7 per cent., are covered by the disposable money of the banking-houses and capitalists, and unless the crisis be very strong, the reaction of these operations makes no impression on the Bank of France to the extent of causing a rise in the discount.

M. Émile Pereire.—No, it is in England even that that is corrected, for the bills on London that the rise of the interest naturally retains on the Continent, not being presented for discount at the Bank of England, the demand for bills diminishes and the equilibrium is restored.

M. Le Président.—It is a movement which, in itself, is satisfied by the ordinary efforts of the capitalists, and which corrects itself as much by the delays of payment (*les atermoiements*) even obtained, as by the creation of new bills which bring about the elements of compensation and of liquidation?

M. Émile Pereire. My opinion is well resumed.

M. Hubert Delisle.—Consequently, there is no influence by raising the interest of one bank upon another.

M. Émile Pereire.—Absolutely none. That would not hinder me, if I had the honour to be the Minister of the Finance, or the Governor of the Bank, from making all possible efforts to obtain an understanding (*entente*) between the Banks of France and England. WITH THAT THERE WOULD BE NO MORE DISTURBANCE IN THE CREDIT OF EUROPE. It would suffice for that to meet each other, to understand each other.

At first the English would not take any shares in the French railroads, because they feared that in case of war they might come and confiscate their shares and debentures. We have agitated this question for the last twenty or twenty-five years, with the principal English bankers, and with the great Engineers, such as Stephenson, Brunel, Locke and others; we have their explanation that there would be no confiscation possible with the claim to the holder; all is settled, and we have the co-operation of the English capitalists.

M. d'Eichthal. — To resume the opinion of M. Pereire . . . .

M. Michel Chevalier.—M. le Président has just resumed it, with M. Pereire's leave.

M. le Président.—M. d'Eichthal wishes, perhaps, to resume in a different manner, and from a different point of view.

M. d'Eichthal. — M. Pereire acknowledges that, when the discount is at 3 per cent. in France, and at 7 per cent. in London, the bills on London are retained here, and they are sought to be obtained; they discount at the Bank of France to buy them, and the effect of these purchases is to make the exchange rise . . .

M. Émile Pereire.—It does not rise, it lowers.

M. d'Eichthal.—Not at all!

A pound sterling, instead of the value here 25.25, is worth 25.30.

If this movement continue, if you remain at 3 whilst the Bank of England is at 7, they continue the purchase of bills until there be no more profit to be made by them. Then, when the Bank of England raises its discount to a rate sensibly different from that at which it is in France, it is very possible at that moment the exchange may not be against you; but if you let this difference continue, in a very short time, the exchange upon London will rise.

M. Émile Pereire.—It will not rise, for the reason that when the discount rises at London, the paper on London becomes more abundant at Paris; they offer it more. Only the price of long paper will be more raised than that of short paper, on account of the advantage gained on the interest.

M. d'Eichthal.—How is that?

It rises. He who takes the paper will lose part of the difference.

When I am able to draw on London at 25.35 under the deduction of interest as you will, I shall do it, that is to say, I shall draw upon my correspondent at London and shall send him gold.

M. le Président.—Now M. Pereire, will you approach the question of capital?

M. Émile Pereire.—Upon that point, the elementary thing, it is that the capital should be disposable. Why is it not at first in England, afterwards in France? That is what is not understood.

I have established before you by figures, with the result of the last balance sheet, published five days ago, the 2nd November, [1865] that, the Bank has no disposable capital.

It has 200 millions fixed [immobilisé] that is to say, 2 millions over and above the total of its capital and its reserve. Why this fixity? [immobilisation.] Is it that they would not easily find investment for these 200 millions which are so vexatiously fixed in their coffers,—when they would have useful employment, when they could serve as a pledge for a much greater circulation? That is not explained.

They give two reasons for that. Some say: The Bank does that to draw two grindings from one sack. It guards its social funds as a guarantee, it takes with its notes bills of exchange which produce interest, and, on the other side, it draws from the same social funds an interest by the arrears of *rentes* which it receives from the State.

Evidently, this is to draw two grindings from one sack, but it may draw these two grindings all the same in another manner which may be less dangerous for it and for the public. I do not suppose that the object of raising the discounts is to raise the dividends, since this is denied.

I return to the principal question.

If the capital of the Bank were free [mobilisé] what could it do with it?

It would discount more and cheaper, it would take more bills of exchange. If the bills of exchange on France were not sufficient, it would take bills of exchange on the foreigner. With that she might have a safeguard for the demands for money which might be made upon her. The great purchases of cotton in the Indies and in Egypt are made, as it was well said by M. Pastré, on account of England, which consumes seven or eight times more of cotton than we do. There is the great market, the great emporium, it is there that the stock is found. If the Bank of France had bills of exchange on the foreigner she will always anticipate the demands for money.

They will tell me: the 200 millions of capital of the Bank of France will be quickly exhausted!

So much the better, if quickly!

It will be necessary for the bank to raise its capital to the level of the progress of affairs. It did so, in 1847, for 1,500 millions of affairs, and I believe it did it in 1864, for 8 milliards. Now, as it is impossible that such affairs should always be done without capital, it is necessary that there should be capital, and capital in proportion. I admit that three, four, five years after the increase shall have been made, the capital may again be insufficient. Well, it will procure new resources, which it will be able to invest usefully.

Invest usefully! Let us understand each other!

I compare the Bank to a Railway Company which has a privilege.

No other than I, for example (I take the liberty to identify myself with the Railroad Company of the South) can employ the same means of transport from Bordeaux to Bayonne. They impose tariffs on me. I ought to submit because I have a monopoly and a privilege. But there is another condition that they impose upon me. It is to have *matériel* sufficient for transporting the merchandise which is presented to me. If the *matériel* which I have constituted at the time of the concession be not sufficient, I must increase it. I shall come with bad grace to say to the Minister of Public Works to say: "Monsieur le Ministre, my platforms are obstructed; they call on me to transport from all sides; I cannot do it; let me take 10 centimes instead of 5. In this way I shall distribute the transports over a much longer period and I shall avoid the obstructions." Not at all: I must create new *matériel*,—sufficient *matériel*.

Well, the matériel of the Bank is its treasury. It has a privilege, which I do not discuss; but at least, that privilege being given for the benefit of all by the State, which represents the generality, the community, the State watches over that privilege, the greatest of all the privileges, for it is the base of all labor, of all industry, of all commerce, of all prosperity, of all wealth, it ought to make its use useful, intelligent and not selfish.

When I use the word *selfish,* I do not mean it in a bad sense.

M. le Président.—Use in a general and not a particular interest.

M. Émile Pereire.—Yes. I say only that it is necessary that they should make a moderate use of the privilege, otherwise it would justify the institution of many banks.

I have told you that there are two important services to render in matter of credit. The Bank had been instituted to render only one originally. It is since 1852 that it has been called to render two. Before it was only a Commercial Bank; since 1852 it has been a Bank of public funds and railway bonds.

Frankly, it does not fulfil this second function. It does not like to fulfil it; it has been imposed upon it . . . .

M. Émile Pereire.—I have been engaged in affairs at Paris since 1822, and I can say that the Bank has always been administered in such a manner that no person has ever raised a doubt about the value of the Bank note.

The only doubt has been the convertibility of the note into money, or rather, into money independent of the credit accorded to the Bank.

When they have to make payments to England or to Russia, they cannot send notes of the Bank of France; they must send money if they have no merchandise. Now, to insure the constant convertibility of the note into money, it is necessary that the social funds should be always disposable. That is the only thing that belongs to the Bank, for the rest belongs to all the world, to you, to me, who have notes of

200 francs, of 500 francs in our pocket; that which belongs to it, is its capital, its social funds; it has the evil, the very great evil of being indisposable [de l'immobiliser].

Not only in my opinion, from what I see, from what I know, from what I practise, it will be an insufficient thing for it to have in two or three years the disposal [la disponibilité] of this capital of 200 millions which has been immoveable [immobilisé]; but it will be inevitable in two or three years that the Bank should be authorised to augment its capital or to issue bonds [obligations], for, above all, it is necessary that it should do the service for which it is constituted.

To resume, I say that the capital of the Bank ought to be realised. It will employ it in paper on Paris or in bills of exchange. The expression "foreign bills" is an improper expression; these should be called bills of exchange on the foreigner, which is not the same thing.

It is well that you should know, and, as for myself, I have very long experience, that the paper which is carried to the Bank has three signatures, that it is paper upon bankers or paper that the banks take, that it is the paper on Hamburg or on Amsterdam, which never suffers loss. They never lose who have the current paper of the Bank; it is solid as gold. See the yearly accounts of the Bank; it has no losses, its risks are almost nothing.

Again, the solidity of the Bank note and the solidity of the Bank itself have never been in question.

When it is said that the Bank council should have less thought of bankers and more of merchants, that is perhaps a professional quarrel, for, in a technical point of view of the trade, the Bank is perfectly administered. They would have there only the old hands well accustomed to the work. There is there a sort of acquired rapidity. It is very well organised, it has a well selected staff, it has notably model treasury clerks, and that is something in an establishment where they are looking after 100 millions in a day. It has an excellent staff, a thing not to be acquired without a good deal of patience and experience. It has a committee of discount very enlightened and which officiates well.

In the council, there are young and old interests; there is only one danger against which the Bank has to defend itself, that is a party spirit; for the rest I speak of it only incidentally.

I say only that, if the Bank cannot do all the service of the country, the necessary and indispensable service, it ought to leave others to do what it cannot do itself.

The performance would be very easy.

Is it that the banks in the departments did not act suitably and usefully before 1848? They acted; and however, what was their capital? It was insignificant.

M. Pastré.—They did not act very well!

M. Émile Pereire.—That depends.

There was good, and there was bad; in the mass they acted well, and none of them, moreover, lost a farthing either to the public, or to the shareholders. No one has been refused the payment of his notes at sight, and that is the important thing.

In review, I believe that the Bank ought to increase its capital and sell its stock [rentes].

I believe also that it ought to have a *maximum* of discount.

If the Bank would guard its privilege, it ought to submit to these consequences; it ought, I say, to have a *maximum* of discount, and it ought to confirm (homologuer) its raisings of discount.

The *maximum* rate ought to be 4 per cent. which has been maintained by the Bank during forty years; the ordinary rate ought to be 3 per cent.; and that rate of 3 per cent. should be raised only after the confirmation of the Government, after the Government shall have rendered account of the necessity for such raising, that is to say, of the state of the exchange, of the state of the material imports and exports of money, after a verification which is elementary. That it is not sufficient to pretend that, specie is exported, to give the right to raise the discount.

M. Le Président.—And for the loans or discounts of title, if the Bank remain refractory to the system of operations, it is necessary, according to your system, to require that the Bank should allow it to be done by another institution!

M. Émile Pereire.—Which could and would do it.

As to its capital, it will be made to realise it, and when it shall become insufficient, in consequence of the immense increase of its affairs, it will augment it to put it to the height of the necessities to which it will be held to provide.

M. Le Commissaire Général.—If M. Le Président permit, I will address to M. Pereire one question, which appears to me, in the point of view of the *Questionnaire*, to complete his deposition, and the information which he has been kind enough to give us.

Among other objections to the fixity of the rate of discount, is this—

M. Émile Pereire.—I do not ask for fixity.

M. Le Commissaire Général.—But you ask for a *maximum* rate.

M. Émile Pereire.—Yes, but I stop at the idea of fixity, because they have attributed to me a pamphlet remarkable besides, which has been done by one of my brothers in law, which I do not accept in that which is absolute, as regards fixity.

M. Le Président.—The *maximum*, in your system, will be 4 per cent.

M. Émile Pereire.—Yes, Monsieur Le Président, that rate has been proved by a practice of forty years.

M. Le Président.—So the Government even could not exceed that figure.

M. Le Commissaire Général.—With the authority of the Government, could it not be exceeded?

M. Émile Pereire.—That would not be necessary with a sufficient capital and a provident arrangement, and imposing on oneself temporary sacrifices which would be a feeble compensation for the privilege with which the Bank is invested.

M. Michel Chevalier.—On these occasions the Government can do everything, in case of absolute necessity. M. Pereire speaks of the common run of affairs.

M. Le Commissaire Général.—This is the objection which has been made.

I should wish M. Pereire to give us in a word his opinion upon that.

It is laid down in fact that the Bank, in the ordinary state of things, does only a certain quantity of the discounts of that country; that the rest is done by private capital, and it is said: If the current price of real capital in the country, if the real hire were 6 per cent. for example; if those who discounted with their capitals at 6 per cent., and the Bank discounted at 4 per cent., would it not be to be feared that instead of the Bank carrying the third or the fourth of the discounts, for example, it would carry all, and that then it would be obliged, in self-defence, to close its treasury, that is to say, to cease to discount, which would be much more prejudicial to commerce than raising the rate?

M. Émile Pereire.—The embarrassment, in that case, would not be to the Bank, but to the capitalists, who cannot find any other employment for their capitals. The Bank has about 600 or 700 millions appropriated to discount; there would remain, on the hypothesis put, two or three *milliards* in the particular department; now, it is inconceivable that they should find employment for a capital so considerable at a higher interest than that of the Bank of France, it is the contrary which would necessarily follow. They would be obliged to content themselves with interest lower than that of the Bank of France: but the proportion which you have indicated is very far from the reality: the paper admissible at the Bank has such a character of solidity, that the rate of interest at which it is negociated is not subject to such strong variations. It is paper with three signatures, the maturity of which cannot exceed three months, the maturity of which on the average is 45 days. Beyond the Bank, this paper serves to employ the floating funds of bankers and great merchants. When they have it in their bill-cases, they consider it as money in hand, it is disposable capital, for it can be at any instant converted into bank notes. This employment of the floating capital of bankers and great merchants can never cease, because the houses have always the same wants and there are no great affairs possible without floating capital.

This floating capital and its employment, in some sort obligatory, in paper at short date negociable at the Bank, instead of diminishing, will constantly increase by degrees as the affairs and number of merchants and bankers increase. You have the proof of this fact in the accounts current open in the various establishments of credit which dispose at this present time of many hundreds of millions, for which the depositors are content with interest from 2 to 3 per cent., when the Bank raises its interest to 5 and 6 per cent.

The mass of the negociations of that which is called bank paper operates principally in the world of finance and high commerce, and the Bank serves for regulator. Rarely, unless the paper be very secondary, it places paper above the Bank rate of discount. It is only commercial paper of two signatures which pays more. But paper, when it is excellent, is never negociated above the Bank rate, it is the contrary which happens.

M. Le Commissaire Général.—You think that the Bank rate of discount will serve for regulator in lowering as it serves for regulator in raising?

M. Émile Pereire.—Always.

M. Le Président.—We thank you, Monsieur, for the information which you have been so kind as to give us.

EVIDENCE OF MONSIEUR ISAAC PEREIRE,

26th December, 1865.

President. His Excellency M. Rouher, Minister of State.

EXTRACTS.

M. Isaac Pereire.—The regulating cause of the rate of interest is no other than the relation existing between the aggregate of the riches and the aggregate of the wants of a country.

Money is only a fraction of these riches, it is only a part, and its influence upon the interest ought not to be stronger than that of other parts.

However, money is generally confounded with general riches. This confusion arises from money being the standard of all the values, the common measure: thus part is taken for the whole, the measure for the thing measured; but, in reality, does not exercise, and ought not to exercise the exclusive influences that is attributed to it in the hire of capital. It only takes place artificially, owing to the actual constitution of Banks.

M. Le Président.—You would, perhaps, tell us more at large your way of thinking on the question of the causes which determine the rate of interest . . . .

M. Isaac Pereire.—I said that, the interest depends on the state of wealth of a country in relation to its wants. The more abundant capital, the more interest tends to diminish.

There is not, however, anything absolute in the rate of interest, it varies more or less according to the relation of the supply to the demand, but there is no positive reason to justify the fixing of the interest at one rate or another. This rate depends much on the respective situations of the capitalists and the producers, of the influence more or less great of the one and the other; it depends especially on the manner in which the banks are constituted; these establishments may be able, by the aid of the vast means at their disposal, to exercise a preponderating influence on the hiring of capital, and, within certain limits, to modify at their pleasure the relation of supply and demand.

It is remarked that the tendency of the rate of interest is to lower successively in proportion to the development of public wealth; but it cannot be too often repeated,—the capital, that which exercises the greatest influence on the rate of interest, in the manner of constituting the banks, these establishments are invested with an all powerful influence in this respect: it is by their means and with the capital which they previously deduct from circulation that the greatest mass of loans is made, and to this character they join that of regulator; this capital costs them nothing, they can lend them cheap, and, in that case, all the world is obliged to follow in the same way; but if the banks be so constituted that it is for their interest to raise the rate for the hire of capital, it is certain that the hire will everywhere follow a corresponding progression.

The question of the legal rate is not so simple as it is supposed to be. It is complicated by the monopoly of the banks. In the hypothesis of the liberty of the banks, I should not hesitate to recommend the abolition of the laws restrictive of the rate of interest, by reason that there would then be competition to satisfy the public on the best possible conditions; there would be no exaggeration to fear in fixing the rate of interest, for that exaggeration would immediately draw new capital into the commerce of discount, and that movement would be continued until the benefits in that branch of industry were brought to a level with those of all the others. But, as long as the monopoly of the banks exists, that is to say, as long as the commerce of discount finds itself delivered up to privileged establishments disposing of all the credit money of a country, I believe it would be dangerous to give to these establishments too extensive powers. At present, they have done the contrary of what they ought to have done: they have exempted the Bank from all restriction with regard to the rate of interest, they have exempted the Bank, which is a monopoly! And as soon as, in virtue of the dominant influence, of the preponderating influence that it exercises on the hire of capital, the rate of interest is raised everywhere, the share of labour is found to be diminished, and, as we have seen, that produces all the irregularities, all the disturbances which are the consequences of a like state of things.

I believe, then, that with the monopoly, which the Bank of France enjoys, we cannot, and we ought not to abolish the laws restrictive of the rate of interest, unless on the condition of limiting the power, which it possesses, of raising the rate at its pleasure. If that monopoly did not exist, we might be able, I repeat, to abandon things to their natural course, because liberty itself corrects, by the simple game of competition, the defects to which it gives birth; but, there would be, in my opinion, great inconvenience from abolishing the law of 1807, and proclaiming the freedom of the rate of interest before having regulated the monopoly of the Bank of France, before having guarded against the abuses which would probably be the consequence.

M. le Président.—So, in the general order of the relations between the citizens, you think that, the freedom of the rate of interest is a good thing; but that, in that which concerns the Bank of France, which constitutes a monopoly in the state, it ought to be subject to a fixed rule of which you will develop later the character and motives?

M. Isaac Pereire.—Yes, Monsieur le Président.

M. le Président.—So, with you, the principle is, freedom of the rate of interest; the exception is, the *tarification* [tarification] of the rate of interest in juxtaposition with the [vis-à-vis des] privileged establishments.

M. Isaac Pereire.—Yes, the *tarification* only in juxtaposition with the privileged establishments, the establishments provided with the means of credit which cost them nothing.

M. le Président.—Privileged—we shall see later what is the privilege.

M. Isaac Pereire.—I add that the banks have been instituted only to lower the rate of interest, and that they fail in their mission when they do not fulfil that character.

The lowering of the rate of interest is a thing desirable in all points of view. It gives rise to enterprises which could not exist if the interest were too high; it contributes, consequently, to the development of industry, to the increase of public wealth; it augments the share of labour, while at the same time it permits all the products to be delivered cheaper, whereas the charges of interest enter, for a considerable part, in the profits and in the price returned; it facilitates the amelioration of capital of all values, landed property as well as public funds.

The rise of the rate of interest produces contrary effects. It paralyses labour, depreciates the value of all property, and renders impossible the enterprises which cannot support the charges. In diminishing the advantages of labour in the interior, it reduces the number and proportion of enterprises.*

* The particular attention of the reader is invited to this short summary of the advantages of a low rate of interest.—*Author*.

Of Credit Money.

M. Isaac Pereire.—The banks act upon the rate of interest not only by the reunion, by the concentration of a gross capital destined to discount, but also by the employment of credit money of which I am going to speak.

Money is necessary to exchanges, since it is the common measure of all values, but money, as money, is sterile capital; it produces nothing by itself. I do not speak of the domestic uses for which it may be employed, I speak of money as money. It acts, in this quality, only as a medium in the exchange of products; I add that it has an intrinsic value.

The capital that all society employs for this purpose is considerable; and it can be procured only by means of products of a corresponding value. Credit money costing nothing and replacing in part this money, which represents effectively the value for which it circulates, there results from its employment a very great economy. Besides, credit money is much more convenient than coin money. Credit money acts, finally, in the service of the banks as a powerful means for lowering the rate of interest, since it furnishes the means of discounting, almost without expense, the promises of industry. Credit money is nothing else than the means by which the powerful credit of the banks supersedes the obscure credit of the private houses; the bank note is nothing else, in effect, than the conjointly responsible representation of a certain number of bills of exchange.

The pretext for considering credit money as diminishing, by its mass, the value of the metallic money, and, consequently, as necessarily raising the price of all things, is a pretext completely devoid of foundation; it is only a paradox.

The credit money is, in effect, the equivalent, the representation exact of the real money, the value of which has nothing arbitrary, since it is only the expression of the cost of production of the precious metals, and that value is universally recognised. The credit money postpones itself to the money of gold and silver; supplies and replaces it, and there remains in each country of the one or the other only that which is necessary for the wants of the exchanges.

The character of credit money augments with the development of affairs. Its employment is not unlimited, but it is indefinite. I cannot say within what limits it ought to be confined; it has no other than those of the development of affairs.

Credit develops itself at the same time, in a manner parallel, as much by the issue of notes as by the help of compensations at the *clearing-house*, accounts current, cheques, &c.

In proportion as a nation enters more forward in the ways of credit, she has more recourse to the modes of clearing and compensation, which are, in effect, means of regulation very simple and very convenient. But the bank note is appropriate to all uses, to others even to which the cheque cannot be applied; it is employed as money of which it is the appendix. Thus, with a cheque, which represents only an individual engagement, you cannot easily buy all the things which you are in want of, whilst with a bank note, which represents money, which is money, each can procure in all places all that is necessary for his wants.

M. le Président.—Do you believe that, in a given time, one of the means here in question may be destined, if not to absorb, at least to diminish the exercise of the other?

M. Isaac Pereire.—I believe not.

M. le Président.—Do you believe that it may bring about in France what it has produced in England, where it seems that this movement of circulation of notes may be a movement more slow than progressive?

M. Isaac Pereire.—I do not believe that the system of clearings or compensations ought to hurt the development of the circulation of the notes; it will not more diminish the use of money, the quantity of which augments every day; it seems to me, however, called to take with us greater importance, but affairs take also every day more considerable extension, and as this system has yet received only very imperfect applications, it may develop itself in stronger proportion without injury to the employment of the bank note.

In England it is by a sort of compression that the use of cheques generalises itself; it is in consequence of the adoption of the extremely restrictive system applied to the Bank of England that the circulation of the notes has languished, and this system, from which commerce suffers, is the principal cause of the crises which occur almost daily of London. If our neighbours adopted more liberal ideas, I am convinced that the circulation of the notes would develop itself, parallel with the use of the clearing-houses, in a considerable proportion. In France, in my opinion, it is the employ of the clearing-houses that wants development; in England it is that of the notes.

We must not, however, confound the *check* with the *bank note;* this is not only, like the check, a means of payment, an instrument of compensation or of liquidation of engagements arrived at maturity; it is again and especially an instrument of credit; it represents capital, since it is only the transformation of the bill of exchange; it admits of utilising, by means of discount, a portion of the floating capital that industry and commerce hold in reserve for the wants of their transactions.

This distinction in the nature of the two effects is indispensable to avoid falling into fatal errors.

The Conditions of Good Credit Money.

Credit money ought to be constantly convertible into money. The absence of this condition would give rise to grave abuse. Without the control of money, there would be not only instability, but a continual degradation in the prices, the depreciation of paper money being always produced in direct ratio to its multiplication. Money is for the banks a counterpoise, an indispensable touchstone; it permits us to recognise if there be too much or too little paper, that is to say, bank notes. When there is too much, we naturally call it in, and the real level of the wants of circulation immediately restores itself; we are thus sure that, with constant convertibility of the bank note, there cannot be excessive issue; when there is not enough, you carry money to the bank to take out notes, or else you issue new notes with the same funds in the treasury.

There is no excess of issue, I repeat, unless when the paper has a forced circulation, a thing most detestable. I believe it useless to prolong this demonstration, convinced, as I am, that I shall be in accord with all the world in saying that, the bank note ought to be constantly convertible into money. It is a condition without which it cannot circulate in a regular manner.

The systems of unity and plurality of banks have each advantages and inconveniences. The one and the other exist on a very large scale in the different countries. I do not believe that the inconveniences of plurality or liberty are greater than those of unity or monopoly.

[Evidence on this part of the subject seems unnecessary, and is, therefore, omitted.]

. . . . . .

Establishments which Issue Credit Money.

In my opinion, the Bank of France is far from satisfying all the conditions which a bank of issue ought to fulfil.

[This part of the evidence applies more particularly to the Bank of France, and is, therefore, omitted.]

. . . .

. . . .

What advantages or what inferiority does the Bank of France present with reference to the organisation of foreign banks?

I consider it useful in this comparison to occupy myself only with the Bank of England, because that establishment is the only one which exercises a serious influence on ours.

I have criticised the Bank of France from my point of view, but I shall have only to eulogise its organisation, if I compare it with the Bank of England; it is, in fact, infinitely superior to that of the Bank of England.

The Bank of France is not limited in its issues, while the Bank of England is limited in a manner extremely grievous. All the resources of the Bank of France are concentrated in a manner to produce the most useful effect, whilst those of the Bank of England are divided with the view to limitation and restriction extremely injurious to the circulation and to the affairs. The Bank of England has been, in effect, separated into two departments, that of issue and that of discount (banking);* the one only creates a number of notes determined beforehand, the other is charged with their employment; for this separation there has been no other cause than the desire to limit the issue of notes, but, by an inevitable consequence the action of the discount department has been found to be singularly reduced.

* M. Pereire perfectly understands the division into two distinct departments, the Issue department and the Banking department; but to make himself more intelligible to those whom he is addressing, he often speaks of the Discount department, meaning the Banking department.—AUTHOR.

The Bank of England can only issue notes with their representation in public securities or in money; its capital is almost wholly lent to the Government; of the £14,000,000 sterling, of which the capital consists, £11,000,000 are lent to the Government, and £3,000,000 are invested in the public funds. Beyond this figure of 14 millions, the Bank of England can only issue notes against specie; so that, under this condition of things, it fills only the function of a bank of deposit. The 14 millions of notes that it can issue, as representing that which is due to it from the Government, and the sum invested in the public funds, are remitted by the Issue department to the Banking department, to be employed by the last in the operations of discount and advance; this department again serves itself with the sums which are deposited on accounts current.

Now, the Bank of England, being absolutely limited to these 14 millions sterling, of notes as capital, when this capital is too deeply cut into, is forced to stop from cutting into it any more, and is obliged to raise the rate of discount in order to diminish the demands which it cannot satisfy without danger.

The Banking department has no other relation to the Issue department than that of the partnership to the sleeping partner [*commandité à commanditaire*] for the capital and notes received, and the rule of the Banking department is always to have in notes or in gold, a reserve equal to the moiety of the sums which are deposited on accounts current; it is admitted in principle that the Banking department is in a situation entirely normal when the reserve of notes reaches that limit of the moiety; when that exists, they are easy about the possibility of satisfying all demands for repayment, and they lower the discount; when that proportion diminishes, they raise the discount, and they raise it in proportion to the diminution of the reserve.

When I say that the Bank of England holds to have, in the Discount department, a reserve equal to the moiety of its accounts current, I mean always to speak of its notes, for the notes form the money with which it is almost exclusively served; specie is employed only for change [*appoints*]. There is a little pocket-book which the bankers and merchants of London make use of, and in which they inscribe each day and each week the amount of the accounts current, and of the reserve of notes. On inspection of this little book, to which they give the title of *barometer*, is to be seen at once, by the return of the notes in reserve and the amount of the deposits, [*le montant des comptes courants,*] if the Bank ought to raise or lower its discount. It is a material rule; the Banking department here acts as a machine *self-acting*, in a manner purely mechanical.

Such a system presents grave inconveniences. Thus, when in consequence of this limitation of the issue of notes to a figure which, good perhaps in 1844, is become to-day completely insufficient, the Bank is obliged to raise its discount, it exercises a fatal influence upon all the transactions, it paralyses them; —and it is not exceptional that a like state of things manifests itself, it is become permanent, and is aggravated every day. It is that which has brought commerce to the necessity of seeking a remedy in the formation of associations known by the name of *Joint Stock Banks,* and of establishments of compensation or of liquidation, which they call *Clearing-houses.*

The system which consists in the issue, beyond the amount of an immoveable capital [*capital immobilisé*], of only a quantity of notes corresponding with the specie in reserve [*en caisse*], produces, besides, this deplorable effect, that when they go to demand specie at the Bank of England for the wants of export, they cannot do it without withdrawing from the market an equal amount of notes, which produces a contraction in the circulation very prejudicial to the movement of the exchanges.

Under these divers aspects, our Bank presents a great superiority over the Bank of England.

Nevertheless, one of the advantages of the English system is, that the Bank of England never wants money; it has always, in fact, in its chest a sum equal to 60, 70, 75 per cent. of the amount of notes really in circulation. The Bank of England only wants to issue more notes; that is so true that, twice, they have been obliged to violate the law in this respect, and to authorise the Bank to issue more. In 1847 and 1857, there were two violent crises in England; the greatest houses fell one after another, and, to avoid general ruin, it was found to be an imperious necessity to authorise the Bank to exceed the legal limit of its issues. Each of these times, as I have already had occasion to say, they wanted to augment by two millions sterling, only the permitted amount of issues, and it was not even necessary to issue these two millions; the first time, they did not use the authority, and the second time they issued only £945,000 of new notes; the certainty that the Bank was in measure to resume the ordinary course of its operations sufficed to restore confidence, and the crisis disappeared as by enchantment.

It is not by the same motives that the Bank of France raises the price of its advances; it is only because it fears the want of money to reimburse its notes.

Thus, whilst the Bank of England escaped the crisis of 1847, thanks to the power of extending its issues [by suspension of the Law], it is by the sales of its *rentes* to Russia, that is to say, by the realisation in specie of the portion of its immoveable capital, that the Bank of France attained the same end.

The year following, in 1848, the capital of the Bank of France, finding itself once more placed in *rentes*, the Bank is obliged to solicit from the Government the forced circulation for its notes.

It may then be said that the Bank of England wants only to issue more notes, and that the Bank of France wants only to have more money.

The wants of the two Banks being different, I do not know why the Bank of France is always so very much pre-occupied with what the Bank of England does. The practices even of the two establishments are different: the Bank of France can buy gold or silver at the price which suits it, and, when it wants it, we have seen the premiums that it pays; but the Bank of England cannot buy gold at a price beyond its intrinsic value, it is bound to take at a fixed price all that is brought to it, and to give it back at a price equally fixed by the law, the difference between the two representing only the cost of coinage.

There is then no analogy, no mutual responsibility [*solidarité*] between the two establishments, and the Bank of France might very well maintain its discount when the Bank of England raised its own. The proof of what I advance is, that to-day there is a difference of 2 per cent. between the two banks; the discount is at 4 per cent. in France and at 6 per cent. in England, and nevertheless the gold of that country always flows to us, which sufficiently indicates that the Bank of France has nothing to fear from the Bank of England. The difference might reach 3 or even 4 per cent. with the same result, if the quotation indicated that the exchange is in favour of France; that however is nothing new, for, in 1847, a difference of 3 per cent. existed a long time in the discounts of the two countries.

When the Bank of England raises its discount, a certain fulness of bills of exchange payable at London, comes naturally to Paris, to find there a more easy and advantageous investment; what the Bank of France had better do in like case, instead of following the Bank of England in its usurious ways, would be for the Bank itself to take part of these bills of exchange; this indirect help which would give occasion to employ its capital very usefully, would promptly put a term to these ephemeral crises that we see arising every year; that would be completely efficacious; it would permit the Bank still, if necessary, to exercise upon the exchange a contrary action, by negotiating the same bills,—when the price of paper in London had a tendency to rise in a proportion disturbing to its reserve.

But as long as the Bank has the power of raising indefinitely its rate of discount, it will not have recourse to the means which I point out, and that we can understand, for we can no more ask institutions than individuals to act against their interests . . . .

The Bank might in the end avail itself of these bills on London to buy gold in England.

That would be a certain means to the Bank for rendering itself master of the position, and for counteracting all the contrary operations of the banker's *arbitragistes* . . . .

M. Le Président.—I wish to make an observation. . . . You come to deliver to the Commissioners a considerable formula. You have said :—the Bank of France wants money ; the Bank of England wants notes.

We are then, on this point, in face of three systems; a system which establishes a joint responsibility [*solidarité*] absolute between the oscillations of the rate of interest in France and in England ; another system which consists in seeing in this joint responsibility something accidental; and, lastly, your system, which you lay down as a thesis of complete non-responsibility [*non-solidarité*].

M. Isaac Pereire.—I do not place the question in a manner so absolute. I maintain that there exists no real joint responsibility between the two banks, but it may exist between the two countries ; that depends on the nature and the state of their commercial relations.

M. Le Président.—You consider that the Bank of England raises the rate of discount because she has not enough of notes, and the Bank of France because she has not enough of money. You say that you will examine later the means by the aid of which she can maintain her stock of money; but at present, your conclusion is that, there is no occasion to raise the rate of discount in France because the rate is raised by the Bank of England, and you tell us that, after the calculations that you have made, the Bank of England possesses 60, 70, and even 75 per cent. of metallic reserve comparatively to its notes. How do you make that calculation? Do you compare the metallic reserve with the notes issued only, or do you compare it with the notes, the accounts current, and the deposits united?

M. Isaac Pereire.—I compare it only with the notes according to the usage, and then I must limit my comparison, seeing precisely what you point out, that there are two departments in the Bank of England, that of issue and that of the affairs of the Bank. The Issue department delivers about 27 to 28 millions of notes to the discount [banking] department; but, in reality, there are in circulation only 20 to 21 millions; the difference is not really issued; it is found in the reserve in this last department, which is charged with the affairs of the bank, and opposite to these 20 to 21 millions of notes really circulating in public, the Bank has generally 13 to 14 millions, sterling, in its treasury.

It is between these 14 millions of money and these 21 millions of notes that I establish the comparison, because the metallic reserve has only to answer to the demands for repayment of the circulating notes.

The Banking department provides for its own proper wants entirely apart from the issue department. Sir Robert Peel had determined that there should be as much difference, as to the manner of carrying on the banking business, [quant au mode de fonctionnement,] between the banking department and the issue department, as there is between any other banker and the issue department.

M. Le Président.—Thus, in your opinion, the issue department and the banking department constitute two distinct banks?

M. Isaac Pereire.—Yes, Monsieur le Président.

M. Le Président.—Two distinct banks which it is necessary to regard intrinsically, without reference to the relations which may exist between them.

M. Isaac Pereire.—They have no other relations than those of partners to sleeping partners. [Elles n'ont d'autres rapports que ceux de commanditaire à commandité.]

M. Le Président.—Consequently, the active and the passive of the one ought not to appear [figurer] to the active and passive of the other.

M. Isaac Pereire.—They are separated, but only for order, for the two accounts represent at the bottom the same interest; they ought to be reunited, if you wish to appreciate the general situation of the Bank.

M. de Lavenay.—Which is it that makes the conversion of the notes?

M. Isaac Pereire.—Always the issue department.

M. de Lavenay.—That is what I wanted to have proved.

M. Le Président.—I have in my hands your pamphlet, M. Pereire, and at page 116 of the new Edition, I see that you examine the balance sheet of the Bank of England to the 7th September 1864. You say that the issue department has £26,876,895 of notes, and, on the opposite side, a metallic reserve of £12,226,895. The proportion of the reserve would be then a little more than the third...

M. Isaac Pereire.—I beg your pardon; notwithstanding the separation of the two departments, it is necessary for rendering an exact account of the notes really in circulation, to deduct, as I have done, from the gross amount of 26 millions of notes issued the 6 millions which are found in reserve in the banking department.

M. Le Président.—You have just proved, in a very neat manner, that the issue department of the Bank and the banking department constituted two distinct establishments; you have told me that the passive and the active of each of the two banks were two things perfectly separated.

Well, in your pamphlet, when you would establish the proportion between the metallic reserve and the issue of notes, you say: there is on one side £26,876,895 of notes, and on the other £12,226,895 in ingots and specie. Then you add: it is necessary to take to the banking department £6,067,030 of notes which are there in the chest, and deduct them from the amount of the notes issued; consequently, there remains only about £20,800,000 ot the notes issued, and the proportion between the reserve and the issue is 63 per cent.

I do not comprehend this deduction, unless you would make it operate at the same time upon the ingots and the specie, for the banking department is a creditor of the issue department, and the day when you will strike off from the 26 millions of notes issued the 6 millions possessed by the banking department, it must diminish the ingots and the specie in the same sum. It is a repayment to work out [à opérer].

M. Isaac Pereire.—I ought to cut off the 6 millions of notes not employed by the discount [banking] department from the 26 millions which form the total issues, and keep account only of the sum of notes in the hands of the public, and, to establish the true proportion of the ingots or specie in the possession of the Bank with the notes in public circulation, I ought to add the metallic reserve of the discount [banking] department to that of the issue department.

M. Le Président.—But the 6 millions of notes of the banking department are in the public; the banking department is the public as regards the issue department.

M. Isaac Pereire.—That can be true only in placing yourself in a very strict point of view, in an abstract point of view, that of the absolute separation of the two departments, but that is not conformable to the reality; the differences of functions between the two departments are profound, but they do not exclude however the community of interests which exist between them; they make part of one and the same establishment and are placed under the same direction.

To give yourself an exact account you may reunite the active and the passive of the two departments, without for that cause getting rid of the division which the legislature has thought fit to establish in their operations; it is not exceptionally that the discount [banking] department always keeps in reserve a certain number of notes, it does it only because it serves itself with notes in preference to coined money; it is its money, and it has no other interest to use its notes which form its reserve to make it send out without necessity the money of the issue department; it has no occasion to do it, for the reason that it could not serve itself with that money for discounts and advances. For that nature of operations, you can serve yourself only with notes, it is infinitely more convenient.

It would be necessary that they should go and get their money with carriages, if they would serve themselves with money instead of notes for transactions of the importance of those of the Banks.

We cannot then regard the notes that the discount [banking] department holds in reserve as being issued to the public.

In reality they consider as truly issued only those notes which are really in circulation, and to make that calculation, it is necessary to deduct from the total amount of the issues the amount of the notes in reserve in the Banking department.

Now, in the same manner as they cut off from the notes gone from the issue department the amount of the notes which are in the banking department, in the same manner they ought to add the specie which is found in the banking department to the specie which is found in the issue department.

M. Le Président.—It is the contrary that they ought to do.

M. Isaac Pereire.—How!

M. Le Président.—Permit me to tell you that it is the contrary they ought to do.

I insist, because the statement you make there is one of the capital points of your pamphlet; it is the fundamental thesis by the aid of which you arrive at your formula: "The Bank of England wants notes and the Bank of France wants money." Well, it is this formula that I seek to make clear.

First, one does not perceive *à priori* why it should be so. Then, there are publicists who have maintained that the proportion of the metallic reserve in relation to the notes was the same at the Bank of England as at the Bank of France, and there is a man who has taken the trouble to establish this thesis at all the epochs which he has thought proper to take.

I tell you then this: the banking department and the issue department being, according to you, two distinct individualities, as the Banking-house A and the banking-house B, when the banking department has in hand 6 millions of notes which have been remitted to it by the issue department, the banking department is creditor for these 6 millions of notes to the issue department, and these 6 millions ought to be considered as being issued to the public. The proof is that, if they came to the banking department to claim payment or reimbursement, they would receive these notes.

Thus, the day when you deduct these 6 millions from the amount of the issues, you cannot do it because the issue no longer exists, and it exists no longer inasmuch as you have reimbursed in money. Consequently, when you say: "The banking department has in hand 6 millions of notes, I deduct them from the 26 millions of notes issued," you are obliged at the same time to deduct, from the 12 millions of money which exist in the issue department, the 6 millions necessary to reimburse the 6 millions of notes. Otherwise you establish a proportion which is not exact.

Let us go further.

You have £743,552 in specie in the banking department, which proceed from particular deposits, sums which have been remitted to it on accounts current; you have enriched with it the metallic reserve of the issue department.

But the day when the metallic reserve of the issue department would be enriched by these £743,000, the issue department ought to issue notes for a corresponding sum and remit them to the banking department. Then the proportion would always be the same.

I do not then understand all this system, which consists in considering the issue department and the banking department as two perfectly distinct existences, having no relation between them than as two different banking houses have to each other, and to diminish the passive of the issue department by a portion of the active of the banking department, at the same time to augment the metallic reserve of the issue department by the metallic reserve of the banking department.

M. Isaac Pereire.—I have no difficulty in acknowledging that they might proceed as you do, in placing themselves, as I have said, at the point of view of the absolute separation of the two departments; but that manner of operating is not the expression of the reality. Suppress an instant, in effect, the separation of the two departments, reunite the accounts of the same nature in the two, and you will have the same result that I have; it is, I will add, the only manner to establish, on the identical terms, a just comparison between the situation of the Bank of England, and that of the Bank of France; besides, the observation you make does not destroy the formula that I have laid down,—that the Bank of England wants notes, whilst the Bank of France wants money, —because, even adopting your manner of proceeding, they would always have had to prove a proportion very satisfactory of the reserve in the issue department with the aggregate of the notes issued. In placing oneself, in fact, in this hypothesis, the relation of the discount with the notes in circulation with the public or in reserve in the discount department, was still nearly 46 per cent. and at that moment to the month of September 1864, they were at the height of the crisis; the discount was 9 per cent.

With a like proportion of specie, would the Bank of France ever dream of raising its discount? Actually, its reserve is far from reaching that proportion against the notes in circulation.

Since 1844, they have never been in England concerned about the diminution of the reserve at the point of view of the repayment of the notes; they have generally had the eyes fixed only on the figure of the reserve of notes in the banking department.

They complain of the outflow of gold from the Bank of England for the wants of exportation only because as that gold could not be withdrawn without the *notes*,—there would not remain enough of notes for the wants of the circulation.

My formula draws its importance from the limitation of the number of notes. The Bank of England cannot issue more than 14 millions, sterling, without having an equivalent in specie; it is because it cannot issue more that their convertibility is better assured; but they have only changed the nature of the evil, they have obtained that result at the price of frequent crises and often formidable; the remedy has only changed as the evil.

How, in reality, have they put an end to these crises? Have they had recourse to the ordinary means of *forced circulation,* as they would have done in France? No. They have put an end only by authorising the Bank of England to go beyond the limit of notes fixed by the law; twice they have authorized the temporary issue of 2 millions, sterling, more of notes, that is to say 16 millions in all without a representation in specie, and that means has always completely succeeded.

You see then, in fact, that the observation that you have done me the honour to address to me does not in any manner touch the formula that I have laid down; that formula is absolutely true.

M. Le Président.—You criticise the mechanism of the Bank of England; but not my observation...

M. Isaac Pereire.—Pardon! Your observation stands good so far as being able to modify, in the hypothesis which you have taken the figure of the return of the reserve with the issue of notes; but, even in that case, my formula stands no less good. It is not in the interest of any discussion that I wish to establish a proposition more favourable; I have only conformed to the custom in virtue of which it is considered that the notes are really issued, that is to say, susceptible of being reclaimed at the Bank, only when they are actually in the hands of the public.

M. d'Eichthal perfectly understands England, and he will be able to say if it be not always so that they make the Bank account; all the statistics testify to the truth of it. Only the notes issued are calculated as being in circulation, deduction being made of those which are in the reserve of the banking department, because it would never occur to any one to suppose that the Discount [Banking] department would wish to put the issue department in embarrassment by reclaiming the payment of the notes which constituted the banking reserve.

The Banking department, I repeat, can serve itself only with notes; that is more convenient and at the same time more conformable to custom. It discounts with notes, it reimburses the accounts current with notes. The depositor cannot say to it: "Give me money instead of notes." If they would have money, they have only to take the notes that the discount department [banking department] delivers to them, and go and demand the reimbursement at the issue department, which is obliged immediately to effect it.

Once more, notes are only considered really as issued by the issue department when they circulate with the public; and, at the bottom, the Bank of England never disturbs itself, as the Bank of France sometimes does, with the reimbursement of the notes; its anxieties are relative only to the difficulties which may occur in the operations of the discount [banking] department.

M. Le Président.—Thus, the statement which you have made is a statement established at the point of view of the habits of the public.

M. Isaac Pereire.—It is a calculation which has been made in remitting the accounts of the two departments; in maintaining the separation, as you make it, the proportion of the specie with reference to the total of the notes issued would still be more than 45 per cent., in the situation which I have produced.

M. d'Eichthal.—Since M. Pereire has just now referred to me, he will allow me to make an observation.

I believe that he has committed a grave error, and that, to avoid it, it is necessary to unite the two actives and the two passives of the issue department and the banking department.

In proceeding thus, here are the figures at which we arrive :—

Passive.

Notes issued	£26,876,895
Deduct notes in the banking department	6,067,030
remains .	£20,809,865
Bills at 7 days and deposits in the banking department	19,483,717
Total	£40,293,582

Active in Precious Metals.

In the issue department	£12,226,895
In the banking department	743,552
	£12,970,447

The active in precious metals is then 32.18 per cent. of the passive.

If ouy separate these two balances, you obtain the figures following :—

Notes of the issue department . . .	£26,876,895
Precious metals	12,226,895
which is 45.49 per cent.	

If you deduct from the notes issued .	£26,876,895
The notes of the discount department against the reimbursement of the specie	6,067,030
There remains in notes .	£20,809,865

But the precious metals in the issue department fall to £6,159,865

which is 29·60 per cent. of notes.

For the discount [banking] department, the passive demandable is £19,483,717.

The specie, or the specie and the notes reunited, are £6,840,582

which are 34.25 per cent.

How then does M. Pereire find that the issue department keeps in precious metals 61 per cent. of its circulation, and the discount [banking] department nearly 50 per cent. of its passive?

It is that, in these proceedings, he forgets the rule of compatibility which he himself has laid down, page 47 of his pamphlet; "that you cannot touch one of the terms of the passive without reaching a corresponding term in the active, and reciprocally."

He takes from the passive of the issue department, the £6,067,000 which form the reserve of the discount [banking] department; but he does not send out of the active an equivalent sum in money, necessary to be restored to the discount [banking] department. He goes further: he takes away these £743,552 of specie that it has in reserve, and does not give it any compensation.

In this manner, he diminishes the passive of the issue department £6,067,000, he augments its active £743,552, and he thus arrives at the 61 per cent. of which we have spoken.

As to the discount [banking] department, he establishes the proportion as if it had still in possession the £6,810,000 which he has taken from it, and which forms still only 35 per cent. and not 50 per cent. of the passive.

M. Pereire has thus based upon a grave error his assertion that the Bank of England wants notes, and that the Bank of France wants the precious metals.

It is not true, moreover, that the notes in hand in the discount [banking] department do not go out to pass into the hands of the public and be presented for repayment at the bank of issue. At all the epochs when capital becomes rare, the reserve of notes in the discount [banking] department diminishes, and the precious metals in the issue department diminish almost as much. Thus, the reserve of notes of the discount [banking] department, which is generally from 6 to 7 millions, fell, in 1847, to £200,000, and in 1857, to £1,200,000. Simultaneously, the notes delivered to the public were presented for repayment, and the metallic reserve of the issue department fell from £12,000,000 to £8,000,000, and even to £7,000,000.

M. Pereire has consequently committed a double error, but the most grave is that by which he arrives at these 61 per cent. of precious metals as regards the issues. This figure indicates such a guarantee, that the measures taken by the Bank of England were completely inexplicable, to such a degree that M. Pereire himself must have been surprised at the result at which he arrived.

M. Isaac Pereire.—M. d'Eichthal deceives himself in the criticism that he is addressing to me.

First, I will remark to him that I remain faithful to the principle that I have laid down, namely, that when a modification is made to the active of a balance sheet, the same modification must be made to the passive.

When I cut off from the discount [banking] department the 6 millions of notes which it has in reserve, and that I thus withdraw them from the active of this department, if I cut them off also from the 26 millions of notes in the passive of the issue department, I make a double operation with respect to the Bank considered in its unity, I take away from the active that which I take away from the passive.

M. d'Eichthal.—No! no!—You take away from the active of the one for the purpose of taking away from the passive of the other!

M. Isaac Pereire.—I make the same operation from the two sides, the symmetry is perfect and answers completely to the laws of the compatibility in double part.

Moreover, I avow that I do not attach very great importance to deducting or not deducting from the amount of the notes issued this sum of notes in reserve of the banking department. I wish to show only one thing, the relation of the effective reserve with the notes in circulation with the public.

You may group the figures as you would, but, in reality, a bank is bound only to give money against notes; all the other payments are made in notes, that is why you never compare the reserve with the accounts current, you compare it only with the notes in circulation.

The circumstance which rules the debate in which we are just now engaged, and which fixes the basis, is that, establishing a comparison between the Bank of England and the Bank of France, in relation to the proportion between the reserve and the notes in circulation, I have been obliged to take the identical terms for the two Banks. If you would establish a comparison, comprising the accounts current, I should not oppose it, but that would be another thing than that which I have wished to do, and moreover, it would not be according to the usage.

As to the fear of seeing reclaimed by the discount [banking] department the repayment of the notes to the issue department, it is without any sort of foundation; that of seeing the whole amount of these notes pass into the hands of the public is not less vain in the ordinary practice, since it is precisely with a view to avoid that extremity that the Bank of England raises its discount.

M. d'Eichthal said just now that, at certain epochs the metallic reserve had fallen from 12 millions, sterling, to 7 millions.

If I had made my calculation at that epoch, I should have taken the figure of 7 millions and not that of 12; the proportion of the reserve would have diminished, that is all!

But at the epochs of which M. d'Eichthal speaks, did the reserve fall in a manner calculated to excite anxiety?

The reserve of notes had lowered in consequence of the demands for discount, but the quantity of notes in circulation remained the same; they had not even enough, and the proof of that is, that they were able, without the least inconvenience, to make supplementary issues; they even did it with great advantage.

Whilst the discount [banking] department experienced such a restraint that it had been obliged to suspend its payments if they had not increased the quantity of notes, the issue department was in an excellent situation, holding in its reserve in the ratio of 35 to 40 per cent. with the circulation.

But, again, once more, I do not attach any importance to such or such grouping of figures. I wish to say only that, in the system of Sir Robert Peel, one part of the problem has been solved; the convertibility of the notes is there assured, because there are in general only from 20 to 21 millions of notes really in circulation and the reserve in specie is generally from 12 to 13 and 14 millions, in such manner that the effective proportion is generally from 60 to 70 per cent., which guarantees completely the convertibility of the notes in specie. That is all that I wish to establish. Now, to return to the question of principle that M. le Président has done me the honour to place before me, he will admit, I believe, that my calculation may be modified without changing the foundation of my proposition, the modifications that might be brought there not touching in any manner the formula to the subject of which he has questioned me.

M. le Président.—I do not intend to discuss the foundation of your proposition; I discuss only one of its elements.

Your opinion is that, the Bank of England wants notes and that the Bank of France wants money.

You prop up your opinion by the fact that the system of the Bank of England is a rigid system, which permits only a limited issue of notes. Thence inconveniences, say you, and inconveniences which have been revealed at two repetitions by a violation of the law itself and a ministerial authorisation of a supplementary issue of notes. That situation appears to you less advantageous than that which exists in France, and the French mechanism, compared with the English mechanism appears to you superior.

Now, in support of this thesis it had appeared to me that, in your pamphlet, you gave undue value to an argument which is this: the proof that the Bank of England wants notes, is that the issue department has, in metallic reserve, a proportion from 60 to 70 per cent. of its notes issued.

M. Isaac Pereire.—That is not precisely what I meant to say.

M. le Président.—It is not perhaps what you meant to say, but that is what I understood.

I observed to you that, from the moment when the issue department and the banking department were considered as forming two distinct individualities, the borrowing you made from the active of the banking department to cover a portion of the passive of the issue department, was not admissible; that you truly made a deduction from the active on the one side, to the passive on the other, but not to the active and the passive of the same person.

M. Isaac Pereire.—According to the manner in which you lay down the question you are right.

M. Le Président.—It was a deduction from the active of Paul to the profit of the passive of Peter.

M. Isaac Pereire.—You are right in these terms, Monsieur le Président; but let us not forget, however, that Peter and Paul are, in reality, but one and the same person; if you keep yourself rigorously to the principle of the absolute separation of the two departments of the Bank of England, it would be necessary to say then that there was 12 millions of reserve against 26 millions of issues, which would give nearly, as I show, a proportion of about 46 per cent., but I no less continue to think that the real situation was still better than that which appeared to result from that apparent proportion, though nevertheless, that was very satisfactory.

M. le Président.—You understand that, on the day of the crisis, the banking department pays what it owes in notes, that day the reserve of notes diminishes sensibly, and then, the proportion which you wished to establish by your labor lessens under the empire of the crisis.

Now, you must be in one system or another, that is in my eyes a fundamental question: either you must look at the issue department and the banking department as constituting two distinct individualities or you must consider them as one and the same individuality, like that which exists in France. In the first case, you must not weaken the passive of the one with the active of the other; in the second case, you must place in the face of the metallic reserve total all the passive demandable, that is to say, the sum of the notes issued and the sum of that which is due on accounts current or in notes at seven days' sight.

I have been anxious to elucidate your true opinion on this point, because I feared not to have well caught your figures; but I do not wish to insist further. Continue your deposition.

M. Isaac Pereire.—Allow me a few more words, not to answer further what you have just said, because I consider that question sufficiently cleared up, but to point out afresh on this occasion, in a palpable manner, the vices of the system of the Bank of England, in regard to the division into two departments.

Let us admit the absolute separation, such as you have laid it down, for strict reasoning. I say that, if such separation were so complete, it might happen in certain circumstances, as it did very nearly happen, however, in 1847 and 1857, that the banking department was obliged to suspend its payments, whilst the issue departments might be gorged with money.

Thus, at the epoch just now spoken of, the banking department had in *dépôt*, whether in notes or in bills at seven days' sight, £19,483,717, and its reserve of notes, including the fraction in specie necessary for the odd money, was only 7 millions. If the moiety of the depositors had come for repayment, the banking department would have found itself in a state of suspension of payment, whilst there would have been 12 millions of specie in the issue department.

Such an eventuality suffices to show the imperfections of a system the vices of which, however, are acknowledged by all the most distinguished economists of England, and have given rise to the recent very remarkable publications, among which I shall cite those of MM. Patterson, and Charles Tennant, Stephen Mason, Gutherie, and the discount emanating from the chamber of commerce at Glasgow.

Commerce itself sees distinctly to day the true cause of the evil from which it suffers, it is deeply moved by it, and an association, which is established at Liverpool for financial reform, is preparing itself at this moment for a struggle to obtain the modification of the system of the Bank of England.

M. Michel Chevalier.—I beg leave here to make a short observation.

To make a comparison such as that in question between the Bank of France and the Bank of England, ought we not in effect to suppose them placed in the same conditions? Since the Bank of France has not that distinction of the banking department and the issue department, is it not natural, for the sake of a rational comparison, to suppose for an instant that this distinction no longer exists in England? It is in this hypothesis, the only one to which logic accommodates itself, the only one which permits an equitable comparison, that the circulation of the notes of the Bank of England, instead of being in appearance 26 millions, sterling, is, in reality, only 20 to 21 millions, and in that case, the proportion of the money to the circulation we have seen to fall in France to 20 per cent. happens again, when the situation is however very painful, from 60 to 70 per cent. in England.

M. d'Eichthal.—Not at all!—from 30 to 35 per cent.

M. Le Président.—I admit perfectly that point of view that, to make the comparison, you may destroy the partition which separates, in England, the issue department from the banking department.

But that once done, the question is to know to what you will compare the metallic reserve. If you compare it only to the notes issued, your argument may be true; but if you compare it to the whole of the notes issued, and the deposits of bills at seven days sight, then the proportion is not more than 30 per cent.

M. Michel Chevalier.—From the two sides, you set aside the accounts current, and then the proportion is truly 61 per cent. The English legislature wished only to assure the convertibility of the notes.

When in France you have said that at a certain epoch the proportion of the reserve to the passive had fallen to 20 per cent. you would not speak of all the passive demandable, but only of the notes in circulation; the accounts current were laid aside. Thus, the reserve fell one day below 170 millions, in face of a circulation of 800 millions of notes: it was then 20 per cent.

M. Vuitry.—In general, the custom of the Bank is, when they examine the situation of the reserve, they do not compare it only to the sum of the notes in circulation, but also to the accumulated amount of the notes and the accounts current.

M. Michel Chevalier.—It is a manner of operating of which I am far from disputing the wisdom when the Bank of France looks into itself and renders an account to itself of its own situation; but, the point of view in which we are placing ourselves at this moment, in comparing the two banks, it is the quantity of notes which are really issued, of notes which are in circulation, in the hands of the public. Well, then, we remark this anomaly that the one, without being agitated, without anything to fear, sees the proportion between the reserve and the notes fall to 20 per cent. and the other believes itself in peril when it has a proportion of 61 per cent.

I do not know any demonstration more positive of the difference of organisation and working which exists between these two institutions.

M. Le Président.—Have the goodness to continue, Monsieur Pereire.

M. Isaac Pereire.—In the same series of ideas, and to push still further the comparison between the two Banks, I wish to apply by hypothesis to the Bank of France the system which regulates the Bank of England.

Here are some of the principal results of this comparison:

In this supposition, the notes issued by the issue department which would exist then in the Bank of France, would not exceed 537 millions, whilst now, we have more than 900 millions, the bills and advances upon *rentes* and property could not exceed 397 millions, whilst now we make advances and discounts for double the sum.

These two figures only show to what point the system of the Bank of England is limited; and, to return to the proposition which I had the honor just now to express, I repeat that, in the presence of a circulation so developed as that of the Bank of France, we are authorised to say that, what this establishment wants, is a sufficient quantity of money; it wants to augment its reserve to put it in relation with this circulation, whilst the Bank of Englaud wants more latitude for the issue of notes, considering the many at its disposal; nevertheless the Bank of England itself would equally want to augment its reserve by means of the liberation of its capital, which is completely fixed [immobilisé], like that of of the Bank of France.

Before examining the conditions which constitute every good banking establishment, I should wish to exhaust the series of questions contained in Chapter IV relative to the establishments which issue credit money.

It would be very inconvenient to separate the issue department from that of discount, as is done in the Bank of England, with the single object of limiting the issue of notes; but that separation would present nothing but advantages, if it had for effect to institute a central establishment for the issue of credit money, which, on condition of commission, would have to furnish credit money, against good guarantees, to other establishments of credit whose mission would be to introduce it into circulation, either by discount on the articles of commerce, or by advances upon public funds, railway debentures and bonds.

In point of credit, I am opposed to every sort of constraint, however indirect. In affairs of this nature, confidence ought to be the only and sole rule, the only and sole law; for this reason, I do not think it is admissible to establish a legal currency for the notes. They must be freely accepted by the public.

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The issue of notes can have no other development than that of the affairs.

As to the question, whether it be necessary to proportion the issue with reforence to the reserve or to the capital, I answer that the issue must be proportioned to the two, that is to say, the issue should be proportioned to the reserve, and the capital should be in its turn, in a certain ratio with the reserve, so as to be able always to suffice to the wants of that reserve and to fill the voids which might be there produced. It is thus that the issue of notes ought to be, in my opinion, proportioned at the same time to the reserve and to the capital.

M. Le Président.—In your opinion, it would be rather the reserve which ought to be proportioned to the issue?

M. Isaac Pereire.—Precisely so.

M. Le Président.—You are of opiuion that the issue ought to be up to the mark of the wants, that the reserve ought to develop itself with the issue, and that it is necessary to take measures to put it in a ratio with the issues?

M. Isaac Pereire.—That is entirely my opinion.

Now, what ought to be that ratio? there is nothing absolute in such a matter, the level at which the reserve ought to be maintained to assure the convertibility of the notes depends on the extent of stability of the credit of each establishment.

Of the Functions of the Bank.

Here I touch the heart of the question of banks, that of the character and destination of capital.

[Much of the evidence of M. Pereire which follows on this part of the subject applies more particularly to the Bank of France and less concerns the more immediate question with the Bank of England. This part of the evidence is, therefore omitted.]

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It is often said that the Bank is a reservoir of the precious metals, and that it is necessary to guard them from exhaustion. The Bank is in effect a reservoir, but that reservoir is neither the only one, nor the most considerable, by the side of it, there is one otherwise very important and from which we can draw largely, I speak of the common reservoir. It is to this source, truly inexhaustible for a rich country, that the Bank has always the possibility of renewing and feeding its reserve, but that can be done only on the condition of employing the necessary means, the true means.

M. Le Président.—Permit me to take objection to this point of view.

You say that, in selling its *rentes*, the Bank will procure for itself notes or money; that is undeniable. If it be money, it will thus augment its metallic reserve; if it be notes, it will diminish its circulation, which comes to the same thing, taking it at the proportional point of view.

But that is a primary fact,—[un fait initial], it will be a thing done some day. And then the money brought into the treasury will it remain there in the state of money, or will it serve for the operations of discount? Do you agree to this, for this is what I want to know?

M. Isaac Pereire.—Permit me to give some development to the answer that you ask.

The Bank has to-day its capital of 182 millions entirely fixed [immobilisé]; it is placed in *rentes* or lent to the state.

I will suppose that this amount is realised, that the *rentes* are sold, and that the amount is converted into specie; there will be in that case 182 millions more in the treasury of the Bank, and these 182 millions may be kept there, as long as the affairs do not take a new development. But you bring before me another question, that of the augmentation of the figure of the discounts: it is then a new situation that you suppose. If this case should present itself, if the figure of the discounts came to be augmented so as to exceed the credits which the Bank had at its disposal, and again to diminish its reserve, the capital ought to be augmented in the same proportion, whether under one form, or under another. It is the natural law imposed on all industry to keep itself to the level of the wants that it is called on to satisfy. The rise of profits leads inevitably to that result under the system of liberty. Why should the Bank seek to profit by its situation to escape from this law? Must not monopoly fulfil the conditions which are observed by competition? To be forgiven, it must even do better than competition could do. Now, in the system of liberty, of the plurality of banks, when the wants of discount augment, the capital devoted to that commerce becomes more considerable; new establishments form themselves, or the old ones increase their means of action.

The Bank cannot avoid placing itself in the same situation. From the moment that it stands alone, and that it intends to remain single, it must follow the development of commerce, instead of thwarting it, under the pretext of giving what it calls salutary warnings.

M. Le Président.—Then you would, by a supplementary capital, develop the discounts and keep the capital of 182 millions as a fixed base?

M. Isaac Pereire.—I do not very well see what you mean by keeping the actual capital as a fixed base; I ask that the capital of the Bank should be augmented when we recognise the necessity of so doing. I must confine myself to saying that the reserve ought always to be in a ratio with the figure of the issues; that if, in consequence of the development of discount, you are obliged to increase the issues of notes, it is necessary that the reserve [*l'encaisse*] should be augmented in the same proportion, in the proportion recognised to be necessary, and this reserve can be augmented in a stable manner only by the increase of the capital, there are no other means. This proportion, to my understanding, is strictly mathematical.

From the moment that the Bank alone exercises the commerce of discount and that of advances upon public funds, it ought to be equal to all these wants.

When I had the honour to tell you just now that within the last ten years the figure of the notes has risen from 355 millions to 900 millions, I thus pointed out to you the extension which affairs might and ought to take successively in a country in progress such as ours. I do not know if, in the next ten years, the figure of the discounts and advances on public funds, railway debentures and bonds will not have doubled or tripled, and if the number of notes will not have followed the same progression. I say, then, that the Bank ought not to be, cannot be an obstacle to the development of affairs. Commerce is not made for the great profit of the Bank, it is the Bank which is made for commerce. Besides, it is not so bad a condition to have to satisfy the development of affairs, for it is in this very development even that the Bank of France draws the benefits that it realises. As affairs extend, the means of the Bank ought to extend equally. So, when the quantity of notes tends to increase by the effect of legitimate demands, instead of seeking to restrain these issues, thus to injure commerce, to confine its movements, it would be necessary to augment in like manner the reserve, in the recognised necessary proportions, and we can only effectually augment it by the addition of new capital.

But how is this new capital to be found? Is it to be by new stock or by the issue of bonds? The two means are equally admissible, equally easy. The Bank has never stopped at the idea of an issue of obligations, because that departs from the manner in which it has to this time looked its situation in the face; it would be, nevertheless, the most favourable solution to its interests; that which would render it more easy to maintain its dividends at their actual level, since it would only augment its charges by a supplementary fixed interest, for which it would find compensation by the increase of the circulation of its notes, and this I give only as an example.

There would be, besides, another course to which many financiers have alluded in the number of pamphlets which have been published on the subject of the grave question which occupies us.

Is it asked why the Bank should not re-discount its bills when it wants money? It would certainly not be takers that would be wanting, the numbers would be the more considerable because the credit of the Bank is so great, and that in Paris there are large disposable funds to invest in articles of commerce of the highest value, at a rate inferior to that of the Bank.

If, then, the Bank wished to re-discount its bills, all the capitalists would hasten in emulation to confide them to their funds, as they confide them to the Treasury, for a very low rate of interest, as they confide them still to the Mont-de-Piété of Paris, the bonds of which continue to be negociated at 4½ and 5 per cent. at the most, even when the Bank rate of discount has reached the really usurious rate of 8 and 10 per cent.

But the question is badly stated in this manner. I should not advise that the Bank of France negociated its bills directly; that would have many inconveniences. The only thing that it could do in that situation would be to issue notes for a term, carrying interest, which would give it the means of becoming the principal centre, perhaps the exclusive centre of all the operations of lending and borrowing; it might then be that which it ought to be, the true medium between the capitalists and the borrowers, between capital on one side and labor on the other.

We can employ these divers means, they are all positive, efficacious, they are especially preferable in all respects to those which have been used to the present time, and which only end in raising the rate of interest.

The means which I point out would have the effect of maintaining the interest at a low rate, without diminishing the benefits of the Bank, in augmenting them, perhaps, on the contrary, by reason of the development which affairs might take, if they were not thwarted, as they now are, by the restrictions of the circulation, and by the reduction which the rise in the rate of interest imposes on labor.

M. Le Président.—You admit, however, that the Bank of France could lend only at a reduced interest?

M. Isaac Pereire.—Certainly; but I am coming to that.

I have exhausted what I had to say about the capital of the Bank, about the necessity of its disposability [*sa disponibilité*], about the necessity of its increase following the wants of commerce. Now, before passing to the question of the rate of interest . . .

M. Le Président.—It appears to me that all these questions hold together [*se solidarisent*] It is evident that the system which you support is the obligation on the Bank of France to procure for itself capital at any interest whatsoever, and to give it to the public at a reduced interest.

M. Isaac Pereire.—It is not so that I shall resume the question, for the Bank has always the possibility of procuring capital on very favourable conditions; these conditions vary necessarily according to the terms on which the Bank borrows, but they would always be advantageous.

If the maturity of the new engagements, which it offered to the capitalists, were shortened, the rate of interest that it would pay would be very low, which would enable it to lend at a higher rate of interest, but which would still be moderate, relatively to that which it now is.

If the maturity were lengthened, the interest that it would pay ought to be higher; but, however high you may suppose it, the benefit that the Bank would find in having the disposal of a new permanent capital would still be considerable, since all increase of the reserve would serve to guarantee a new credit capital three times at least more considerable; in borrowing *one*, it might lend *three*.

This is the secret of the profits that the banks make; but in wishing to restrain too much their own proper means in order to gain more, these establishments end by abusing their situation and rendering themselves insufferable.

The actual profits of the Bank of France result from having at its disposal a credit capital which costs it nothing, and which is very superior to that which serves for guarantee to its operations.

Thus, the Bank of France has a capital of 182 millions, and it disposes of 1,200 millions which do not cost it a *sou*. Of these 1,200 millions there are 400 millions which are employed in the reserve; from the 800 other millions it draws a considerable interest.

Not content with drawing an interest from these 800 millions, the Bank wishes besides to obtain it anew by investing its capital in *rentes*.

In acting so, not only it does not fulfil the condition of the services which are imposed upon it, but it makes a still worse calculation; for, if this capital were moveable [*mobilisé*], if it were rendered disposable, a notable part would be employed directly in discounts, or serve for guarantee to a larger credit issue; so that the Bank would be far from losing the whole of the benefit that it procures from the investment of its capital as at the present day.

We have not given to the Bank the privilege of disposing gratuitously of a capital from 8 to 900 millions for the sole benefit of its shareholders, we have given it specially in the public interest to favour commerce and industry; it is just, besides, that, by lowering the rate of discount the public should participate in the advantages from the employment of capital, which they themselves furnish; it is, in fact, commerce, it is industry, which furnishes the capital of which we avail ourselves to discount their bills; it is not, then, too exacting towards the Bank, to demand of it to associate the public, in a certain measure, so as to admit them to participate in the benefit of the privilege which it enjoys. This demand is so much more moderate, that in England the Government makes the Bank pay the price of its privilege, and this privilege is, as we know, much more restrained than the French privilege. The Bank of England pays 4,500,000 francs a year for the use of its notes, receiving only 3 per cent. for the considerable capital that it has lent to the Government, and that capital, I will observe by the way, the Government would do much better to restore to the Bank, in the interest of the development of affairs, as also in the interest of the Bank itself.

Here is nothing of the like: the Bank pays nothing for the use of its privilege; but inasmuch as I find the French Government right in not demanding anything from the Bank in that form, so much I find it would be equitable to impose on the Bank, as an equivalent, a permanent reduction in the rate of interest in favour of trade and industry.

If you augment the capital of the Bank in proportion to the successive increase of affairs, you would find it always in the same relative situation. I suppose that should the issue of notes and the discount come to double, the Bank ought to double its capital. The same relative situation would subsist; the Bank would lose the advantage of the high discount, but, in all probability, it would find a large compensation in the benefits which it would derive from the increase of affairs. Besides, the advantages resulting from the rise of discount are of those which cannot be too soon renounced, for they are of a bad nature;

the consequences are lamentable. There are, I am convinced, in the government of the Bank men of too good intentions not to make the sacrifice, if it were demonstrated to them that there are other means of deprecating the danger of weakening the reserve.

M. Vuitry.—There is one point on which I should wish to solicit from you an explanation.

You have often said, in the course of your deposition, this: "What I hold is, that when the affairs increase, the Bank should increase its capital."

I am very willing that the Bank should increase its capital; but has the Bank a particular way of increasing its capital without, at the same time, diminishing a little the portion of capital which is in the hands of the public and which is already devoted to affairs? So that if, on one side, the Bank augments its capital, on the other side the Bank causes a void outside itself; and I do not see what great progress there is in that for affairs.

I do not know if you take my observation.

M. Isaac Pereire.—I perfectly understand your view; but that, which you have done me the honor to say to me, may be applicable to all new affairs, to all those that want an increase of means. Your argument wants exactitude, by reason that I do not propose to take away from existing affairs the capital that, as it seems to me, the Bank of France ought to procure for itself.

It is on the savings of France, incessant savings, that the Bank should really raise the new resources which would be necessary for it.

France every year makes savings that I value at 1,500 millions francs. The possessors of these 1,500 millions evidently seek to employ them in the most useful and most advantageous manner; they cooperate to the construction of our railroads even to the extent of 400 or 500 millions; the surplus is employed in constructions, in ameliorations of all sorts or else it serves to feed the French or foreign loans, the French or foreign enterprises, &c. &c. The Bank might be able to take its part in these savings without causing the smallest void outside, and that would be so much more easy for it as its benefits are superior to those of all other enterprises. If to-day you were free to create banks of issue, do you doubt that all the capital would flow towards an industry which brings back 25 to 30 per cent.? Is there anything else in France, in Europe, comparable to it? Assuredly all the capital would be brought to it until the benefits had been brought back to the level of the other investments.

The exaggeration of the profits that the Bank makes, under the system of monopoly, indicates precisely the utility there would have been in the new capital devoted to the commerce of discount.

The products do not circulate with sufficient rapidity in the present day; their distribution leaves much to be desired; the movement of production and manufacture is not carried on in a regular manner. Industry suffers from this state of things, and at the bottom it suffers only from the insufficiency of the capital of the Bank of France. If the commerce of the Bank were free, the capital would not be wanting, and you would find it easy to augment the resources of credit, which, in my view, are not to the height of the wants.

M. Vuitry.—You say: "If the industry of the Bank were free, it would develop itself in proportion to the affairs."

Have the goodness to remark that, the question, at this moment, for the Bank is, an operation which would consist in a demand on the public for a new capital, for receiving it in one hand and turning it over with the other into the affairs. Now, in this respect, the industry of the Bank is perfectly free; it can create for itself by the side of the Bank of France as many establishments as you would desire for operations of this nature, consisting of a demand on the public for capital, under the form of deposits for employing it to discount the effects of commerce or to do other affairs of that kind. The point on which industry is not free is not that, it is that which consists in the issue of credit money.

M. Isaac Pereire.—It is precisely to the use of that power of issuing credit-money that I allude to when I speak of the liberty of the banks. The conditions in which this industry is exercised are not equal to all, since that power is the object of a monopoly of which the Bank of France is alone to profit; now, it is the employment of the capital of this nature, without intrinsic value, which constitutes the principal advantage of the commerce of discount; and it is because all the establishments outside the Bank are deprived of it, that the situation of this commerce is very precarious, and that the capital engaged in it is not got at without difficulty, unless with the temptation of large interest imposed on the industry which borrows and is made to discount its bills. What I criticize in the Bank of France, is that it counts too exclusively upon the credit capital of which it has the enjoyment, and not enough upon its own proper capital,--on that which would consist in demanding from its shareholders or from the public a new capital for the purpose of receiving it in one hand, to give it with the other for the transaction of its affairs. Have the goodness to remark, in fact, that the action of the Bank is, at the present day, paralysed by the want of a sufficient capital. The Bank finds itself under the necessity of raising its discount only because its reserve is relatively too weak, and it is so because it has not disposable capital to turn into it.

It is then only in consequence of the absence of a disposable capital that the Bank is obliged to raise the rate of its discount, and when the Bank raises it, the interest raises itself everywhere in like manner, to the great detriment of the whole society. This damage is felt not only by the clients of the bank, but also by all those who borrow, whether under the form of discount or under that of mortgage; it reaches all the parties of the public wealth, for the rise of the interest lowers in a corresponding manner the capital of all funded property, of all industrial enterprises, shares and bonds, as it reaches the Government funds.

See, then, the immense injury which results to everybody and everything, from the rise of the rate of interest.

The question is, how to seek the efficacious means for avoiding this rise. For my part, I see it only in the increase of the reserve of the banks, that it must be put in a ratio with the wants of the circulation, and that can be only by the realisation or augmentation of their capital.

In addition to this, I believe I have demonstrated that the new capital which would be demanded of the public would be by no means taken from the commerce of discount; it would be furnished only by the capitalists seeking investment for their disposable funds, and this investment would be the more sought after inasmuch as it would be neither less useful nor less advantageous.

M. d'Eichthal.—M. Pereire says that only the establishments having the right of issue would be able to discount with great profit.

The proof that that is not necessary, is that the great banking establishments of London, which have not the issue, make by the simple deposits, greater profits than those of the Bank of France. I will cite the London and Westminster Bank.

M. Pereire also says that, the capital of the Bank would increase with the savings which would come to be invested with it without prejudice to the other industries.

But do you know if all these industries have sufficient capital? And if all the industries have not sufficient capital, it would result that there is no capital, seeking employment and not finding it, which would come and invest itself in the capital of the Bank, but a capital which would have been able to find, or which would have already found, its employment in other industries.

I admit perfectly that, when you put a much greater capital into a special operation, the profits diminish if the demands do not augment: if the matter discounted do not augment and if you increase the capital employed in discount, the profit of the discount will diminish. But what will result from that? It is as if a special house, the Bank, for example, augments its capital, the profits will be lessened for all the world, the discount outside the Bank will diminish, the capitals will be withdrawn from that industry, and you will find yourself in the same position as before.

I do not see, then, how the employment of the capital of the Bank can lower the rate of interest.

M. le Président.—M. Pereire does not occupy himself with the rate of discount outside the Bank, he directs his attention only to the Bank. He says: "The Bank ought to discount at a fixed rate, and it should augment its reserve according to the wants by means of the augmentation of its capital."

The question is to know if it be possible to have a discount higher outside and lower at the Bank, and if the discounters from without would not be authorised to say to the Bank: You throw to the public a credit value at an inferior rate, and you depreciate the capitals with which we operate and which are real capitals.

M. Isaac Pereire.—Discount ought always to be lower at the Bank than without, and that is in the interest of all the world. The result which I should wish to obtain would be precisely to bring about the general lowering of the hire of capital by the competition of credit paper; the discounters outside the Bank would lose nothing, for it is not only with their capitals that they work, it is also and especially with those that they procure for themselves by re-discounting their bills at the Bank; then, that which concerns them is that, the rate even of these discounts leaves them the same profit, and this profit would be so much the greater as the affairs would have taken greater extension; as to the advantages which industry in all its branches would derive from it, agricultural, manufactural, and commercial, and especially in the cheapness which would result from it for all its products, they would be considerable and of a nature to compensate very largely certain partial and besides temporary inconveniences.

I am convinced that the lowering of the discount of the Bank would immediately produce a corresponding lowering in all the relations of lending and borrowing; but that would not be to say that if the Bank discount were 3 per cent. all the investments would be made at that rate; the interest varies according to the risk. I affirm only, without fear of being contradicted by M. d'Eichthal, that the action of the Bank will make itself perceived in France in all the affairs, in the temporary as in the permanent investments; the French establishments analogous to the English establishments of which I have spoken, would always be able to make the same profits, since these profits result only from the difference of interest; only the base will be different, the level will be everywhere lowered. There is nothing absolute, in fact, in the rate of interest. We do not see why it should be at 4 per cent. rather than at 3 per cent.; thus the competition of an establishment of credit like the Bank, into which the greatest mass of capital would concentrate itself, would exercise a very salutary influence on the rate of interest in general.

Now, I arrive at the question of the *maximum* of the rate of discount, which, for the Banks, is the equivalent of the tariff imposed on the railway companies. This *maximum* is only the legitimate compensation for the monopoly which the Banks enjoy, that of issuing notes without interest, of the disposal of a capital which costs them nothing. It is only by this *tarification* of the interest that the public can have a chance of enjoying a moderate rate.

To that it is objected that, the rate of interest cannot be fixed, that the interest must necessarily vary.

I do not demand fixity of the rate of interest; I wish only to confine it within certain limits, I wish that the Bank should be able to vary it only within these limits, I wish to diminish the amplitude of the oscillations. The Bank is in possession of a monopoly; now, as long as a monopoly exists, it must be regulated, in order that those who work it be not tempted to abuse it. Why do they impose tariffs on railroads for the transport of travellers and merchandise, if it be not that they have a privilege? If a *maximum* have been judged necessary in that which touches the tariffs to the privileged enterprises of the railroads, I do not see why it should not be the same in that which concerns the Banks, which are in a situation of monopoly still more characterised.

The railroads cannot imitate the Banks, by reason that they are under the empire of the *maximum* of taxes; otherwise, even as the Bank refuses not only to augment its capital, but also to render disposable that which it possesses, so the railroads might, with as much reason, refuse to augment their rolling stock [*matériel*], the number of their waggons as well as the number of their locomotives, they might thus profit by the insufficiency of their stock to levy contributions on the commerce when its products were presented in too great quantity; it is precisely that they may not abuse this privileged situation that the obligation is imposed on them to satisfy, on determinate conditions, all the wants of transport for the travellers and the merchandise.

The analogy is complete; it would not be more difficult for the Bank to satisfy the demands of discount than for the railroads to satisfy the demands of transport; it is a question of capital, and I have shown that the capital would not be wanting, if the Bank desired to procure it; now, why should it not do in this respect that which competition would certainly do in its place under the system of liberty?

To support the doctrine of a *maximum* rate of interest for the Bank of France, we have that which has been practised during forty years by that establishment itself, and, I ask, if a fact which has continued so long can be justly qualified as utopian?

The Bank having been able to maintain, during that period, the rate of its discounts at 4 per cent., I do not see why it should not be able to do the same thing to-day.

It is objected that the affairs were then considerably less, and that actually, after the great development that these have taken, the Bank would find it impossible to act in the same way.

The objection is easy to refute.

Everything is relative; the savings of a country are so much greater the richer the country is ; its power is always at the height of its wants. The Bank, having to carry on its operations in a like intermediate course, would always be able very easily to place its means in a ratio with the state of affairs, whatever it may be, and to take a proportional development. The principle of a *maximum* rate of interest would be in these days an application so much the more easy as capital is more abundant. This principle cannot, moreover, change its nature by reason that the affairs have augmented ; thus I should compare the Bank to a steam-engine the principle of which is in no way modified because, to execute a certain nature of work, that work being augmented, it requires the power of a hundred horses instead of the power of ten.

The theory of the *maximum* of interest has been applied during nearly forty years by the Bank of France, it is not then a thing so extraordinary that the Bank should consider it as a chimera. The legal rate, besides, is only the same idea, is only a *maximum* imposed on the interest of the whole country, and we have lived under the legal rate for a very long time. If they would to-day suppress it in France, certainly it would not be to assist capitalists in aggravating the conditions of loans; it is an object totally opposite that they would propose. If it ought not to be so, if the liberty that they claim in this respect ought to have for effect to raise the rate of interest, I should consider such a result as a calamity, which it would be necessary to avert at all price, and, for my part, I should protest with all my power against a like project, I should refuse that liberty as a fatal gift.

In order that the intention of the legislature should be realised, in order that the lowering of the rate of interest should be produced as a natural consequence of free competition, as the effect of the suppression of the trammels that to-day the law places on the free investment of capital, certain precautions are necessary; the best the most certain of all, is assuredly that of fixing a *maximum* rate of interest for the regulating establishment, and that measure would not have the least inconvenience for commerce, for it would be always certain to obtain the same powers, when the Bank is placed in a position to raise its means to the height of its wants.

I believe, then, that what has been practised with success during so long a time ought to be restored in vigor, and that the liberty of the Bank, as to fixing the rates of its discounts, ought to be limited; the privileges accorded to it require this compensation.

This question of the rate of interest is a considerable question, I will even say, a vital question in a political point of view. It is the same that is presented in the doctrines of socialism, in the opposition that they have sought to establish between capital and labor. It is necessary at all price to prevent that interpretation, to avoid that antagonism. If we refuse to take the efficacious measures, conformable to the spirit of the age, which are proper to maintain the hire of capital within certain limits, if we leave to these privileged establishments the liberty to raise it at their pleasure, to increase their profits, we run blindly before the dangers which it is indispensable to avoid.

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Any means for protecting the reserve appears to me inadmissible. The words: *to protect the reserve of the Bank,* must be banished from the financial dictionary. These words express nothing else than the desire of the Bank to elude its engagements, to avoid, in a word, paying its debts; when, on the contrary, it ought to be always ready to fulfil its obligations. The means which I have pointed out for attaining this end, are simple and easy; it will suffice for the Bank to do what all merchants do, to have a reserve and a capital proportioned to its affairs.

Here, I beg the superior Council to permit me to say some words on the very important question, namely, whether or not the Bank ought to renounce advances upon public funds, upon industrial property, or whether, on the contrary, it ought to endeavour to develop this branch of its functions.

I think it is not possible to place beyond the benefit of the distribution of the credit an industry so important, so capital as that of the railroads, an industry which contributes to augment in a proportion so considerable the prosperity of the country, the abundance and the cheapness of all the products, the facility and the promptitude of the exchanges whether internal or international. I think likewise that it would be less vexatious for it to throw out the public funds, since it is one of the means for facilitating their classing, for diminishing the price of the state loans, of the departments and towns, and, consequently, for leading to the diminution of imposts.

An exclusion with regard to the public funds, or of the property which represents the great industry of the public works, would not be understood,—it would be so much less comprehensible that the possibility of repayment is greater for these titles, in the case of non-payment of the advances, than for the effects of commerce *en souffrance,* considering that they have a market always open which presents the greatest facilities for their realisation.

If the Bank did not wish to lend upon public funds or other values, it ought to give to other establishments the means of doing it usefully, by furnishing to them, against good guarantees, on favourable conditions, the resources which may be necessary to them to enable them to undertake these operations indispensable to the development of credit and the good classing of the values.

The loans on public funds or others are, in effect, of extreme importance for the increase of public prosperity, for the rise of values, a natural consequence of the lowering of the interest.

Applied on a large scale, they would diminish the flights of speculation, the oscillations of the currency, would retain capital in France by the amelioration of the conditions of labour and by the advantage that this amelioration would present to industrial capital; these advances made on good conditions would contribute to render possible the industries which are to-day in abeyance, as those for example, of the third and even second rate, such as those relating to the embellishment and salubrity of our towns.

The Bank is not in love with loans on values and has a particular affection for loans on ingots; the rate of interest on these last loans is very low; on the contrary, that of its loans on public funds, shares and railway bonds is very high; in these later times it has been established at 1 per cent. higher than that of the loans to commerce. I avow that I do not comprehend this preference, if it be not because the Bank thus procures for itself profits without running the smallest risk; but this consideration does not suffice to justify the utility of advances of this nature, and at this point of view, the loans that it makes upon ingots might be much better employed in advances on public funds, since the ingots do not in any manner augment its reserve, for they make no part of it.

The Bank might receive, like the Bank of England, without being obliged to do so, the specie or ingots which are brought to it against notes; such specie or ingots would then have no more the character of deposits, they would belong to and would make part of its reserve.

The Bank has the right to carry on the trade in gold and silver; it has not made use of it hitherto. The means for making this trade useful would be, to have, as we have said, bills of exchange upon London; we may be certain that such employment could never take too great an extension, because the rise of the capital of the Bank will suffice to maintain constantly the level of the reserve, without the least effort on its part.

The Bank ought to give equal facilities to commerce and industry; if it were not in a position to fill that character, it ought, as I have just said, to make place by its side for other establishments, and associate them, in a certain measure, to a share of its privilege, in furnishing them with its own notes on conditions which permitted them to make with profit the advances which it would not or could not itself make directly.

I was just now looking for a very important paper which I regret to have forgotten. That paper is the outline of the subjects presented to the Chamber, in 1834, by M. Humann, late Minister of Finance, and who, as we know, was the father-in-law of M. de Germiny, in support of a project of law the object of which was to permit the Bank to dispose of its reserve.

At that time the Bank distributed to its shareholders only 6 per cent.; the excess was put in reserve. In fixing the figure of the reserve invariably at 10 millions, it was permitted to the Bank to dispose of all its profits, without adding anything more to its reserve; but they gave it that power only on the condition that it made advances on the public funds. M. Humann brought prominently forward, in his exposition of the motives in support of his proposition, the immense interest there was, in all points of view, that the Bank should do what it did not then do, and that was that it should lend on the funds of the State, and the Minister terminated his exposition by saying that the Bank acquired by that means new claims on the public gratitude; but he added that it justified especially the favour that the Government had accorded it, in permitting it to distribute all its profits, if it reduced the rate of its discount, which, then, for many long years was fixed invariably at 4 per cent. In that exposition of motives, the superior Council can see the enumeration of the advantages, which the reduction of discount had in the eyes of M. Humann; he appreciated them with the superiority of a statesman.

I am happy to find myself in such perfect harmony with a Minister of Finance so eminent, and I shall take the liberty of recommending the reading of that exposition of motives to M. M. the Director of the Bank, as well as to the late Governor M. de Germiny.

Now, Messieurs, with your permission, I will sum up what I have had the honour of laying before you, in reading a note pointing out the modifications which I should wish to see introduced into the organisation of the Bank of France.

M. Le Président.—We hear you.

M. Isaac Pereire.—*reading.*—

After what has preceded, it seems to me that there is room to demand :

"1. That the capital of the Bank should be disposable; that, consequently, the Bank realise its *rentes*, and that the Government repay that which it owes to the Bank, except a stipulated compensation for the abandonment of this facility of credit.

2. That this capital may be raised according to the development of the wants of commerce and industry, and that, for this object, the Bank may issue at its choice shares or bonds.

3. That the Bank may be held to have a reserve sufficient to assure constantly the repayment of its notes, which can be obtained only by the realisation of its capital or by the augmentation of its capital to the level of its wants, and not by the rise of the discount; that consequently, the doctrine of protecting the reserve should be renounced.

4. That a *maximum* interest of 4 per cent. be imposed on the Bank, and that this maximum may be lowered at certain epochs; that the Bank may be free to lower its discount, but that it may not raise it without the authority of the Government.

5. That the Bank renounce lending on ingots, that operation being rather prejudicial than useful to it, and employing, without great profit, a capital which might find a much more advantageous employment for the Bank and for the Public.

6. That the Bank lend as largely upon the public funds and other values, as upon Commercial bills.

7. That the Bank may have a favourable rate for all the great establishments of credit, banks of deposit, discount offices, in order to create for itself go-betweens [des intermédiaires] in commercial affairs, to diminish thus the risks, in augmenting the discountable matter, and to constitute itself, by relation to these go-betweens, the central bank of issue, the hotel of credit money."

On these conditions, they might adjourn the ideas relative to the creation of new banks, and see if the monopoly, thus regulated, could satisfy the wants of trade and industry.

M. Le Président.—Have you anything to add to the evidence that you have given ?

M. Isaac Pereire.—No, Monsieur le Président.

M. Le Président.—We thank you, Monsieur, for the information which you have been so kind as to give us.

PRINCIPLES OF THE CONSTITUTION OF BANKS AND OF THE ORGANISATION OF CREDIT.

BY MONSIEUR ISAAC PEREIRE.

CHAPTER VI.

HOW ARE THE MOVEMENTS OF EXPORT OR IMPORT OF MONEY DETERMINED? THEORY OF THE EXCHANGE AND COMMERCE OF THE PRECIOUS METALS.

We have seen in the preceding chapter that, there is no relation between the rate of interest and the abundance or scarcity of money.

There is no more relation between the rate of interest and the movements of export or import of money.

These are two orders of phenomena entirely distinct, and are subject to laws essentially different.

From time immemorial, the rate of interest has been higher in France than in all the principal places of Germany and Holland, and yet the metallic reserve in those countries has not passed into our country.

The interest at this moment is very high in the United States, in Spain, in Austria; it has been equally so in these latter times in Russia.

The current of gold, however, has followed a direction entirely opposite to that which the rate of interest would seem to indicate.

These countries, contrary to the common opinion, have generally exported gold, instead of receiving it.

Without speaking, for the moment, of England, with which we shall specially occupy ourselves, we can cite the example of Spain, where the interest has mounted to 12 and 14 per cent., and which, however, sent us, in 1864, nearly 34 millions and a half of money.

We have likewise received it in still greater proportions, from Austria and the German confederation. (94 millions in 1864.)

Even the United States themselves, where the interest is so very high, has sent it to us.

Italy alone presents us an exception in this respect for the years 1862 and 1863; the loans she has made with us have rendered necessary the export of money, the amount raised in these two years being 141 millions and a half.

But, in 1864, the imports of money coming from that country have exceeded the above; they have exceeded the exports by 1,900,000 francs.

Such facts do complete justice to the errors propagated about the drainage of our money to the foreigner, in consequence of the great European enterprises in which France has had the glory to cooperate, and from which she has in part gathered the profits, and about the pretended danger which would ensue; they reduce to nothing the ill founded and unreflecting attacks, the malevolent insinuations to which these errors have served for pretext.

When a country invests its capital with the foreigner, it is not necessarily gold that it sends; it does it only in default of the products of its soil or of its industry, and when a country sends money it is on the condition of having procured it beforehand by the sale of its products.

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What we say of capital in general is especially true of the import and export of gold and silver.

The movements of gold and silver are determined in general only by the wants of the liquidation of the exchanges between the nations.

A country exports money when the mass of its imports of merchandise or values of all sorts exceeds that of its exports, and reciprocally.

The balance that is paid or received in specie is called the BALANCE OF COMMERCE.

Formerly it was believed that this balance in specie represented the benefit or the loss of a nation in its exterior commerce. That is why each endeavoured to make the balance incline in its favor by the combination of custom-house tariffs.

The contrary was nearer the truth, for the more industrious a nation the less it imports money; it will always prefer to replace it with the raw materials which will permit it to support the labor of its workshops.

Thus England prefers receiving cotton to gold from America.

The part that the precious metals play in the exchanges is explained not only by the intrinsic qualities that they possess and which we have already pointed out, but again by the common consent of all people to admit them for a fixed determinate value, for a *certain* value in all the relations of buying and selling.

It is a merchandise legally tariffied [*tarifée*] under the guarantee of the impress of the sovereign.

The exchange of two values would be, in reality, extremely difficult if the price of the two were uncertain; all is simplified, on the contrary, when the uncertainty is only on one of them, the contest between the buyer and the seller being reduced to a single term.

But, if gold and silver are legally tariffied [*tarifés*] like money, this money has forms, different divisions in each country.

The proportion of alloy is likewise different.

In short, the relation between the value of the gold and that of the silver cannot be established in a manner rigorously absolute; at one point it is favorable to the gold, at another it is favorable to the silver.

Thence, the preponderance, as money legal or real, of the gold in one country, of the silver in another.

These divers usages, these differences are again one of the principal causes of the movements of specie.

They call *exchange*, industry, and the *arbitration of exchanges* [*arbitrages*] the operations to which a certain number of bankers are devoted for the purpose of establishing a constant equilibrium between the monies of different countries, by profiting on the differences, which are the result of the errors committed by the governments, whether in fixing the relation between the two metals, or in the manufacture of the monies. These operations have been for a long time so much the more lucrative as they were more obscure, and the confusion was greater and the state of the monies more defective.

The decimal unit, as well as the improvements in the manufacture of money, will cause to disappear, one day, it is to be hoped, the actual complications, and will reduce the importance of this commerce.

We may again assign another cause to the movements of specie or rather to the displacement of money; we wish to speak of the existence in a country of a paper money, or of bank paper depreciated; as soon as this depreciation manifests itself, gold gains a corresponding premium and ceases, more or less, according to the proportions which this depreciation takes, to be the ordinary agent of the exchanges; it is the paper which replaces it.

The prices establish themselves immediately upon the base of this depreciated money, which serves likewise for the regulation of all the debts.

Gold disappears from the countries which are in this situation; it is exported into those countries where it has always remained the measure of value, and where it can command a greater amount ot labor, to exchange with a greater quantity of products.

This is the case in which the United States, Russia, Austria, and Spain herself, find themselves, though in a less degree.

Before the existence of the bill of exchange, all the debtors of England were obliged to send money into that country to pay their purchases there, and the

English merchants were obliged to do the same towards their foreign creditors.

It was a double transport of specie to which the two countries found themselves constrained in order to pay the total of their purchases and the total of their sales.

The use of the bill of exchange has avoided all these great movements of specie.

These operations are considerably simplified; the English debtors buy the drafts that the creditors of England have to draw upon her, and use these to pay the amount of their debts.

In the hypothesis where the figure of the exports from England would balance that of the imports, there would not be a single farthing in movement between the two countries; the supply of the bills of exchange being equal to the demand, the price of the drafts upon England would be confined exactly within the limits of the ratio fixed for the *par* of the monies of the two countries.

This ratio, or in other words, the *par of exchange*, which is intrinsically 25 fr. 22 c. 15½ for a pound sterling, in comparing the quantities of pure gold contained in the monies of the two countries, is in reality only 25 fr. 16 c. 70, if you take into account the expense of coinage, and can be raised in certain cases to 25 fr. 20 c. 75.

In the case of equality of exports and imports between France and England, we have seen that the price of bills of exchange ought to be exactly equal to the commercial *par*.

If the exports from England exceed the imports, the price would be above par; the contrary would take place if the imports of the country exceeded the exports.

The price of bills of exchange would lower or rise to the amount of the difference necessary to permit the import of gold and silver into England or their export, and that difference represents, on the average, the expenses of transport and the profits of the bankers.

When the pound sterling can be obtained at Paris at the rate of from 25 fr. 10 c. to 12 c. ½, the French bankers find a sufficient profit in buying bills of exchange on London in order to make the gold come to Paris, a difference of about 7 centimes covering all their expenses.

The price of the pound sterling depends again on the premium which gold obtains at Paris or at London.

When the Bank of France pays the premium, and it is generally so, the price of the pound sterling can be so much augmented.

Now, the examination of the rates during a great number of years proves that the exchange with England is to Paris generally below par, which indicates that the exports from France to England exceed the imports, that besides, gold, with very few exceptions, has constantly obtained a premium there more or less high, and that there has been consequently, almost always, an advantage in making gold come from that country, as it has happened in reality to this time on a large scale.

The official results of an exterior commerce, particularly in that which concerns England, confirm the indications which the rate of exchange furnishes.

The payment of our commerce with England has always been in favour of the export of our products.

A notable part of the excess of the products exported by France must necessarily be paid for in money: it could not be otherwise.

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[Here follows a Table showing the trade in the precious metals between France and England, in perfect accord with and entirely confirmatory of these principles.]

We may deduce from this table the consequences following:—

Our imports of money are only the counterpart of our exports of merchandise; it is thus that we pay, with our products, for the precious metals that we buy from England, who, herself, pays the countries whence she draws them with her own productions.

The rate of exchange indicates perfectly this double movement of the export of merchandise and the import of precious metals; nevertheless, the average rate can furnish only a general and approximate indication, because it is impossible to know the importance of the exports and imports which may have taken place under the influence of such or such rate.

In short, the premiums on gold, which generally have no other cause than the special wants of the Bank, sometimes modify in an anomalous manner the rate of exchange; which rises in direct ratio with the rise of the premium on gold.

The final result remains the same, with this single difference, that the Bank has paid uselessly considerable premiums to enrich intermediate parasites [des intermédiaires parasites] at its expense, and, in the final analysis, at the expense of commerce, which always finishes by paying all the expenses of these false manœuvres.

The loss which gold experienced in 1858 proceeded from the quantity of it sent to us against silver.

The silver was exported because its relative value had augmented, and, for the same reason, the inverse movement took place for the gold, the value of which had fallen, and which could be sold only at a loss; the silver gained a high premium; as there went out during this year more silver than there entered gold; it is that which explains the excess of export which the table shows.

The same observation applies to the years following.

Our exchanges with Spain were settled likewise in favor of France, as is shown by the excess of exports from the Government returns following [des exercices suivants], which has been to the amount of

130,055,589 francs in 1862,
173,832,079 „ 1863,

The rate of exchange cannot reflect exactly this state of things.

This rate is, at this moment, for Spain, from 4 fr. 95 to 5 francs for a piaster, when the par of the piaster is 5 fr. 26.

We have, then, to-day an incontestable advantage in making money come from Spain instead of sending it there; but this advantage is weakened by the premium of from 2 to 3 per cent. that we pay at Madrid to obtain it.

This premium given to obtain gold or silver indicates, in that country, an anomalous monetary situation, and becomes a new cause for the export of money; it justifies, what we have before said, of the effect produced by a depreciated credit money.

Each time, in effect, that gold ceases to be of a fixed value, a value *certain* in reference to all other values, and that happens when it is sought with a premium, it is necessarily exported.

To give a premium to procure gold, as the Bank of France sometimes does, is, then, to depreciate in an exact proportion the relative value of the notes, to encourage demands for repayment of the same notes, to favor the withdrawal of gold or silver from circulation with a view to speculation; it is again to raise artificially the price of drafts on the foreigner, and thus to increase the charges of importation; it is only to serve the interests of some houses sufficiently rich, sufficiently powerful to be prepared to act upon all the places, to profit by the smallest variations in the rate of exchange or in the price of the precious metals.

It is certain that the rate of exchange, when it is not falsified by operations in a contrary direction, ought to indicate perfectly the direction that gold takes or ought to take.

It remains, consequently, well established that the movements of export or import of the precious metals, of which we are pointing out the real causes, have no relation with the variations of the rate of interest.

All the observations in this respect can concentrate themselves particularly on the movements between France and England, or rather between Paris and London, because these two places are justly considered as the regulations of the Exchange; they centralise, in effect, in great part, the liquidation of the exchanges of the whole world.

Now, we shall be able to prove presently, from official figures, that, before as after the law of 1857, there have frequently been digressions from $1\frac{1}{2}$ to 3 per cent. between the rate of interest of the two Banks, sometimes in favor of Paris, sometimes in favor of London, without the reserve of the one or the other having suffered from it the least in the world.

Experience demonstrates again that, in these same years when gold took quite naturally the direction of France, for the reasons that we have given, the reserve of the Bank of England has remained constantly very high; which proves that the trade of the precious metals in England supports itself from the true sources, that is to say, from the producing countries, and that it is constantly at the height of all the wants interior or exterior.

We are able to convince ourselves at last, by the facts which come to be exposed, that the sending of specie into France was, on the part of England, forced, inevitable; whatever might have been the variations of the rate of interest, this current could not be turned aside.

The Bank of France had then absolutely nothing to fear for its metallic reserves from the raising of the discount with our neighbours.

Our country has always obtained, against its products, all the quantity of gold of which it has been in want; it ought to count, for this title, upon all that is due to it in exchange for the surplus of the products exported into England. The Bank alone has failed in it, because it has not employed the same means; instead of simply buying the gold with its capital, it has only uselessly augmented the mass, already considerable, of its engagements; and, in spite of the numerous warnings which have been given to it, it has persisted in this system so fatal to trade.

In acting thus, the Bank has not sufficiently remembered that its situation towards the holders of its notes was that of debtor to creditor; that the more a debtor multiplies his engagements, the more his position becomes precarious and dangerous; that he can only ameliorate it by making intervene his capital in the recognised necessary proportions.

The employ that it would be able to make of its capital, in seeing beforehand its eventual wants of specie, had even been very profitable; for, if it had wished to devote part to purchases of bills of exchange in London, it would have been able to profit by the elevation of discount in England to effect investments at 8 and 9 per cent., whilst adopting the way it has followed, it has restrained trade, and has worked against the object which it proposed to itself, whilst the houses, which are obliged to have recourse to credit to furnish the Bank with the gold which it demands of them, are under the necessity of exacting from it a higher premium to cover themselves for the supplementary interest which was imposed on them.

The rate of the exchange is, then, independent of the reserve of the banks and of the rate of interest. This independence confirms the principles that we have laid down at the commencement, and reduces to nothing the false assertions accepted by superficial minds, which, stopping at the appearance of things, persuade themselves, contrary to all the facts, that the arbitrary fixing of the interest can have any action whatever on the importance of our metallic reserves.

ABSTRACT OF THE ACT
TO
PROVIDE A NATIONAL CURRENCY,
SECURED BY
A PLEDGE OF UNITED STATES BONDS,
AND TO PROVIDE FOR THE
CIRCULATION AND REDEMPTION THEREOF.

Approved June 3, 1864.

Sec. 1. Establishes a Currency Bureau, with Comptroller and Deputy Comptroller of the Currency, Clerks, &c.

Sec. 2. Seal of Bureau, &c.

Sec. 3. Offices, &c.

Sec. 4. States bonds defined.

Sec. 5. Associates not less than five.
Articles of association prescribed.

Sec. 6. Preliminary certificate prescribed.

Sec. 7. No association shall be organised with a less capital than one hundred thousand dollars, nor in a city whose population exceeds fifty thousand persons, with a less capital than two hundred thousand dollars: *Provided,* That banks with a capital of not less than fifty thousand dollars may, with the approval of the Secretary of the Treasury, be organised in any place the population of which does not exceed six thousand inhabitants.

Sec. 8. Corporate organisation. Corporate powers for 20 years from its organisation.

Power to appoint Directors, &c.

Sec. 9. Directors qualification, oath, &c.

Sec. 10. Annual election and duration of office, &c.

Sec. 11. Votes of Shareholders, &c.

Sec. 12. Capital stock to be divided into shares of one hundred dollars each. Rights of shareholders and creditors. Limited liability.

Sec. 13. Power to increase or reduce capital stock under provisions.

Sec. 14. Fifty per cent., at least, of capital stock to be paid in before business commenced; and the remainder to be paid in instalments of at least 10 per cent. on the whole amount of capital as frequently as one instalment at the end of each succeeding month from the time of commencing business; and the payment of each instalment to be certified by the Comptroller, under oath, by the president or cashier of the association.

Sec. 15. Delinquent shareholders, sale of capital stock.

Sec. 16. Every Association, before commencing business, to transfer and deliver to the Treasurer of the United States, any United States registered bonds, bearing interest, to an amount not less than thirty thousand dollars nor less than one-third of the capital stock paid in, which bonds to be deposited with the Treasurer of the United States, &c.

Sec. 17. Condition of Association to be examined before granting certificate.

Sec. 18. Certificate granted after satisfactory examination. Certificate to be published.

Sec. 19. Transfer of bonds by Associations, &c.

Sec. 20. Duties of Comptroller upon transfer.

Sec. 21. The Association, on transfer and delivery of bonds, to be entitled to receive from the Comptroller of the Currency circulating notes of different denominations, in blank, equal in amount to 90 per cent. of the current market value of the United States bonds so transferred and delivered, but not exceeding 90 per cent. of the amount of the said bonds at the par value thereof, if bearing interest at a rate not less than 5 per cent. per annum, and at no time the total amount of such notes, issued to any such Association, to exceed the amount at such time actually paid in of its capital stock.

Sec. 22. The entire amount of notes for circulation to be issued not to exceed 300,000,000 of dollars. In order to furnish suitable notes for circulation, the Comptroller of the Currency, under the direction of the Secretary of the Treasury, to cause plates and dies to be engraved, and to have printed therefrom, and numbered, such quantity of circulating notes, in blank, of the denominations of one dollar, two dollars, three dollars, five dollars, ten dollars, twenty dollars, fifty dollars, one hundred dollars, five hundred dollars, and one thousand dollars, as may be required to supply the Associations entitled to receive the same; such notes to be signed and sealed, &c. *Provided*, That not more than one-sixth part of such notes be of a less denomination than five dollars, and that after specie payments shall be resumed no notes to be furnished of a less denomination than five dollars.

Sec. 23. Every such Association authorised to issue and circulate as money such promissory notes payable on demand by such Association at its place of business, and such notes to be received at par in all parts of the United States in payment of taxes, excises, public lands, and all other dues to the United States, except for duties on imports; and also for all salaries and other debts and demands owing by the United States to individuals, Corporations, and Associations within the United States, except interest on the public debt and in redemption of the national currency. Issue of other notes forbidden.

Sec. 24. Provision for worn, mutilated, and lost currency.

Sec. 25. Periodical examination of bonds deposited.

Sec. 26. Bonds deposited to be exclusively as security. Interest on bonds, how paid. Proceedings on depreciation of bonds deposited, &c.

Sec. 27. Punishment for delivering or issuing notes except as herein provided.

Sec. 28. What real estate Associations may hold.

Sec. 29. Limitation of liability of customers.

Sec. 30. Interest on loans and discounts prescribed. Usury and penalties.

Sec. 31. Every Association in the cities after named to have at all times on hand, in lawful money of the United States, an amount equal to at least 25 per cent. of the aggregate amount of its notes in circulation, and its deposits; and every other association to have at all times on hand, in lawful money of the United States, an amount equal to at least 15 per cent. of the aggregate amount of its notes in circulation, and of its deposits. And whenever the lawful money of any Association in any of the cities after named shall be below the amount of 25 per cent. of its circulation and deposits, and whenever the lawful money of any other Association shall be below 15 per cent. of its circulation and deposits, such Association shall not increase its liabilities by making any new loans or discounts otherwise than by discounting or purchasing bills of exchange payable at sight, nor make any dividend of its profits until the required proportion between the aggregate amount of its outstanding notes of circulation and deposits and its lawful money of the United States shall be restored: *Provided,* That three-fifths of said 15 per cent. may consist of balances due to an Association available for the redemption of its circulating notes from Associations approved by the Comptroller of the Currency, in the cities of Saint Louis, Louisville, Chicago, Detroit, Milwaukie, New Orleans, Cincinnati, Cleveland, Pittsburg, Baltimore, Philadelphia, Boston, New York, Albany, Leavenworth, San Francisco, and Washington city: *Provided, also,* That clearing-house certificates, representing specie or lawful money specially deposited for the purpose of any clearing-house Association, shall be deemed to be lawful money in the possession of any Association belonging to such clearing house holding and owning such certificate, and shall be considered to be part of the lawful money which such Association is required to have under the foregoing provisions of this section: *Provided,* That the cities of Charleston and Richmond may be added to the list of cities in the National Associations of which other Associations may keep three-fifths o their lawful money, whenever, in the opinion of the Comptroller of the Currency, the condition of the Southern States will warrant it.

Association failing to make good the reserve may be wound up.

Sec. 32. Certain Associations to redeem at par in New York.

Associations to redeem at par in certain cities.

Associations failing to select banks of redemption to be closed.

Every association to redeem its circulating notes at its own counter, at par, in lawful money, on demand. Also to take and receive at par, for any debt or liability, any and all notes or bills issued by any Association existing under this Act.

Sec. 33. Half-yearly dividends to be declared of so much of the net profits as the Association shall judge expedient; but before declaring a dividend, one-tenth part of the net profits of the preceding half-year to be carried to the surplus fund, until the same shall amount to 20 per cent. of the capital stock.

Sec. 34. Quarterly reports. Comptroller to publish abstracts. Association to publish reports. In addition to the quarterly reports, the Association to make a statement, under oath of the president or cashier, on the first Tuesday in each month, showing the condition of the Association on the morning of the day preceding the date of such statement in respect of the following items and particulars, to wit, average amount of loans and discounts, specie, and other lawful money belonging to the Association, deposits, and circulation. And Associations in other places than those cities named in the 31st section to return the amount due to them available for the redemption of this circulation.

Sec. 35. No Association to make any loan or discount on the security of the shares of its own capital stock, nor be the purchaser or holder of any such shares, unless such security or purchase shall be necessary to prevent loss upon a debt previously contracted in good faith; and stock so purchased or required to be sold or disposed of, at public or private sale, within six months from the time of its purchase, in default a receiver may be appointed to close up the business of the Association.

Sec. 36. Limitation of indebtedness prescribed.

Sec. 37. Pledge of notes of circulation enjoined.

Sec. 38. Withdrawal of capital stock enjoined. Dividends restricted if losses have occurred. Bad debts defined.

Sec. 39. Circulation of depreciated currency forbidden.

Sec. 40. Names, residence, &c. of shareholders.

Sec. 41. Care and control of plates, dies, &c. Expenses defrayed. Taxes, &c. &c.

Sec. 42. Liquidation.

Sec. 43. Duties of Treasurer on payment of notes in liquidation. Mutilation of redeemed notes.

Sec. 44. Conversion of State banks into National. Organisation certificate.

Shares of State banks upon conversion.

Banking privileges conferred. Capital of Associations converted from State banks.

Sec. 45. Financial agents. Security required. National Currency notes received at par.

Sec. 46. Protest of notes and proceedings thereon, &c. &c.

Sec. 47. Proceedings of Comptroller on notice of protest, &c. &c.

Sec. 48. Sale at auction of bonds of failing Association.

Sec. 49. Private sale of bonds.

Sec. 50. Receiver and his duties, &c. &c.

Sec. 51. Fees for protests, &c.

Sec. 52. Acts prejudicial to creditors in contemplation of insolvency.

Sec. 53. Malfeasance of officers and directors.

Sec. 54. Visitor. Appointment and duties of.

Sec. 55. Misdemeanor of officers.

Sec. 56. Suits and proceedings under this Act.

Sec. 57. Jurisdiction.

Sec. 58. Mutilation of paper issued under this Act.

Sec. 59. Forgery, &c.

Sec. 60. Making or engraving plates, &c.

Sec. 61. Annual report of Comptroller of Currency.

Sec. 62. Original Act repealed.

Sec. 63. Executors, Administrators, guardians, and trustees holding stock as such.

Sec. 64. Rights of Congress reserved.

Approved, June 3, 1864.

It will be seen from this Abstract that, the American System of Free-Banking is nothing more than a Licence-System, on the uncertain guarantee of Government Securities, to the extent of 300,000,000 of dollars.

In addition to the objections already noticed, and which, in this country, must be fatal in practice, it is obvious that, freedom of banking is more restricted in the United States of America than in other countries.

In England there is no restriction on banking, the issue of notes being separate and distinct from banking.

In the United States the issue of notes is practically made a necessary part of banking. The issue being limited and, therefore, confined to a certain number of banks, the effect is to restrict the freedom of banking, as well as to make the demand of capital nearly double the amount required for conducting the same amount of business in England or France or any other country in Europe.

It is also manifest that, the Government securities are no security at all for payments in specie.

It must be unnecessary to point out in detail the many other inconveniences of this system.

It was, therefore, with astonishment that the Author heard some of the most eminent merchants of Liverpool advocate the free banking system of the United States of America, when he lately visited Liverpoo for the purpose of collecting their opinions on this subject.

Monsieur Wolowski, Membre de l'Institut, et Président de l'Académie des Sciences Morales et Politiques à Paris, having done the Author the honour to write to him at much length in several letters, with remarks on his book, and those remarks being entirely in favour of the existing system of the Bank of England, the Author, out of respect to the position and reputation of M. Wolowski, as an authority on this subject, has thought it proper, in explanation of the points in difference between them, to give the substance of this correspondence, by a few extracts, in English, from the Author's own letters, in answer. To give the whole correspondence would occupy too much space, and as the points in difference are stated in M. Wolowski's own words in the Author's answers, the following extracts will suffice to present those differences to the reader. It will be seen that, M. Wolowski has stated, with as much clearness as could be expected in a correspondence, the points generally advanced by the advocates of the English Bank Charter Act of 1844.

By thus bringing the opinion of M. Wolowski in juxtaposition with the evidence of the MM. Pereire, justice is rendered to both parties, and readers will judge for themselves.

EXTRACTS

From the Author's letters, in answer to Monsieur Wolowski.

12th October, 1865.

"In regard to your remarks on my book, I shall, before I answer them, carefully read and consider your printed works.* But it seems to me that, you differ with me on some essential principles, and that, if I cannot successfully answer you on those, it is useless for me to enter upon minor points.

I understand you to say that, under my plan the Bank of England could not maintain a sufficient reserve of gold to meet the demand for it. If I have correctly understood your meaning, I will confine my answer to that point. But, admitting the ability with which you state your objections, I wish you had been more explicit in the expression of your opinion on some of the leading points.

You say:—"Vous vous plaignez que les crises viennent du *want of money*, et non du *want of capital.*"

I do say so.

But what do you say?

You next say:—"Enfin vous regardez la monnaie comme improductive."

I do.

But, do you?

Your great French authority, Bastiat, I think, so considered it.

You go on to say:—"A mes yeux elle est une machine énergique, celle qui rend le plus en proportion de ce qu'elle coûte."

* These were kindly forwarded by M. Wolowski to the Author.

Do you mean by this that a machine, however powerful, is productive?

Gold is an instrument of great power; so is a steam-engine, or a plough; but these are all unproductive.

Gold represents services performed, the equivalent for which has not yet been given. Gold, therefore, commands services, or human efforts, and those efforts may be productive, not the gold. So of the steam-engine and the plough.

I wish I had a better understanding of your own opinion than you have conveyed to me on this part of the question.

But I am glad you admit that, "en substituant simplement le papier à l'or, suivant vous, l'équilibre des prix ne saurait être alterée,—à condition qu'on reste dans la limite, et qu'on ait toujours de l'or à volonté,—vous tournez ainsi dans un cercle vicieux."

In this circle, with your admission, I hope to turn you round to my opinion.

You agree with me that, "Le pays n'a rien à craindre tant que la balance est favorable." You say—"Oui, mais comment la maintenir telle?" My book answers this; but I will answer this again, at another time, and show you that this admission is enough for me. You go on about exaggerating prices by means of a purely artificial issue, but I cannot allow you to reason thus after your admission, and you know that I do not advocate *a purely artificial* issue.

But, we must all agree with you that, "rien n'est beau que *le vrai*." "

17th October, 1865.

"I write to you again from my retirement in the country, before my return to London, and before I have had the benefit of reading your works, which I shall most carefully study at the earliest opportunity.

But I have very carefully considered the letter which you have done me the honour to write to me, and I collect that, you agree with me in some of the leading principles which govern the subject of the Bank Question, but that, you differ with me in the main conclusion.

It may be, as you say, that, I have correctly laid down the principles, and that, these do not warrant my conclusions; but it seems to me that, you do not point out with sufficient exactness the errors in my conclusions to afford me any definite ground for meeting you on the points of difference.

If you could precisely state the points on which you differ with me, with your reasons shortly for such difference, I might hope to give you concise answers, with some good effect; but I am afraid, if I were to attempt to follow you through the wide range of your remarks, that would lead only to a desultory and very lengthy controversy, which few, if any, readers would have the courage to face.

You say:—"L'idée fondamentale qui nous divise est celle de la fonction de la monnaie. A mes yeux, rien de plus substantiel que cette marchandise, acceptée partout presqu'au même taux, que ce *medium* destiné à équilibrer les transactions entre tous et partout; rien ne saurait remplacer cette mesure commune de la valeur, ni le pouvoir d'échange universel, qui lui appartient. J'attache plus d'importance à la fixité et à la solidité de cet instrument, qu à l'économie qui résulte de l'artifice au moyen duquel le papier peut toujours, dans une faible mesure, remplacer l'or. Surtout dans un pays riche comme l'Angleterre, etc."

Here I agree with you, though I do not know why you call money "merchandise," money being only the instrument or means of transfer.

What, then, do you mean when you say :—" L'idée fondamentale qui nous divise est celle de la fonction de la monnaie"?

I do not know what you call on me to answer. I have, in my book, (p. 29 et seq.) . . .

. . . .

. . . .

explained what I mean by the terms *capital* and *money*.

But these have been best explained by the illustrious Bastiat, and, if you differ with me, "*sur l'idée fondamentale de la fonction de la monnaie*," you differ with that eminent authority.

I understand you to say that, you differ with me, but I cannot make out the exact point of difference.

You say :—" D'ailleurs, l'économie dont vous vous préoccupez, est-elle réelle, ne cédez-vous point ici à l'illusion commune?"

How am I to answer this, otherwise than by referring you to my book, which, I think, gives the complete answer?

You say :—" Les avantages *naturels* du billet, personne ne les apprécie plus que moi," and you then give excellent reasons for your appreciation.

Here, again, we agree.

You then go on to say :—" C'est ainsi qu'il épargne sur l'instrument métallique, non en le remplaçant, etc.,"—*substituant* would have been a more accurate word. But, if the note do not replace, or be not substituted for, the metallic instrument, how does the note spare ("*épargne*") "l'instrument métallique"? It is by the substitution of notes ("à condition qu'on reste dans la limite") for the metallic instrument, that the metallic instrument is *spared* (*epargné*).

The notes (I say, with you) must rest upon gold, and must be convertible into gold on demand ; but, for this, I say,(assuming always a sufficient supply to meet the ordinary demand) the credit of the country is a sufficient security, and thus the gold *is spared*, until the actual demand for it be made.

But this, if I understand your meaning, you deny, and you say : when the notes are issued the gold must be provided, whether the demand for it be made or not.

Now, I say, in that case, the gold is not spared, (épargné), and nothing is gained, and then it were better to have a purely metallic currency, than a mixed currency of coin and paper.

But, with great deference, I say that, I cannot reconcile your opinion in this part of your letter, with the opinion which you express in the latter part, where you say :—" En substituant simplement le papier à l'or, suivant vous, l'équilibre des prix ne saurait être altéré. Oui, mais *c'est à condition qu'on reste dans la limite*, et qu'on ait toujours de l'or à volonté." That condition I propose to observe, and to have gold always when wanted.

In a former part of your letter, you admit that, gold is always to be procured at a price. You say:—"Vous supposez qu'il n'est jamais difficile de se procurer l'or;—Oui, pourvu qu'on le paie à son prix. Triste commerce qui consisterait à le payer cher pour le livrer bon marché."

That admission is all I ask for.

I agree with you, that would be a losing trade on those terms.

I do not propose to make the Bank of England a trading concern, but a National Institution for the Organisation of Credit in England, and the Bank of England, with the *real* and the *credit* capital, which I propose, would soon stop that losing trade and turn it to profitable account.

If it be said that, the Bank of England, purchasing gold, under such circumstances, by sale of its Government Securities, would depreciate the Public Funds, allow me to ask, in the words of Monsieur Isaac Pereire:—"Lorsque la Banque allègue, pour motifs de sa résistance à vendre ses rentes, le danger de produire une trop forte dépréciation dans *les cours*, pourquoi n'hésite-t-elle jamais lorsqu'il s'agit d'imposer aux autres cette même dépréciation et en même temps celle de toutes les valeurs, en diminuant brusquement ses avances, et en rejetant ainsi subitement une masse de titres sur la place"?

The point in this question I have dwelt upon with great force of facts in my book and I should like to see the answer.

But, after all, allow me to put this simple question to you, as advocating the principle of our Bank Act of 1844.

If you approve of the issue of Credit Notes to the amount of £14,000,000 sterling,—Why do you object to extend the issue to £40,000,000?

In answering this question, I would beg you to bear in mind your admissions;—"à condition qu'on reste dans la limite, et qu'on ait toujours de l'or à volonté;" —and again,—"qu'il n'est jamais difficile de se procurer de l'or, pourvu qu'on le paie à son prix."

It is quite immaterial to me what the price is, if it be the *market price*, and *that* it must be.

But you mistake me when you write;—"Vous dites —'Le billet a toujours valu l'or?"—I have not said so, but quite the contrary. And you add:—"Oui, depuis 1844, non quand il l'expulsait, en tenant le prix du numéraire, au-dessous de celui des autres marchés." And you further add:—"Vous voulez maintenir un taux *maximum* invariable de l'escompte à 4°/o, et conserver l'équilibre des valeurs métalliques avec le reste du monde." In this also, you seem to mistake me.

I say, (p. 153.) "Since the resumption of Cash payments in 1819, the Bank of England note has never suffered discredit or depreciation."

I do not propose to maintain an invariable *maximum* rate of discount at 4 per cent.

I propose only to fix that as the *maximum* for the Bank of England, leaving it open to all the other Banks, Discount Houses, and Bill-brokers to discount at what rate they please.

I say, (p. 293)—"It is no wrong to any one, and no infringement of a natural law, if the Government fix the *maximum* rate of discount, and the *maximum* rate or price of money, called the Bank-rate, provided the *maximum* be fixed at the lowest rate which the welfare of the State permits."

These seem to be important differences between what you suppose me to say, and what I do say, and mean.

I should consider it of great importance, for leading to a satisfactory settlement, if we could come to a clear understanding and agreement on this question; or even if we could distinctly determine what are our points of difference."

27th October, 1865.

"Writing with the candour which you so much approve of, and in which I so entirely concur with you, I will say that, after reading your book on '*La Question des Banques*,' you have not touched on any of the points on which I have, in my book, invited the expression of opinion.

I think any further discussion quite unnecessary on that part of the question, whether or not there should be more than one Bank of Issue for Credit Notes.

I think it clear that there should be only one Bank for the issue of credit notes, and that the amount issued should be under the regulation of the Legislature.

I think it equally clear that the amount of notes issued should be regulated by the requirements, but should never exceed the means of payment in gold on demand.

I think it may be left to the Bank to establish

Branch Banks in the different parts of the kingdom, according to the requirements.

But, for providing the means for the payment of the Credit Notes in Gold on demand, I think it essential that the Bank should be provided with a sufficient amount of *real* capital.

I think M. Isaac Pereire would be satisfied with the settlement of the Question on these principles.

Your book is almost entirely confined to the question "*de l'unité des billets.*"

I consider this question disposed of, and I am not inclined to discuss a question, which, I think, is not open to argument.

Your book, therefore, fails to interest me.

But, if you and the MM. Pereire agree with me on these principles, the Question is substantially settled between us, and we together may, perhaps, assist in bringing about a satisfactory settlement of this Question with our respective Governments.

I beg you to excuse me for presenting the question to you in this short way, but I really think, it is only by reducing it to a few simple and well defined points, that a question of this complex nature can ever be brought to a satisfactory settlement."

It is due to M. Wolowski to add that, in one of his letters he makes ample acknowledgment of the advantages of bank notes, in the following words, translated :—" No one appreciates more than I do the *natural* advantages of notes. Their essence lies in the facility of transmission, in the rapidity of settling accounts, in the convenience of the evolutions, in the quickness of the circulation.

"The note thus spares the metallic instrument,—not by replacing it, since in this order of ideas the note remains resting upon a corresponding sum in gold, but by giving it a more positive utility. It is the working of the locomotive and the rail, instead of the horse on the common road. But the road is not *constructed in the air* and does not confound itself with the clouds, and allow me to say, that in citing *Adam Smith* you have forgotten the wings of Icarus."*

* See answer to this in note on p. 761.

The following table shows the stocks of bullion held by the Bank of England and the Bank of France, during the year 1866.

No comments can add to the force of these facts against the present system of the Bank of England, under the Bank Charter Act of 1844.

Dates of Returns.	Bank of England.		Bank of France.	
	Bullion and Specie.	Minimum Rate of Discount.	Bullion and Specie.	Minimum Rate of Discount.
	£		£	
Jan. 3 and 4	13,106,183	8 °/o	16,747,095	5 °/o
— 10 and 11	12,887,829	do.	15,942,830	do.
— 17 and 18	13,031,834	do.	15,503,172	do.
— 24 and 25	13,070,760	do.	15,655,125	do.
— 31 & Feb. 1	13,165,480	do.	15,516,400	do.
Feb. 7 and 8	13,056,993	do.	16,224,065	do.
— 14 and 15	13,296,114	do.	16,820,044	4½ °/o
— 21 and 22	13,822,935	7 °/o	17,710,000	4 °/o
— 28 & Mar. 1	13,966,574	do.	17,975,543	do.
Mar. 7 and 8	14,050,504	do.	18,689,895	do.
— 14 and 15	14,327,618	6 °/o	18,906,607	do.
— 21 and 22	14,455,523	do.	19,807,552	3½ °/o
— 28 and 29	14,362,397	do.	20,333,696	do.
Apr. 4 and 5	14,251,947	do.	20,192,956	do.
— 11 and 12	14,234,118	do.	20,149,030	do.
— 18 and 19	13,889,112	do.	20,418,276	do.
— 25 and 26	13,855,776	do.	20,706,955	do.
May 2 and 3	13,509,140	7 °/o	21,075,584	do.
— 9 and 10	13,156,140	9 °/o	20,809,932	4 °/o
— 16 and 17	12,323,805	10 °/o	20,585,485	do.

Dates of Returns.	Bank of England. Bullion and Specie.	Bank of England. Minimum Rate of Discount.	Bank of France. Bullion and Specie.	Bank of France. Minimum Rate of Discount.
	£		£	
May 23 and 24	11,857,786	10 °/o	21,466,108	4 °/o
— 30 and 31	11,878,775	do.	22,523,808	do.
June 6 and 7	13,278,961	do.	24,093,129	do.
— 13 and 14	14,481,895	10 °/o	24,523,322	4 °/o
— 20 and 21	14,851,120	do.	25,096,910	do.
— 27 and 28	15,042,399	do.	25,984,912	do.
July 4 and 5	14,876,945	do.	26,729,511	do.
— 11 and 12	13,933,470	do.	26,291,640	do.
— 18 and 19	13,645,975	do.	26,867,859	do.
— 25 and 26	13,716,829	do.	27,583,393	do.
Aug. 1 and 2	13,793,340	do.	28,275,056	do.
— 8 and 9	13,622,429	do.	29,019,037	3½ °/o
— 15 and 16	14,150,956	8 °/o	29,234,000	do.
— 22 and 23	14,772,220	7 °/o	29,847,033	do.
— 29 and 30	15,832,020	6 °/o	29,803,000	3 °/o
Sept. 5 and 6	16,195,212	5 °/o	29,876,779	do.
— 12 and 13	15,974,777	do.	29,356,720	do.
— 19 and 20	16,223,516	do.	29,589,720	do.
— 26 and 27	16,729,262	4½ °/o	29,097,508	do.
Oct. 3 and 4	16,879,137	do.	28,143,535	do.
— 10 and 11	16,467,566	do.	27,250,535	do.
— 17 and 18	16,133,363	do.	26,620,500	do.
— 24 and 25	16,377,358	do.	26,310,000	do.
— 31 & Nov. 1	16,723,596	do.	25,614,855	do.
Nov. 7 and 8	16,891,606	4 °/o	25,466,427	do.
— 14 and 15	17,144,607	do.	25,334,341	do.
— 21 and 22	17,752,914	do.	25,897,889	do.
— 28 and 29	18,175,570	do.	26,612,882	do.
Dec. 5 and 6	18,237,044	do.	27,177,985	do.
— 12 and 13	18,551,471	do.	27,703,985	do.
— 19 and 20	18,815,714	3½ °/o	28,411,605	do.
— 26 and 27	19,247,859	do.	28,580,987	do.

The Author takes this opportunity of more expressly acknowledging the information which he has derived from the well known and admirable work of Mr. Henry Dunning Macleod on 'The Theory and Practice of Banking,' the 2nd Edition of which, enlarged and much improved, was published shortly after the 2nd Edition of this work.

Also from Mr. Patterson's recent and valuable work on 'The Economy of Capital.'

Also from Mr. Lawson's established and useful work on 'The History of Banking,' and his recent work on 'The Bank of England As It Is, And As It Ought To Be.'

And from the interesting little volume of Mr. Frederick Martin, 'Stories Of Banks And Bankers.'

The author has been favoured with many private communications, through his Publishers, on the subject of his book; but among these he has not found anything requiring his particular notice.

The Public Press, as it is called, has also been polite enough to notice the book in terms more or less commendatory; but, unfortunately, all these notices betray profound ignorance on the subject.

One of the leading London Journals, in a long and complimentary notice, gave the Author much credit for his enlightened views on this Question; but, unluckily, the Editor went so far in his remarks as to show that, he not only misunderstood the question and the object of the whole book, but that, he gave the Author credit for maintaining opinions which, in fact, he was refuting. The name of that leading journal is withheld in return for the favour of its obliging intention.

The flippant notice of the book in the 'Westminster Review,' for January, 1866, is almost entirely confined to a few silly remarks on the title,—"Organisation of Credit,"—which the Editor objects to. This is simply discreditable to the Editor of that Periodical.

The Bank Question is now fully and fairly before the Public. It is for them to determine the future course.

THE BANK OF ENGLAND NOTE.

The Bank of England secures its note-issues in the same way that it secures its deposits. In each case it finds by experience the amount which is liable to be called for, and it keeps that amount in hand, or ready at call.

When specie is wanted for export, to make payments abroad, such a demand is never made by the note-holders, but is always made by the depositors.

The note-holders never take notes to the Bank to be exchanged for specie, unless required for 'small change.'

In England, Bank-notes of less value than £5 are not allowed to be issued; but in Scotland, where £1 Bank-notes are allowed to be issued, gold, for 'small change,' is scarcely ever demanded, the notes being preferred.

To meet the demands of the note-holders for specie, the Bank of England, with an issue of twenty millions of notes, does not require to keep in hand more than about £100,000 in gold.

The Bank of France, with an issue of notes to more than thirty millions, sterling, does not require to keep in hand a larger sum in specie than the Bank of England does.

The note issues of the Bank of England and the Bank of France are, in proportion to their amount, the most trifling of all their liabilities.

Bearing in mind these facts, the immense importance, to the country at large and to the commercial community in particular, of a Bank established on the principles here laid down must be apparent.

A Bank, established and conducted on these principles by honourable and competent men, with a capital equal to the requirements, would insure the confidence of the Public. It is better to confine the responsibility to a few, than to spread it over many, and a liberal remuneration, for the faithful discharge of responsible duties, is the wisest economy.

The following Outline of a Scheme, for the establishment of such a Bank, it is submitted, offers greater benefits to the commercial community than the Bank of England, as at present constituted, can ever afford, and, at the same time, a safer and more profitable investment for unemployed capital and savings, than has ever yet been presented to the Public by any Joint Stock Company.

THE UNITED KINGDOM BANK.

Capital, £5,000,000. — Limited.

This is a proposal for the formation of a Bank on a new principle, with a view to correct the errors and to supply the deficiencies of the Bank of England, as at present constituted.

The following is a short Outline of the proposed plan :—

1. The Company to be formed on the Joint Stock principle, with Limited Liability.

2. The Capital of £5,000,000, to be raised by subscriptions of £50 and any multiple of £50, and the Bank not to be opened until the whole £5,000,000 be paid up and invested in the 3 per Cent. Consols; but this Capital Stock to be increased, from time to time, by subscriptions, to any larger amount, in sums of £50 and any multiple of £50, to form the capital stock of the Company.

3. The Company to keep a sum of money in hand to meet the requirements, according to the judgment and discretion of a majority of all the Directors.

4. Capital Stock to be sold out of Consols

from time to time as required for the purposes of the Bank.

5. No Capital Stock to be sold without the concurrence of a majority of all the Directors.

6. The whole net profits of the Bank, after reserving a yearly sum, by way of Rest, at the discretion of the Directors, to be divided among the Stock-holders, by an equal rateable per centage, payable half yearly in each and every year.

7. The Directors to be nine in number, and to be chosen by the Stock-holders.

8. The Directors to elect annually, out of their own number, a Governor and Deputy Governor for one year. At the end of the year, the Deputy Governor to succeed the Governor retiring, and each Director in his turn to become the Deputy Governor and Governor in succession.

9. On the death or retirement of a Director, or if, in the opinion of a majority of the Directors, it should be deemed expedient to remove any Director, his place to be supplied by such person as shall be elected by a majority of the Directors, subject to confirmation by the Stockholders at the Annual General Meeting.

10. Four Directors, with the Governor or Deputy-Governor, to form a Board of Directors for conducting the business of the Bank, and the

Board to meet daily at the Bank for conducting the business of the Bank.

11. If a sufficient number of Directors be not present to form a Board at the appointed hour of meeting, each absent Director is to be fined £5 for each day's non-attendance.

12. The following sums to be paid to the Directors yearly, by quarterly payments, in remuneration for their services :—

The Governor	£2000
The Deputy Governor . . .	1600
Each other Director . . .	1200

13. The Company's Stock to the amount of £2000 stock, or upwards, to be a qualification for a Director.

14. A Weekly Statement of the affairs of the Bank, signed by the Chief Cashier of the Bank, in the form hereinafter given, to be published in the 'London Gazette' every Friday.

15. The Bank not to advance money by way of Loan, except on British Government Securities, and then only to an amount not exceeding three-fourths of the market value of such securities, and not to advance money by way of Loan, (unless a foreign loan), or to discount a bill at a higher rate than 4 per cent.

16. The Bank not to discount any bill with less than three signatures, unless a well known

and approved bill; and not to discount the bill, however well known and approved, of a Director of the Bank, with less than three signatures.

17. The Bank not to advance money on the security of any foreign Government, (the British Government in India being included as a foreign Government), without the concurrence of a majority of the Board of Directors.

18. The Bank not to allow interest on deposits.

19. The Bank to conduct its affairs in all other respects like other Banks.

20. An Annual General Meeting of the Stock-holders to be held on the 4th day of March in each year, and the Governor of the Bank then to submit to the meeting, in a short printed form, a general statement of the affairs of the Company, showing the net profits of the past year, with the amount reserved for Rest, and the Dividend payable to the Stock-holders.

21. £5 per cent. on the amount subscribed to be paid down as a deposit by each subscriber at the time of subscribing, and the same to be returned to the subscriber (but without interest), if the Bank be not opened for business on or before the day of , unless forfeited, as hereinafter mentioned.

22. The remainder of the amount subscribed to be paid down on or before the day

of , or the deposit, previously paid, to be forfeited.

23. The Directors to be jointly and severally responsible for the return of these payments to the parties paying the same, or to their legal personal representatives (but without interest), if the Bank be not opened for business on or before the day of

24. In the meantime the money, so paid to the Directors, to be forthwith invested by them in the purchase of 3 per Cent. Consols, in their joint names.

25. When the whole of the £5,000,000 is so paid and invested in 3 per Cent. Consols, the Directors are to apply to Parliament for a Charter of Incorporation to 'The Governor and Company of the United Kingdom Bank.'

26. The Charter to be granted for 99 years, subject to revocation by the Government for the time being, on twelve months' notice.

From this outline it will be seen that, a Bank, so established and conducted, will rest on a safe basis, which can never be seriously affected by any monetary or commercial changes, and that, as a Bank of deposit and discount, it can be second only to the Bank of England.

If the Bank of England were conducted on sound principles, such a Bank as this now proposed, though perfectly consistent and compatible with the Bank of England, so constituted, would be unnecessary for fulfilling the duties which ought to be performed by the Bank of England, as a National Bank.

It will be evident that, the primary object is, to afford that assistance to the commercial community, in regard to advances and discounts in the time of need, which the Bank of England, from the want of capital, is unable to render.

The whole or any part of the Capital of the proposed Bank would be applicable to discounts, and for this purpose the money required from time to time would be realised by sale of Government Securities, and always ready in hand or at call.

The United Kingdom Bank will not only be quite independent of the Bank of England, but will exercise a wholesome control over it, so far as to confine its *maximum* rate of discount to 4 per cent.; for, it is obvious that, the Bank of England will discount no bill at a higher rate, if it can be discounted at the United Kingdom Bank at 4 per cent.

It is also obvious that, the Bank of England, unless it confined its discounts within the *maximum*, would be liable to lose both its notes and gold without the profit of the discount, and would no longer be able to bring back either, by its present practice of reducing its discounts.

But, the effect of this would only be to neutralise the power of the Bank of England, and bring down the market price of its stock, unless the Bank of England altered its practice. In the same proportion it would raise the market price of the stock of the United Kingdom Bank, and the benefits to the commercial community would be incalculable.

It would not be compulsory to discount at all, but, practically, the effect would be, to fix the *maximum* for all discounts at 4 per cent.

The United Kingdom Bank would be under no anxiety about the gold, and would require to keep in hand only a small amount of that precious metal for the convenience of change.

The Bank of England would be answerable for the gold as well as for the notes.

This necessary consequence would command a good understanding between the Bank of England and the United Kingdom Bank, though the operations of the latter would prevent the former from continuing to practise what it calls, its 'salutary warnings,' but which are, in fact, only notices of intended exactions on the trade and industry of the country.

Another beneficial effect would be, to counteract the conspiracies of the great Capitalists, and to sweep away all the jobbing discount and financial Companies; but would in no way interfere with the well-established and well-conducted Joint Stock Banking Companies, further than by confining their loan and discount transactions within the *maximum* of 4 per cent., and reducing their rate of interest on deposits.

The Public would then have the choice between taking interest, at a reduced rate, on their deposits in the Joint Stock Banks, or participating in the profits of the United Kingdom Bank, and those profits would be in proportion to the confidence of the Public in the Bank.

If the affairs of the Bank, under the management of nine honorable and competent Directors, were so conducted as to justify public confidence, it would be freely given, and then the market price of United Kingdom Bank Stock would soon exceed the market price of Bank of England Stock, if the dividends now paid by the best of the existing Joint Stock Banks and Discount Companies may be taken as a fair criterion.

The United Kingdom Bank, on the plan proposed, would combine all the profits of the Joint Stock Banks, without the drawback in the interest, which they pay on deposits, and this difference alone would be a very large advantage; but in addition to this would be the further very great advantage that, all payments to the United Kingdom Bank, if entered as deposits and not to the credit of current accounts, would not be liable to be removed at the pleasure of the depositors, but would be permanent investments of capital, though always saleable as Bank Stock, which would be continually increasing, but could never diminish, at least whilst the Bank continued to be a well-conducted and flourishing concern, as it must always be, whilst conducted on these principles.

The United Kingdom Bank Stock would be a safe and profitable investment, always open to receive the savings and unemployed capital of the country, from £50 and its multiples, and would be at all times as saleable and as easily transferred as Bank of England Stock, but would soon pay even a higher dividend; moreover, the United Kingdom Bank would offer advantages much greater than can ever be offered by the Post Office Savings Bank or any other Savings Bank, for any amount from £50 and its multiples.

Every holder of Stock in the United Kingdom Bank would receive, half-yearly, an equal rateable per centage on the whole of the divisible net profits of the concern, without the smallest personal trouble or liability.

It is not unreasonable to calculate that, the stockholders would exercise all their influence for promoting the prosperity of the concern, in which they were so personally interested, and that, in a few years, the United Kingdom Bank would be a great open reservoir of a large portion of the savings and unemployed capital of the country, and would, in time, constitute the largest capital of any banking establishment in the world.

In this way the United Kingdom Bank would not only neutralise, in a great measure, the injurious effects of the Bank of England, as at present constituted, but would be a very powerful prop to that infirm old Lady in Threadneedle Street.

The foregoing is only a short outline of the proposed scheme, for the purpose of showing the principal objects in view.

Many other Rules and Regulations would be required, but those might properly be left to be made, as Bye Laws, by the Directors, according to their discretion, as occasions might from time to time require; provided that nothing be introduced inconsistent with the principles here laid down, as essential principles for the constitution of the Company.

If it be objected that, the whole capital of the Company would be in the power of the Directors, that is true; but that is an incident inherent in the Bank of England and every other Banking Association.

But, it is submitted that, the selection of nine honorable and independent Directors would be a sufficient guarantee against fraud or neglect of duty, and, perhaps, a more effectual guarantee than if the number of Directors were increased, as the smaller number would impose upon each and all the stronger necessity for devoting his and their time and attention to the affairs of the Bank; and for their services, the remuneration, though not large, would be more than merely honorary.

It will be evident from this short Outline that, the duties of the Directors, though very important and highly responsible, would be very simple, and easily performed by ordinary men of business acquainted with banking.

By the constitution of the Company, the sphere of action for the Directors would be extremely limited, and their discretion would be almost confined to the bills which they discounted, for which little more would be required than the practical experience and caution of bankers.

It will also be evident that, all Depositors will be Creditors of the Bank, but without power to call for payment of their principal, as long as the dividends, or proportionate shares of the net profits to be distributed, are duly paid half yearly.

The Creditors of the Bank, therefore, will be precisely in the situation of the Creditors of the National Debt, the Stock of the Bank being, like the Government Stock or figures in the Bank Books, an acknowledgment of the debt, but debt unclaimable by the Creditor, and redeemable by the Debtor only at *par*, though, like Government Stock, always saleable and transferable by the Creditor, whenever it is desired to convert the Stock into money.

The depositors in the Bank will, therefore, be able at all times to realise in money, with the same facility as by Sale of Government Securities or Bank Stock, at the market price of the day.

It is obvious that, the depositors, by their contributions or subscriptions to the funds of the Bank, would be free from all liability, and that, the Directors would be liable only for their own acts, deeds, and wilful defaults. The risk of loss, if any, would, therefore, be so small as to be inappreciable, and the net profits, after setting apart the sum reserved for Rest, would be divisible in equal proportions among the depositors or subscribers.

But it is not so much the present object to hold out a seductive scheme for large returns to Subscribers and Depositors, as to secure the certainty of discount at all times for all *good* bills, of short dates, at a rate not exceeding 4 per cent.

It is not the present purpose to show what would be the profits to the Shareholders from such a Bank as this, nor would any calculation, that could now be made with that view, be deserving of much attention.

As the ground-work for such a calculation, the following few and simple facts, bearing upon this very material part of the question, are offered to the Public for consideration.

The Capital of £5,000,000, if invested in 3 per cent. Consols, would produce £150,000 a year.

If this capital sum were employed in discounting *good* bills of short dates, at 4 per cent., and if the profits, as received, were employed in discounting in the same way, the produce would be nearly equal to 5 per cent per annum, or £250,000 a year.

If, in addition to this subscribed capital, £500,000 of the unemployed capital and savings of the country were deposited with the Bank permanently, as Bank Stock, without Interest, and if this capital sum were employed in discounting *good* bills in the same way, the produce would be, say,—£250,000 a year; thus making the whole produce for discounts, say,—£500,000 a year.

If the subscribed capital and deposits together amounted to £50,000,000, the yearly profits divisible, from discounts, would be £2,500,000.

The Profits would be divisible, half-yearly, rateably among the Subscribers and Depositors of the Bank, instead of Interest.

The annual Savings of the United Kingdom are estimated at £130,000,000 sterling.

In January, 1865, the amount of deposits in the Savings-Banks was £43,615,000.

In addition to the profits of discount, would be the profits on the cash balances to the credit of the accounts current at the Bank, and the legitimate profits to be made from the differences in the Foreign Exchanges. These additional profits, at a moderate computation, would be much more than sufficient to meet all the expenses of the Bank.

The amount of unemployed capital in this country is not calculable, and it is impossible to calculate what amount of unemployed capital and savings might be invested in a Bank established and conducted on these principles, with the guarantee of nine honourable, well known, and approved names in the City of London, offering a well secured return of 5 per cent. per annum, at the least, on all investments, to the amount of £50 and the multiples, free from income tax and all other deductions, and free from all risk of diminution of capital, as well as from all risk of personal liability. But the great gain, and that would be incalculable, would be to the trade and industry of this country, in the certainty that all *good* bills would be discounted at the United Kingdom Bank at all times, at a rate not exceeding 4 per cent., and that the Bank of England must always provide the notes and the gold to meet all the requirements. This would be the primary object. The profits of the Bank, though of essential importance for the success of the scheme, and a necessary consequence, would be only a secondary object.

The proposer of this scheme has no intention of taking any part in it, and no view of personal benefit to himself from it. He has never held a share in, or been in any way connected with, any public company, and has never had, nor is ever likely to have, occasion to get a bill discounted. He always pays in ready money, and takes the discount.

But he would regard it as a happy and honorable circumstance of his life to have exposed the very serious errors in the constitution and practice of the Bank of England, and to have provided a remedy for some of the defects.

Established custom is not easily broken, till some great event shakes the whole system of things, and life seems to recommence upon new principles.

Leibnitz said :—" If it happened to be the interest or supposed interest of men to believe that two and two made five, it would be extremely difficult to convince them of their error."

But, in the long run, the interests of mankind will always prevail over their prejudices, and truth will displace error.

In this case, the continuance of the error can be clearly traced to the influence of the large capitalists, who are well satisfied with things as they are, and wish for no change.

Life consists not of a series of great actions or tranquil enjoyments. The greater part of our time passes in compliance with necessities, in the performance of daily duties, in the removal of small inconveniences, in the procurement of petty pleasures; and we are well or ill at ease, as the main stream of life glides on smoothly, or is ruffled by small obstacles and frequent interruptions. The true state of every nation is the state of common life. The manners of a people are not to be found in the schools of learning or the mansions of the great, where the national character is obscured by instruction or vanity; nor is public happiness to be estimated by the assemblies of the gay or the banquets of the rich. The great mass of the people of all nations is neither rich nor gay. The aggregate, which constitutes the people, is found in the streets and the villages, in the shops and the farms; and from them, collectively considered, must the measure of general prosperity be taken. As they approach to delicacy, a nation is refined; as their conveniences are multiplied, a nation, especially a commercial nation, must be denominated wealthy. But, the progress of a people to delicacy and a nation to refinement is, we know from experience, very slow.

What cannot be done without some uncommon trouble or particular expedient, will not often be done at all. We see plentiful instances of this in the habits of all people, especially in the poorer classes. The necessity of ventilating human habitations has not yet been found by the poor, nor even by the rich, though the fresh air of heaven is open and free to us all. The apathy and indifference of the rich, combined with the ignorance and thoughtlessness of the poor, confine all nations and people within the narrow limits of a monotonous routine, which seems as if it could be broken through only by some sudden and great disaster.

Of all the great discoveries made for the benefit of mankind, scarcely one has been received without opposition.

Every one who has tried to bring the Government to abandon a mistaken system or to adopt sounder views, has been compelled to admit, with bitterness and indignation, that it is not to the members of the Government, but to the Public that he must address himself. He must convince the Public, not the Government; and when the Public is enlightened and grows noisy, then the officials follow tardily and reluctantly.

The present question is one of that class, which is peculiarly open to these remarks.

These is no question which so deeply concerns the commercial welfare of this commercial country, as how to provide, at a moderate and fixed rate of interest, a supply of money equal to the legitimate requirements; but there is no question of national importance, which has received so little attention as this from the successive Governments of the last twenty years.

The Public has from time to time, for the last twenty years, when suffering under the disastrous consequences of the frequent financial disturbances, demanded and obtained a Parliamentary

Inquiry into the cause, and every inquiry has fixed the cause on the Bank Charter Act of 1844. But still that Act remains in full force, and the Government has not only afforded no relief, but does not even admit that any relief is required, and holds out no prospect that any is intended to be given.

The people, who are the sufferers, are utterly incompetent, and ever must remain incompetent, to understand a question of this abstruse and complex nature, and the Government, undisturbed by agitation, is well content to leave the subject where it is, and that is, in the hands of the great capitalists and bankers who are well content with the rich harvests, which they are so frequently reaping, amidst the wide-spread ruin of our manufacturing and mercantile community from money panics.

Long continued discouragement of hope, that any remedy will be provided for the evils, which all acknowledge, but none will face, has at length brought a very general feeling of disinclination to the further consideration of the subject, and it seems as if this most important and practical State question had been consigned to the study of a few thoughtful but unpractical men.

The mercantile community in general admit, there can be no doubt that, it would be a great boon to the commercial world to have something like a moderate and fixed rate of interest, instead of the violent fluctuations of the last twenty years; but they say, it requires much time and experience to make the public appreciate the advantages of any new system, and it is very doubtful whether any men of capital and influence will be found to take up and carry out such a scheme as this, however great the promise, for the public good.

This is the question on which the present appeal is made to the mercantile and manufacturing interests of this great commercial country.

The Author has submitted this outline of the proposed Joint Stock Bank to some of the principal Bankers, Merchants, and Capitalists of the City of London, and to the Managers of the principal Joint Stock Banks, for their consideration.

The opinions, which he has received, are various, and, on the whole, not unfavourable to the trial of this important experiment for the Organisation of Credit in England. But it is a significant fact, that all the great Bankers, Merchants, and Capitalists of the City of London, without a single exception, to whom the proof sheets of these last few pages, from page 945 to 966, were sent for their opinion, politely declined to express any opinion.

They were not invited to take part in the proposed Joint Stock Bank, but simply to express their opinion on the expediency, assuming the practicability, of fixing the *maximum* rate of discount at 4 per cent. for that Bank only.

That is the question which most of the great Bankers, Merchants, and Capitalists of the City of London refuse to answer. Of their reasons for that refusal the Public at large will form their opinion.

The Author would respectfully recommend the formation of a Committee of some of the leading Bankers, Merchants and Capitalists of the City of London, with the view of obtaining public opinion on the proposed scheme, preparatory to the establishment of a Joint Stock Bank on these principles.

The amendment of the Bank Charter Act will then be a question of comparatively small importance to the country; and the Bank of England, as at present constituted, will continue for some years longer to excite the astonishment and contempt of all Europe.

That the change will be made, sooner or later, is certain, but not until some more "money panics" have been stopped by the illegal intervention of the Government, and a few more substantial commercial houses have fallen under the evil influence of that Act, which the late Mr. Thomas Tooke described as, "the most wanton, ill-advised, pedantic, rash pieces of legislation," which he had ever known.

By the trial of this experiment under the guarantee of nine honourable and well known names in the City of London, the most important of the disputed points in this much vexed question will be answered by the irresistible evidence of facts, and then theory and practice will be reconciled and established on grounds intelligible to all understandings.

Mankind are accustomed to fall into mistakes through prejudice, through perverse or improper prepossessions in favor of any one, and, whilst they boldly and doggedly stand up in defence of their erroneous judgment, are at length compelled to acknowledge their error, by the powerful all-potent evidence of facts.

This was said in fewer words by an elegant Latin Poet, who thus mildly referred to the mistakes of his time, under which he himself suffered:—

> "Pravo favore labi mortales solent,
> Et, pro judicio dum stant erroris sui,
> Ad pœnitendum rebus manifestis agi."
>
> PHÆDRUS.

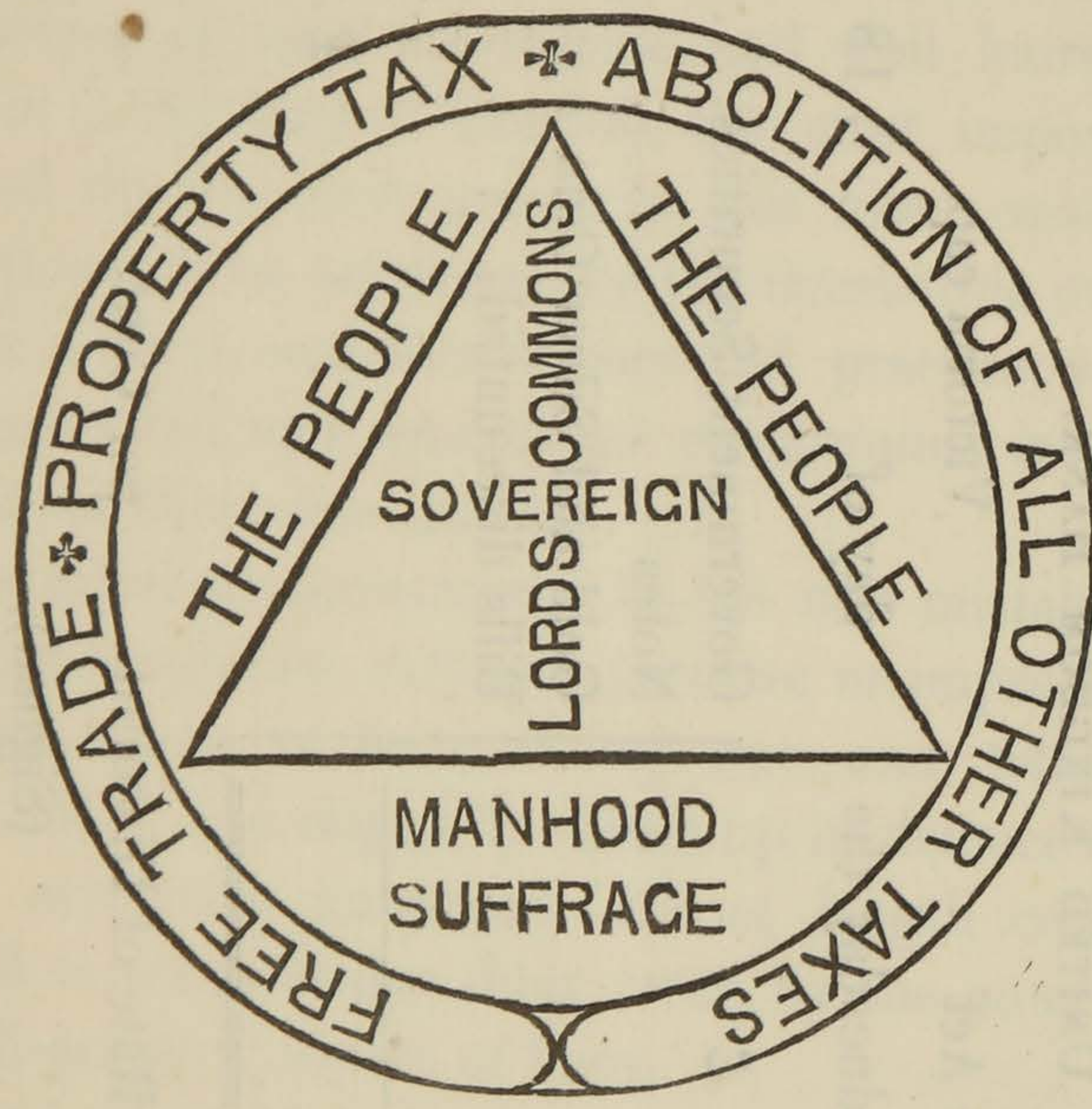
UNITED KINGDOM BANK.

An Account pursuant to the Act Victoria cap. for the week ending on Wednesday the day of , 18 .

Capital Stock	£	Government Securities .	£
		Notes	
Rest		Gold and Silver Coin . .	
		Bills discounted. . . .	
£		£	

Rate of Discount per Cent.

(Signed), Chief Cashier.



The triangle is the symbol of the three constitutional estates of the realm, supported by the People outside, the freedom of the People being the basis of the whole.

The Circle is the symbol of eternity, and the legend within records the three great political truths.

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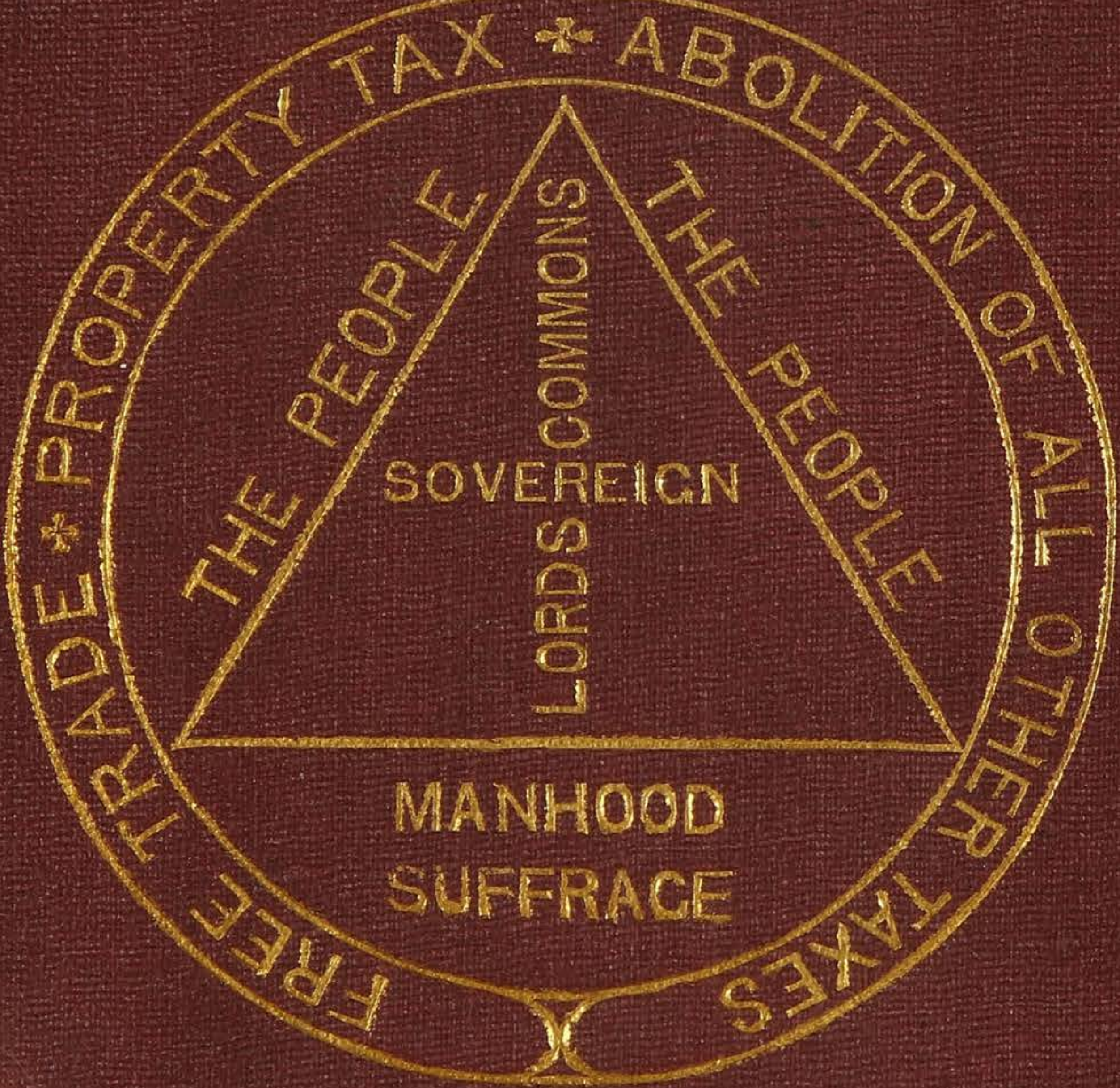

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